Washington State Auditor's Office

Financial Statements and Federal Single Audit Report

Thurston County

Audit Period
January 1, 2012 through December 31, 2012

Report No. 1010231

Issue Date
August 12, 2013

WASHINGTON
TROY KELLEY
STATE AUDITOR

Washington State Auditor
Troy Kelley

August 12, 2013

Board of Commissioners
Thurston County
Olympia, Washington

Report on Financial Statements and Federal Single Audit

Please find attached our report on Thurston County's financial statements and compliance with federal laws and regulations.

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

Sincerely,

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

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Federal Summary

Thurston County
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The results of our audit of Thurston County are summarized below in accordance with U.S. Office of Management and Budget Circular A-133.

FINANCIAL STATEMENTS

An unmodified opinion was issued on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information.

Internal Control Over Financial Reporting:

- ***Significant Deficiencies:*** We reported no deficiencies in the design or operation of internal control over financial reporting that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified no deficiencies that we consider to be material weaknesses.

We noted no instances of noncompliance that were material to the financial statements of the County.

FEDERAL AWARDS

Internal Control Over Major Programs:

- ***Significant Deficiencies:*** We identified deficiencies in the design or operation of internal control over major federal programs that we consider to be significant deficiencies.

- ***Material Weaknesses:*** We identified deficiencies that we consider to be material weaknesses.

We issued an unmodified opinion on the County's compliance with requirements applicable to each of its major federal programs.

We reported findings that are required to be disclosed under section 510(a) of OMB Circular A-133.

Identification of Major Programs:

The following were major programs during the period under audit:

CFDA No.	Program Title
14.228	CDBG - State-Administered CDBG Cluster - Community Development Block Grants/State's Program
16.738	JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant Program
16.803	ARRA - JAG Program Cluster - Edward Byrne Memorial Justice Assistance Grant (JAG) Program/Grants to States and Territories (Recovery Act)
66.458	Capitalization Grants for Clean Water State Revolving Funds
93.243	Substance Abuse and Mental Health Services
93.563	Child Support Enforcement
93.778	Medicaid Cluster - Medical Assistance Program
97.036	Disaster Grants - Public Assistance Program
97.067	Homeland Security Grant Program

The dollar threshold used to distinguish between Type A and Type B programs, as prescribed by OMB Circular A-133, was $337,266.

The County qualified as a low-risk auditee under OMB Circular A-133.

Schedule of Federal Audit Findings and Questioned Costs

Thurston County
January 1, 2012 through December 31, 2012

1. The County did not have adequate internal controls to ensure compliance with federal time and effort requirements.

CFDA Number and Title:	16.738 Edward Byrne Memorial Justice Assistance Grant Program 16.803 ARRA- Edward Byrne Memorial Justice Assistance Grant Program
Federal Grantor Name:	U.S Department of Justice
Federal Award/Contract Number:	ARRA-2009-SB-B9-1395; 2009-DJ-BX-0153; 2011-DJ-BX-2561
Pass-through Entity Name:	Department of Commerce
Pass-through Award/Contract Number:	M11-34021-010
Questioned Cost Amount:	$85,898

Description of Condition

We reviewed payroll transactions to determine whether salaries and benefits charged to federal grants were supported by adequate time and effort documentation, as required by federal regulations. Depending on the number and type of activities an employee works on, documentation can be a semi-annual certification or a monthly personnel activity report, such as a timesheet.

We reviewed payroll records for eight employees whose salaries and benefits were charged to the grant. We found all six hourly employees submitted timesheets. However, the two salaried employees did not submit semi-annual certifications.

Cause of Condition

Grant personnel at the County were unaware of the requirement to have semi-annual certifications prepared for salaried employees working on a single cost objective.

Effect of Condition and Questioned Costs

The County charged salaries and benefits totaling $85,898 to the Edward Byrne Memorial Justice Assistance Grant without adequate time and effort records. Without appropriate time and effort documentation, we were unable to verify that these employees worked on the grant-funded activities. Therefore, we are questioning all of those costs.

Recommendation

We recommend the County:

- Provide training to personnel to ensure they have an adequate understanding of federal time and effort requirements.

- Establish and follow internal controls that ensure time and effort documentation is obtained for all employees in accordance with federal requirements.

County's Response

The County agrees with the finding. The two employees in question were deputies who did work on this particular cost objective during all of 2012. At no time during the process were Thurston County funds at risk of misappropriation or misuse. The finding is referring to an administrative step in the granting process that was inadvertently overlooked. The employees responsible for maintaining this documentation are now aware of the requirement and will ensure it is properly completed each year going forward.

Auditor's Remarks

We appreciate the County's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of States*, *Local Governments, and Non-Profit Organizations*, Section 300, states in part:

> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>
> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

U.S. Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* (2 CFR Part 225), Appendix B, Section 8(h), states:

> (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
>
> (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.

(3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.

(4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system (see subsection (6)) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

(a) More than one Federal award,

(b) A Federal award and a non-Federal award,

(c) An indirect cost activity and a direct cost activity,

(d) Two or more indirect activities which are allocated using different allocation bases, or

(e) An unallowable activity and a direct or indirect cost activity.

(5) Personnel activity reports or equivalent documentation must meet the following standards:

(a) They must reflect an after-the-fact distribution of the actual activity of each employee,

(b) They must account for the total activity for which each employee is compensated,

(c) They must be prepared at least monthly and must coincide with one or more pay periods, and

(d) They must be signed by the employee.

(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:

(i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;

(ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and

(iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

Schedule of Federal Audit Findings and Questioned Costs

Thurston County
January 1, 2012 through December 31, 2012

2. The County did not have adequate internal controls to ensure compliance with federal suspension and debarment requirements.

CFDA Number and Title:	97.036 Disaster Grants – Public Assistance
Federal Grantor Name:	U.S. Department of Homeland Security
Federal Award/Contract Number:	NA
Pass-through Entity Name:	Military Department
Pass-through Award/Contract Number:	4056-DR-WA-Jan 2012 Storm
Questioned Cost Amount:	$0

Description of Condition

In 2012 the County paid two vendors a total of $126,201 in Disaster Grant - Public Assistance money for debris hauling and clean up related to a 2012 storm.

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. If a vendor certifies in writing that its organization has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement should be met prior to entering into a contract with the subrecipient or vendor.

During our audit, we found the County did not confirm that vendors were not suspended or debarred from participating in federally funded projects.

Cause of Condition

Personnel at the County in charge of monitoring the disaster grant were unaware of the requirement to check the suspension and debarment status of vendors participating in federally funded grant projects.

Effect of Condition and Questioned Costs

The County cannot ensure federal funds are paid to vendors that are eligible to participate in federal programs if the vendor's status is not confirmed. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Although the process was not followed, we determined the vendors were not suspended or debarred. Therefore, we are not questioning costs charged to the grant.

Recommendation

We recommend the County provide training to all staff responsible for federal grant management to ensure future compliance with program requirements.

County's Response

The County agrees with the finding. The County entered into a contract with each of the two vendors referred to above, via an emergency purchase, during the January 2012 snow storm to perform immediate clean-up duties of county roadways and other county-owned properties. At no time during the process were Thurston County funds at risk of misappropriation or misuse. The two vendors were not suspended or debarred from receiving federal grants. Also, it should be noted that when the county initially entered into these contracts, the source of funds for payment had yet to be determined. It was only after the County had entered into the contracts that it was determined that federal funds were available for use. Therefore, the finding is referring to an administrative step that was inadvertently overlooked in the process after determining federal funds would be used to pay for these services. The employees responsible for checking this list are now aware of the requirement and will ensure it is properly completed should a similar situation arise in the future.

Auditor's Remarks

We appreciate the County's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations,* Section 300, states in part:

> The auditee shall:
>
> (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
>
> (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

> (a) Covered transactions under this part—
>
> (b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed $25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person.

Schedule of Federal Audit Findings and Questioned Costs

Thurston County
January 1, 2012 through December 31, 2012

3. The County did not have adequate internal controls to ensure compliance with federal procurement and suspension and debarment requirements.

CFDA Number and Title:	93.243 Substance Abuse and Mental Health Services
Federal Grantor Name:	U.S. Department of Health and Human Services
Federal Award/Contract Number:	5H79T1023097-02
Pass-through Entity Name:	NA
Pass-through Award/Contract Number:	NA
Questioned Cost Amount:	$0

Description of Condition

Procurement

The objective of the Substance Abuse and Mental Health program is to provide substance abuse treatment, prevention, and mental health services. During fiscal year 2012, the County spent $366,565 in Substance Abuse Grant funds.

Of this amount, the County paid $281,644 in federal grant funds to provide drug treatment and testing services. While these services are necessary and allowable, the County must follow federal procurement requirements when selecting the contractors.

For the procurement of professional services up to $100,000, the County is required to obtain price or rate quotations from an adequate number of qualified sources. However, grant recipients may solicit services from one vendor if they determine the service is available from only a single source. We found the County did not have adequate internal controls in place to ensure quotes were solicited from an adequate number of qualified sources on a regular basis. The County has contracted with the same vendors for several years and rather than going out for bid, the County has made contract amendments. In one instance the County had not gone out to bid since 1998 and the related contract for the project was for services through June 30, 2012, rather than for services through December 31, 2012.

Suspension and Debarment

Recipients of federal grants are prohibited from contracting with or making subawards to parties that are suspended or debarred from doing business with the federal government. If a vendor certifies in writing that its organization has not been suspended or debarred, the grantee may rely on that certification. Alternatively, the grantee may check for suspended or debarred parties by reviewing the federal Excluded Parties List issued by the U.S. General Services Administration. This requirement should be met prior to entering into a contract with the subrecipient or vendor. The County is required to verify that all vendors receiving $25,000 or more in federal funds have not been suspended or debarred. We noted the County did not determine if two vendors were suspended or debarred before making purchases that exceeded $25,000.

Cause of Condition

The County did not realize that existing vendor contracts were subject to procurement requirements when paid for with a federal grant.

Furthermore, federal grant personnel at the County were unaware of the requirement to check the suspension and debarment status of vendors participating in federally funded grant projects.

Effect of Condition and Questioned Costs

The County cannot be assured it obtained the best services at the most competitive price. However, the services purchased are allowable under the federal program, and as a result, we are not questioning these costs.

Furthermore, the County cannot ensure federal funds are paid to vendors that are eligible to participate in federal programs if the vendor's status is not confirmed. Any payments made to an ineligible party are unallowable and would be subject to recovery by the funding agency. Although the process was not followed, we determined the vendors were not suspended or debarred. Therefore, we are not questioning costs charged to the grant.

Recommendation

We recommend the County:

- Establish and follow internal controls that ensure contracts for professional services are procured in accordance with federal requirements.
- Provide training to personnel to ensure they have an adequate understanding of federal procurement and suspension and debarment requirements.

County's Response

The County agrees with the finding. This was a situation where the funding for the county's Substance Abuse and Mental Health program changed a couple years ago from state to federal funds. The fiscal employees responsible for the administration of this program are now aware of the requirements related to suspension/debarment and suggested practices related to procurement as stated above. At no time during the process were Thurston County funds at risk of misappropriation or misuse. Also, the vendors used by the County to administer this grant were not suspended or debarred from receiving federal funds.

Auditor's Remarks

We appreciate the County's commitment to resolving the issues noted. We will review the status during the next audit.

Applicable Laws and Regulations

U.S. Office of Management and Budget Circular A-133, *Audits of states, Local Governments, and Non-Profit Organizations,* states in part:

> Section 300 Auditee responsibilities.
>
> > The auditee shall:
> >
> > (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs.
> >
> > (c) Comply with laws, regulations, and the provisions of contracts or grant agreements related to each of its Federal programs.

Title 7, Code of Federal Regulations, Section 3016.36 – Procurement, states in part:

> b) Procurement standards.
>
> > (1) Grantees and subgrantees will use their own procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards identified in this section . . .
> >
> > (9) Grantees and subgrantees will maintain records sufficient to detail the significant history of a procurement. These records will include, but are not necessarily limited to the following: rationale for the method of procurement, selection of contract type, contractor selection or rejection, and the basis for the contract price.
>
> (d) Methods of procurement to be followed.
>
> > (1) Procurement by small purchase procedures. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the simplified acquisition threshold fixed at 41 U.S.C. 403(11) (currently set at $100,000). If small purchase procedures are used, price or rate quotations shall be obtained from an adequate number of qualified sources.
> >
> > (2) Procurement by sealed bids (formal advertising). Bids are publicly solicited and a firm-fixed-price contract (lump sum or unit price) is awarded to the responsible bidder whose bid, conforming

with all the material terms and conditions of the invitation for bids, is the lowest in price . . .

(3) Procurement by competitive proposals. The technique of competitive proposals is normally conducted with more than one source submitting an offer, and either a fixed price or cost-reimbursement type contract is awarded. It is generally used when conditions are not appropriate for the use of sealed bids . . .

(4) Procurement by noncompetitive proposals is procurement through solicitation of a proposal from only one source, or after solicitation of a number of sources, competition is determined inadequate . . . .

Title 2, Code of Federal Regulations, Section 180.220 - Are any procurement contracts included as covered transactions?

(a) Covered transactions under this part—

(b) Specifically, a contract for goods or services is a covered transaction if any of the following applies:

(1) The contract is awarded by a participant in a nonprocurement transaction that is covered under §180.210, and the amount of the contract is expected to equal or exceed $25,000.

Title 2, Code of Federal Regulations, Section 180.300 – What must I do before I enter into a covered transaction with another person at the next lower tier?

When you enter into a covered transaction with another person at the next lower tier, you must verify that the person with whom you intend to do business is not excluded or disqualified. You do this by:

(a) Checking the EPLS; or

(b) Collecting a certification from that person; or

(c) Adding a clause or condition to the covered transaction with that person.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Thurston County
January 1, 2012 through December 31, 2012

Board of Commissioners
Thurston County
Olympia, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of 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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements, and have issued our report thereon dated July 25, 2013. During the year ended December 31, 2012, the County implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

In addition, we noted certain matters that we have reported to the management of the County in a separate letter dated July 25, 2013.

COMPLIANCE AND OTHER MATTERS

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

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

PURPOSE OF THIS REPORT

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

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

July 25, 2013

Independent Auditor's Report on Compliance For Each Major Federal Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133

Thurston County
January 1, 2012 through December 31, 2012

Board of Commissioners
Thurston County
Olympia, Washington

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited the compliance of Thurston County, Washington, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The County's major federal programs are identified in the accompanying Federal Summary.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination on the County's compliance.

Opinion on Each Major Federal Program

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program in order to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Findings 1 and 3 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Federal Audit Findings and Questioned Costs as Finding 2 to be a significant deficiency.

County's Response to Findings

The County's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Federal Audit Findings and Questioned Costs. The County's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

PURPOSE OF THIS REPORT

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

July 25, 2013

Independent Auditor's Report on Financial Statements

Thurston County
January 1, 2012 through December 31, 2012

Board of Commissioners
Thurston County
Olympia, Washington

REPORT ON THE FINANCIAL STATEMENTS

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, 2012, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed on page 22.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the County's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Thurston County, as of December 31, 2012, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General, Medic One, Public Health and Social Services and Roads and Transportation funds, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 17 to the financial statements, in 2012, the County adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 44 and information on postemployment benefits other than pensions on page 129 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. This schedule is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated July 25, 2013 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

Troy X. Kelley

TROY KELLEY
STATE AUDITOR

July 25, 2013

Financial Section

Thurston County
January 1, 2012 through December 31, 2012

REQUIRED SUPPLEMENTARY INFORMATION

BASIC FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

SUPPLEMENTARY AND OTHER INFORMATION

Schedule of Expenditures of Federal Awards – 2012
Notes to the Schedule of Expenditures of Federal Awards - 2012

MANAGEMENT DISCUSSION AND ANALYSIS

Thurston County's discussion and analysis provides a narrative overview and analysis of the county's financial activities for the year ended December 31, 2012. We encourage readers to consider the information presented here in conjunction with additional information in the letter of transmittal, which can be found preceding this narrative, and with the county's financial statements and notes to the financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- In 2012, the financial health of Thurston County continued to remain strong despite most of the nation still experiencing a very slow economic recovery from the Great Recession of 2008. The major reasons the county remains in a positive economic condition are prudent planning on behalf of management, cautious spending by offices and departments, and its geographical proximity to the state capitol, which brings a certain level of stability to a major portion of the workforce.

- Thurston County's total assets (governmental and business-type, combined) exceeded its total liabilities at December 31, 2012 by $575.5 million, compared to $565.1 million in 2011. This represents an increase of $10.4 million, or 1.8%. Details of factors contributing to this increase are discussed later within this discussion and analysis.

- For 2012, total net position of the county (governmental and business-type, combined) is comprised of the following:

    1. Net Investment in Capital Assets, of $422.9 million. This includes property, infrastructure, and equipment, net of accumulated depreciation, and is reduced for outstanding debt related to the purchase or construction of the county's capital assets.
    2. Restricted net position of $118.1 million represent the portion restricted by constraints imposed from outside the county such as debt covenants, grants, and laws.
    3. Unrestricted net position of $34.5 million represent the portion available to maintain the county's continuing obligations to citizens and creditors.

- Thurston County reported a positive change in governmental net position as of December 31, 2012 of $7.7 million, compared to $7.5 at the end of 2011. Details of factors contributing to this increase are discussed later within this discussion and analysis.

- Total fund balance for the General Fund was $16.5 million at December 31, 2012 compared to $18.5 million at the end of 2011. Of this balance, $2.3 million is not available for appropriation as the county has reported this amount as non-spendable. Total ending fund balance represents 20.2% of 2012 General Fund total expenditures compared to 23.5% in 2011. Details of factors contributing to this decrease are discussed later within this discussion and analysis.

- The county's General Fund total revenues decreased by $1.8 million, or 2.2%, compared to 2011. Expenditures increased by $3.4 million, or 4.3% over the same time period. Details of factors contributing to these figures are discussed later within this discussion and analysis.

- Due to a continued conscious effort on the part of elected officials, directors and managers of General Fund offices/departments to contain costs, actual 2012 expenditures were $5.5 million, or 6.1%, under the final 2012 adopted budget level.

- The total capital assets increased by $10.2 million over the prior year figure due mainly to ongoing major construction projects and the addition of infrastructure contributed from private sources.

- The county's General Revenues Sales Taxes increased by $6.3 over the prior year figure primarily due to the county recognizing, beginning in 2012, the collection of various taxes related to T-Comm 911, as revenues. T-Comm 911 is a non-profit emergency communications provider in the county that is partially funded by county-authorized taxes. Details of factors contributing to this increase are discussed later within this discussion and analysis.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to Thurston County's basic financial statements. Thurston County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide Financial Statements
The government-wide financial statements are designed to provide readers with a broad overview of Thurston County's finances in a manner similar to a private sector business. Thurston County reports two Government-wide financial statements: the statement of net position and the statement of activities.

The **statement of net position** presents information on all of Thurston County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the county is improving or deteriorating.

The **statement of activities** presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues related to uncollected taxes and expenses related to earned but unused vacation leave and sick leave. This statement separates program income (revenue generated by specific programs through charges for services, grants, and contributions) from general revenue (revenue provided by taxes and other sources not tied to a particular program). By separating program revenue from general revenue, users can identify the extent to which each program relies on taxes for funding.

The government-wide financial statements distinguish functions of Thurston County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include services provided to the public such as law enforcement and public safety; road construction and maintenance; recreation and open space preservation; public health and social services; and general administration. Business-type activities of Thurston County include solid waste, land use and permitting, and sewer and water management. Both of the government-wide financial statements have separate columns for two different types of county programs or activities.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Thurston County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the county can be divided into one of three categories: governmental, proprietary, or fiduciary.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year. Such information is useful in evaluating a government's near-term financing requirements in comparison to available near-term resources.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. This gives readers a better understanding of the long-term impact of the government's financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances present separate columns for financial data for the following funds: General, Debt Holding, Detention Facility Sales Tax Holding, Real Estate Excise Tax, Roads, Medic One, Public Health and Social Services, and Other Governmental, which are considered major funds for financial reporting purposes. The Other Governmental Fund aggregates data from all of the remaining non-major governmental funds into a single, combined presentation. The governmental fund financial statements can be found immediately following the government-wide financial statements. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements, outside of the basic financial statements, following the notes to the financial statements.

The county maintains budgetary controls with an annual appropriated budget to ensure compliance with legal provisions. Budgets for governmental funds are established in accordance with state law, and are adopted on a fund level, except for the General Fund, which is adopted on a department level. A budgetary comparison of revenues, expenditures, and changes in fund balances is provided for the General Fund, and special revenue, debt service, and capital project funds with statutorily mandated budgets. Major fund budgetary variance statements are included with the basic financial statements, while non-major fund budget variance schedules follow the combining fund statements. Budgetary variances for the General Fund are discussed in more detail later in this section.

Proprietary funds are used to account for a government's business type activities, where all or part of the costs of activities are supported by fees and charges that are paid directly by those who benefit from the activities. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail, since both apply the accrual basis of accounting. Proprietary fund statements follow the governmental fund statements in this report. The county maintains two types of proprietary funds:

> **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. Enterprise funds account for the county's solid waste, land use and permitting, utilities planning and development, septic assistance community loan, storm water, and waste water programs. The Solid Waste, Grand Mound, and Storm Water funds are considered major funds for financial reporting purposes. The county reports five non-major enterprise funds.

Internal service funds are used to report activities that provide services to the county's other programs and activities on a cost reimbursement basis. The county internal service funds include: risk management, benefits administration, central services (facilities maintenance, construction and information technology support) unemployment compensation and equipment rental and replacement. The revenues and expenses of internal service funds that are duplicated in other funds through allocations are eliminated in the government-wide statements, with the remaining balances included in the governmental activities column. All internal service funds are aggregated in a single column in the basic proprietary fund financial statements.

Fiduciary funds are used to account for resources that are held by a government as a trustee or agent for parties outside of the government. 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 own programs. The accounting used for fiduciary funds is like that for proprietary funds.

The county has three types of fiduciary funds: 1) Investment Trust Funds which report the portion of the county investments that belong to other jurisdictions, 2) Private Purpose Trust Funds which report trust arrangements where the principal and interest benefit those outside of the county, and 3) Agency Funds which are clearing accounts for assets held by Thurston County in its role as custodian until the funds are allocated to the private parties, organizations, or government agencies to which they belong. The basic fiduciary fund financial statements can be found following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to 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.

Other Supplementary Information

This section details budget information for the special revenue funds that were combined with the General Fund due to the implementation of GASB 54 in 2011.

Statistical Section

The statistical section presents a summary of county financial, revenue, debt, economic, demographic and performance information over the past ten years.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Analysis of Net Position

Net Position serves over time as a useful indicator of a government's financial position. As indicated in the condensed financial information on the following pages, which was derived from the government-wide Statement of Net Position, the county's combined net position (governmental and business-type activities) was $575.5 million at the end of 2012. This reflects a net increase of $10.4 million, or 1.8%, from 2011. This increase in equity reflects the county's continuing ability to meet its ongoing financial and service obligations to outside vendors and creditors and to the residents of Thurston County.

Of the county's total net position, $422.9 million, or 73.5%, is invested in capital assets, less outstanding debt used to acquire those assets. These assets provide services to county citizens and are not available for future spending purposes. However, resources needed to repay debt must be provided by other sources since capital assets cannot be readily liquidated to pay these liabilities. Of the county's total net position, $118.1 million, or 20.5%, are subject to external spending restrictions. External restrictions include those provided by state law or by contractual agreement with outside entities, primarily state and federal agencies. The remaining $34.5 million, or 6%, which is down from last year ($35.7 million, or 6.3%) is unrestricted and represents the amount that may be used to meet the county's ongoing general purpose obligations.

Thurston County reported $733.9 million of total assets as of December 31, 2012, compared to $723.5 million for 2011. This represents an increase of $10.4 million, or 1.4%. For 2012, $516.8 million, or 70.4%, was reported as capital assets, which includes infrastructure and construction in progress. This represents a net increase over 2011 of $10.2 million, or 2%. The majority of the net increase was due to 1) new assets being added as a result of an ongoing major construction project and 2) additions to infrastructure for contributed capital from private sources and reductions for storm water facilities. This latter increase was recorded as a prior period adjustment in the Statement of Activities as many of the contributions happened in prior years. The county became aware of these transactions during 2012. The remaining larger asset balances include $175 million, or 23.8%, in cash and pooled investments (including restricted), and $37.9 million, or 5.2%, in other current and long term receivables.

Thurston County's total liabilities remained very constant in 2012 compared to 2011. They decreased by less than $100,000, to $158.4 million, at the end of 2012. Of this balance, general obligation bonds comprise 60.8% and accumulated landfill closure costs are 11.3%. The other significant liability is Other Post Employment Benefits (OPEB) payable of $16.4 million, or 10.4% of total liabilities.

The condensed financial information that follows is derived from the Government-Wide Statement of Net Position and reflects how the county's net position in 2012 compare with 2011:

Thurston County Net Position

Account	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Assets	$ 171,746,591	$ 176,518,225	$ 45,321,776	$ 40,352,263	$ 217,068,367	$ 216,870,488
Capital Assets	474,840,699	467,543,212	41,952,579	39,073,893	516,793,278	506,617,105
Total Assets	646,587,290	644,061,437	87,274,355	79,426,156	733,861,645	723,487,593
Current Liabilities	18,114,838	15,378,921	2,558,567	2,152,724	20,673,405	17,531,645
Long Term Liabilities	110,450,742	112,402,724	27,225,532	28,497,719	137,676,274	140,900,443
Total Liabilities	128,565,580	127,781,645	29,784,099	30,650,443	158,349,679	158,432,088
Net Position:						
Net Invested in Capital Assets	388,913,237	379,700,249	34,019,243	30,267,496	422,932,480	409,967,745
Restricted	112,519,421	114,171,619	5,596,734	5,198,356	118,116,155	119,369,975
Unrestricted	16,589,052	22,407,924	17,874,279	13,309,861	34,463,331	35,717,785
Total Net Position	$ 518,021,710	$ 516,279,792	$ 57,490,256	$ 48,775,713	$ 575,511,966	$ 565,055,505

Governmental activities – During 2012, the total net position for governmental activities realized an increase of $1.7 million compared to 2011. This was due to increases in capital assets (described earlier) and OPEB Payable and was partially offset by reductions in GO Bonds Payable for scheduled annual debt service payments. Of the $518 million in total net position, $388.9 million was invested in capital assets less any related outstanding debt used to acquire those assets. This represents an increase of $9.2 million from 2011. For 2012, $112.5 million is recorded as restricted net position for various purposes in almost every major service area in the county. This represents a decrease of $1.7 million from the prior year. The final category of net position, unrestricted, is $16.6 million in 2012, a decrease of $5.8 million, or 26% over 2011. These funds are available for future spending.

Business-type activities – During 2012, the Business-type activity accounts saw decent growth compared to prior year balances. The largest change was an increase of $5 million in assets other than capital assets. This was mainly in the cash and pooled investments account of the Solid Waste fund due to cash collected for operating activities. Of the 2012 total net position of $57.5 million, $34 million is invested in capital assets. Business-type activities use their capital assets to provide services to customers. Consequently, these assets are not available for future spending. The unrestricted net position amount in 2012 of $17.9 million represents an increase of $4.6 million over 2011. This category of net position is available for future spending in the business-type funds.

Analysis of the Statement of Activities

The following chart presents key elements in the Statement of Activities. In 2012, total county primary government revenues increased by $1.2 million, or 0.6%, compared to 2011. Total county expenses increased by $5.3 million, or 2.7%, from 2012 to 2011. Within the revenues category, a $5.1 million decrease in Capital Grants was offset with an increase of $7.5 million in tax revenues. The grant receipts decrease was due to the county having mostly completed two large Transportation related projects that were partially grant funded. The increase in Taxes was due to the inclusion of T-Comm tax revenue that was not included last year. The increase in the expenses is attributed to the inclusion of T-Comm amounts as the county records the transfer of money as intergovernmental payments.

Thurston County's Statement of Activities

Account	Governmental Activities		Business-Type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Program Revenues:						
Charges for Services	$ 20,406,134	$ 26,317,553	$ 29,612,038	$ 26,996,503	$ 50,018,172	$ 53,314,056
Operating Grants & Contrib.	44,533,116	42,260,776	549,431	470,051	45,082,547	42,730,827
Capital Grants & Contrib.	11,578,538	16,381,902	238,716	541,632	11,817,254	16,923,534
General Revenues:						
Taxes	94,942,556	87,428,011	-	-	94,942,556	87,428,011
Interest and Invest. Earnings	5,013,419	5,215,135	94,271	216,820	5,107,690	5,431,955
Other General Revenues	144,515	351,951	315,602	83,953	460,117	435,904
Total Revenues	176,618,278	177,955,328	30,810,058	28,308,959	207,428,336	206,264,287
Program Expenses: (Net)						
General Government	7,016,301	12,451,387	-	-	7,016,301	12,451,387
Culture and Recreation	2,339,289	1,796,682	-	-	2,339,289	1,796,682
Economic Environment	7,085,690	6,052,672	-	-	7,085,690	6,052,672
Health and Human Services	48,117,848	46,686,199	-	-	48,117,848	46,686,199
Utilities and Environment	1,897,652	1,813,192	-	-	1,897,652	1,813,192
Public Safety	75,992,534	68,543,177	-	-	75,992,534	68,543,177
Transportation	26,594,614	27,849,786	-	-	26,594,614	27,849,786
Interest	3,776,247	3,961,926	-	-	3,776,247	3,961,926
Solid Waste	-		17,099,113	16,257,083	17,099,113	16,257,083
Water	-	-	768,463	883,331	768,463	883,331
Sewer	-	-	1,628,022	1,883,527	1,628,022	1,883,527
Stormwater	-	-	3,914,141	2,755,342	3,914,141	2,755,342
Land Use & Permitting	-	-	3,514,208	3,519,591	3,514,208	3,519,591
Total Expenses	172,820,175	169,155,021	26,923,947	25,298,874	199,744,122	194,453,895
Excess (Deficiency) of Revenues						
over (under) Expenses before						
Transfers	3,798,103	8,800,307	3,886,111	3,010,085	7,684,214	11,810,392
Transfers	(1,896,073)	(1,305,394)	1,896,073	1,305,394	-	-
Change in Net Position	1,902,030	7,494,913	5,782,184	4,315,479	7,684,214	11,810,392
Ending Net Position January 1	516,279,792	501,133,411	48,775,713	44,629,859	565,055,505	545,763,270
Prior Period Adjustment	(160,112)	7,651,468	2,932,359	(169,625)	2,772,247	7,481,843
Restated Net Position January1	516,119,680	508,784,879	51,708,072	44,460,234	567,827,752	553,245,113
Ending Net Position	$ 518,021,710	$ 516,279,792	$ 57,490,256	$ 48,775,713	$ 575,511,966	$ 565,055,505

In 2012, Governmental activities provided $176.6 million in revenues (85.2% of total revenues), while business-type activities provided $30.8 million (14.8% of total revenues). The 2012 ratio of total revenues between governmental and business-type was exactly consistent with 2011. The two largest governmental revenues are taxes at $94.9 million, or 53.8%, of total governmental revenues and operating grants and contributions at $44.5 million, or 25.2%, of total governmental revenues. The remaining 21% of governmental revenues include charges for services, capital grants, interest and investment earnings and other general revenues.

The net change in governmental total revenues between 2012 and 2011 was a decrease of $1.3 million. The largest decrease in governmental revenues was charges for services of $5.9 million followed by capital grants of $4.8 million. These decreases were mostly offset by an increase of $7.5 million in taxes. The charges for services decrease is explained in the Roads Fund section of the individual fund section below. Note that the county considers certain intergovernmental revenues as charges for services for government-wide reporting purposes. Reasons for changes in the other accounts were detailed above.

In 2012, charges for services accounted for $29.6 million, or 96.1%, of total business-type revenues. Within this category, the Solid Waste fund revenues accounted for $20.9 million, or 68.4%.

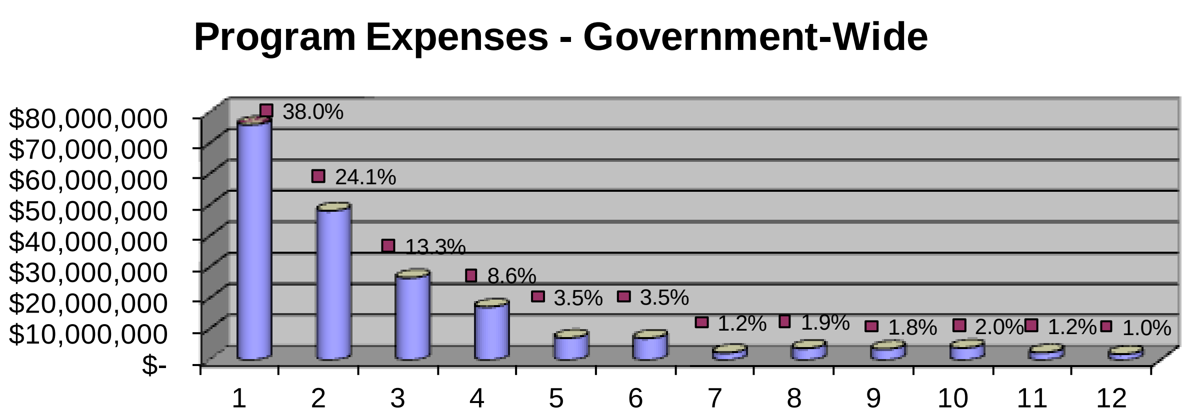
The change in governmental total expenses between 2012 and 2011 was an increase of $3.7 million. This difference is the net amount of increases and decreases in the various functions. The two largest changes are a decrease of $5.4 million in General Government function and an increase in $7.4 million in the Public Safety function. The decrease was mainly due to the fact that the county recorded a loss on the sale of capital assets of $3.6 million in 2011. The increase in Public Safety was due to the inclusion of T-Comm expenses described earlier.

The governmental and business-type expense distribution in 2012 closely resembles the distribution from the prior year as $172.8 million, or 86.5% was in governmental activities and $26.9 million, or 13.5%, was in business-type activities. Public Safety, Health and Human Services, and Transportation programs comprise 87.2% of total governmental expenses.

In 2012, Solid Waste comprised $17.1 million, or 63.5%, of the $26.9 million in business-type expenses. This represents an increase of $0.8 million for Solid Waste and $1.6 million for overall business-type expenses over 2011.

In 2012, the county reported a prior period adjustment of $2,772,247. The majority of this adjustment was related to prior year contributed capital from private sources and that became known by the county during 2012.

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



Legend:

1. Public Safety	4. Solid Waste	7. Culture & Recreation	10. Stormwater
2. Health & Human Serv.	5. Economic Environment	8. Interest	11. Water & Sewer
3. Transportation	6. General Government	9. Land Use & Permitting	12. Utilities & Environment

FINANCIAL ANALYSIS OF THE COUNTY'S MAJOR FUNDS

Following is an analysis of the county's major governmental and proprietary funds.

Governmental Funds Analysis

The focus of Thurston County's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Unassigned fund balance serves as a useful measure of the county's net resources available for spending at the end of the fiscal year.

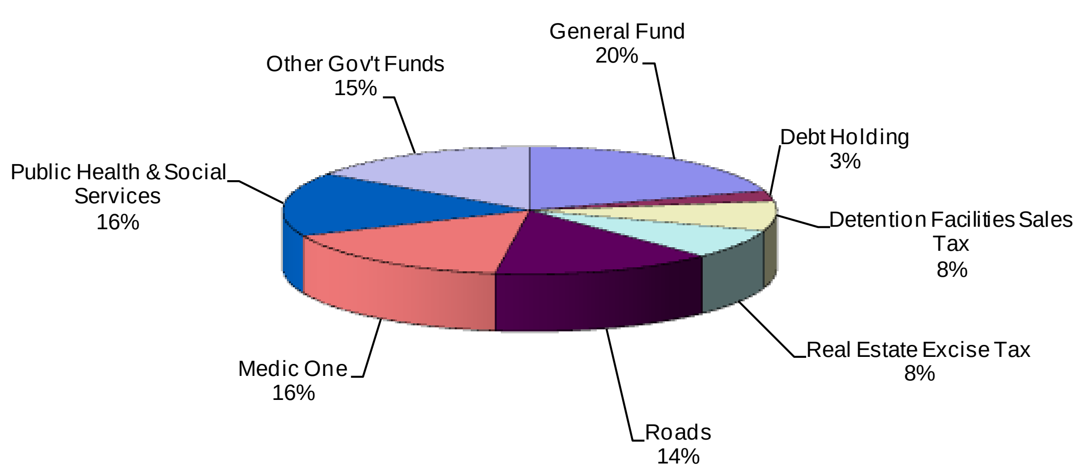
As of December 31, 2012, the county's governmental funds reported combined total ending fund balances of $104.8 million. This represents a decrease of $7.8 million, or 6.9%, compared with the prior year. This was due mainly to a decrease in the fund balance of the county's Debt Holding Fund, a major Capital Projects Fund. This fund is used to hold bond proceeds for subsequent spending on large construction projects. During 2012, this fund transferred $4.2 million for capital outlay expenditures chiefly for the Tilley Master Plan project. Also contributing to this difference was a transfer of $6.2 million out of the county's Detention Facility Sales Tax Fund, a major Capital Projects Fund. This fund is used to hold funds collected on a sales tax levied to construct detention facilities. Transfers out of this fund went to fund activities at the county's Accountability and Restitution Center and to debt service funds for annual bond payments.

In 2012, total assets in the governmental funds decreased $8.4 million compared to 2011. The main reason for this decrease is the Debt Holding and Detention Facilities Sales Tax Fund activity described in the last paragraph. Since these are mainly holding funds, their main transactions are cash receipts in and transfers-out. Therefore, changes in position closely track changes in fund balance.

In 2012, total liabilities for total governmental funds decreased by just $0.6 million over 2011 levels. The main reason for differences between fiscal years in the several funds is the timing of year-end payables to outside vendors and other funds.

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

Total Assets - Governmental Funds

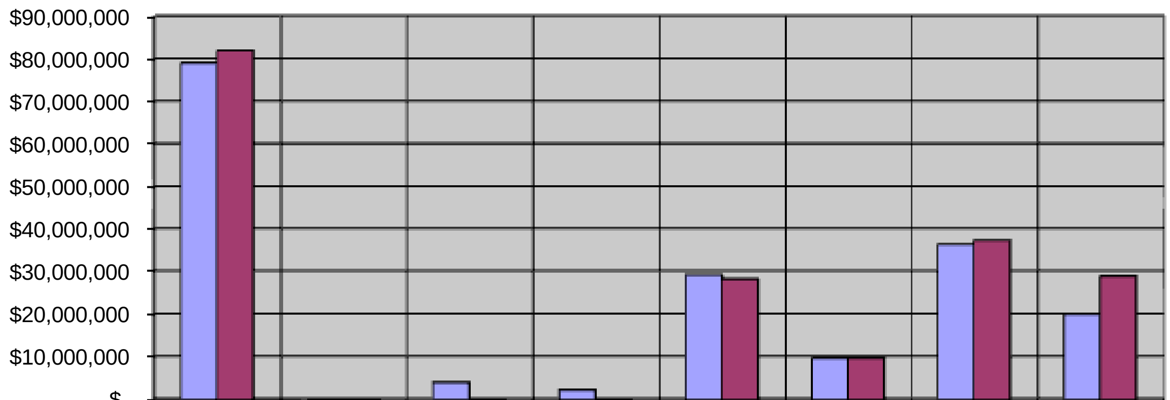


Governmental Fund revenues in 2012 were lower than 2011 levels by just under $.5 million, or 0.3%. There were two large fluctuations in the funds that mostly offset each other. First, the Roads fund revenue decreased by $6.5 million because of a reduction of intergovernmental receipts described earlier. Next, the revenue increase offset was in the recording of T-Comm revenues also described earlier. That amount was $6.6 million.

Governmental expenditures in 2012 were lower than 2011 by $8.1 million, or 4.2%. This decrease was mainly the result of approximately $18.4 million less in capital outlay expenditures in 2012 compared to 2011. The majority of the reduction in activity took place in the Roads Fund and the Tilley Master Plan Fund because of more capital related activity in 2011. The decrease was partially offset by an increase of $6.5 million for the recording of T-Comm expenditures described earlier. The remainder of the increase can be attributed to normal inflationary reasons such as a 2.24% cost of living adjustment (COLA) and medical insurance increases.

The following chart shows revenues and expenditures for Thurston County's eight major governmental funds, including the Other Governmental Funds. Charted revenues and expenditures exclude other financing sources/uses and transfers.

Governmental Fund Revenues and Expenditures



	General Fund	Debt Holding	Detention Facilities Sales Tax	Real Estate Excise Tax	Roads	Medic One	Public Health & Social Services	Other Gov't Funds
Revenues	$79,159,254	$39,096	$4,039,491	$2,312,284	$29,294,283	$9,801,237	$36,448,388	$20,060,626
Expenditures	$82,045,944	$-	$4,192	$-	$28,318,324	$9,784,493	$37,380,949	$28,975,648

In 2012, the General Fund, Public Health and Social Services Fund and Roads Fund accounted for 79.8% of total revenues and 79.2% of total expenditures.

For 2012, (as well as 2011) the county is reporting the following as major governmental funds: General, Debt Holding, Detention Facility Sales Tax Holding, Real Estate Excise, Roads, Medic One, Public Health and Social Services, and Other Governmental.

The following are highlights related to each major fund in 2012:

The **General Fund** is the chief operating fund of the county. The General Fund's total ending fund balance was $16.5 million at the end of 2012, compared to $18.5 million at the end of 2011. Total Unassigned fund balance was $14.2 million compared to $16.1 million at the end of 2011. The main reason for this reduction was recurring revenues remaining mostly flat, a reduction of grant related revenues mainly in the Emergency Management department, and normal increases in expenditures. General Fund total assets were $24.8 million and total liabilities were $8.2 million at the end of 2012. Compared to 2011, assets decreased by 2% whereas liabilities increased by 20%. The main decrease in assets occurred in amounts due from other governments for grant receipts, related to the intergovernmental revenues just described. The main liability increase occurred in Accounts Payable account. This was the result of the county moving to a 10-day lag payroll in February 2012. In years past, the county's payroll policy was to pay employees on the last working day of the month. In 2012, the county changed its payroll cycle where employees are now being paid on the 10th and 25th of each month for the pay period ending 10 days prior. Therefore, at year-end, the county, for the first time, accrued the second half of December's payroll expenditures as an Accounts Payable causing the difference in this account compared to 2011.

General Fund revenues decreased by $1.8 million, or 2.2%, from 2011 to 2012. This chief reason for this decrease was described above with the intergovernmental revenue reduction. Overall expenditures in the General Fund for 2012, compared to 2011, increased by $3.4 million, or 4.4%. Public Safety was the function that increased the most in 2012 as it increased by $3 million mainly due to year-over-year inflationary increases. This is to be expected as the Public Safety function comprises over 77% of total General Fund expenditures.

The **Debt Holding Fund** was created in 2009 for the purpose of accounting for the receipt of bond funds for the 2009 & 2010 bond issues and to transfer out funds to Capital Projects Funds as expenditures become due. Beginning in 2011, this fund was converted into a Capital Projects fund due to the implementation of GASB 54. In 2012, this fund had no cash receipts except for a small amount of interest revenue. In 2011 this fund receipted in only $201,000 in cash inflows compared to receipts of $28.1 million in debt issuance, premiums, and proceeds on advance refunding in 2010. In 2012, this fund transferred out $4.2 million to other funds for capital related expenditures compared to $17.6 million of transfers out in 2011 for the same purpose. Decreased construction activity in 2012 compared to 2011 attributed to the reduction in activity in this fund. As such, this fund's cash balance and ending fund balance at the end of 2012 was down significantly compared to 2011 which is by design. The cash balance went from $7.8 million to $2 million and the ending fund balance went from $7.1 million to $2.9 million.

The **Detention Facility Sales Tax Holding Fund** receives a dedicated 1/10-cent sales tax for future transfers for expenditures on detention-related facilities projects and debt service payments. The ARC construction activity, described earlier, is the main beneficiary of this fund. In comparing 2012 to 2011, this fund saw a decrease in total assets of $2.1 million, or 18.6%. Liabilities, which are diminutive in this fund by design, increased by about $18,000 in 2012 compared to 2011.

During 2012 revenues decreased by about $67,000, to $4 million from 2011. 2012 expenditures and transfers out for continued bond payments remained near the same level as 2011, at $6.2 million. As a result, the net change in total fund balance was a decrease of $2.2 million.

The **Real Estate Excise Tax (REET) Fund** accounts for excise taxes collected from real estate transactions. Each real estate transaction is charged ½ of 1 percent of the value of transacted property. These moneys are restricted for various capital outlays as stipulated in state statutes.

REET fund total assets (mainly cash and pooled investments) decreased by $3.1 million, or 25% compared to 2011. Liabilities are small compared to assets and decreased by just under $520,000 over the prior year mainly due to fewer year-end accruals for transfers to other county funds for various capital expenditures.

Revenues continue to be depressed compared to years past but were up slightly ($51,000, or 2.2%), in 2012 as compared to 2011. Revenues associated with this fund are directly tied to activity in the real-estate market and reflected a sixth consecutive year of reduced or flat revenues. The fund had no expenditures in 2012 or 2011. Transfers out to other funds totaled $4.9 million in 2012 compared to $4.1 million in 2011. Small fluctuations are normal here as the transfers out are driven by requests from other funds.

The **Roads Fund** provides road maintenance and construction services to the citizens of Thurston County. In this fund, total assets increased by $815,000 in 2012 compared to 2011. The increase was primarily due to more year-end receivable accruals compared to 2011. Liabilities decreased by $1.5 million from 2011 to 2012 mainly due to decreased construction expenditure activity and fewer year-end payable accruals.

Compared to 2011, revenues in the Roads fund decreased by $6.5 million, or 18.2%, and expenditures decreased by $8.3 million, or 22.7% in 2012. In both instances it was due to the decrease in capital outlay activity for the Yelm Highway project during 2012 compared to 2011. The main driver for the revenue decrease was the decrease in intergovernmental revenue receipts from the City of Olympia in 2012 compared to 2011. The City of Olympia agreed to help pay for part of the cost of this construction project that ended in early 2012.

The **Medic One Fund** provides basic and advanced life support services to the citizens of Thurston County. In 2012, Medic One's total assets and total liabilities remained constant compared to 2011.

The same holds true for this fund's revenues, expenditures, and fund balance with each of these accounts fluctuating by just a few thousand dollars compared to last year. The fund's 2012 ending fund balance was a healthy $18.9 million.

The **Public Health and Social Services Fund** provides social and health services to the citizens of Thurston County. Fund total assets increased in 2012 by $3 million and total liabilities increased by $1.7 million compared to 2011. For assets, most of the increase was in the Cash and Pooled Investments account and the liability increase was in Accounts Payable and Due To Other Governments. The increase in the cash account is because the fund had more year-end accruals than it did in prior year.

Revenues increased by just $242,000, or 0.7% compared to 2011. Expenditures increased by $1.3 million comparing 2012 to 2011. These are normal fluctuations and activity in this fund remained consistent compared to prior year. Transfers in, on the other hand, decreased by $3.8 million, to $2.7 million. The $2.7 million level is more of the historical normal in this fund. This fund had a one-time transfer in of $3.6 million in 2011 as a result of the closing of the county's Workforce Development fund in 2011. The result of the aforementioned activity was a $1.3 million, or 8.4%, increase in ending fund balance.

The **Other Governmental Funds,** is a major fund comprised of all non-major Special Revenue, Capital Projects, and Debt Service funds of the county. During 2012 total assets in these funds decreased by just over $1 million, or 5% compared to 2011. The liabilities in these funds also decreased by a small amount in 2012 compared to 2011 ($402,000, or 12.2%). For the assets, the largest decrease was in the Due From Other Funds account as there was a $1.6 million year-end accrual in the Tilley Master Plan fund for construction activity at the end 2011 which was not there in 2012. The main difference in the liabilities was in the Accounts Payable account where there were fewer year-end accruals than in 2011. In 2012, revenues in the Other Governmental Funds increased by $7.6 million, whereas expenditures decreased by $4.6 million, compared to prior year. The main explanation for the revenue increase was the recognition of the T-Comm taxes as described earlier. For the expenditure reduction, there were less expenditures related to capital outlay compared to 2011 which is consistent with earlier explanations on the level of construction activity in the county in 2012. Also in these funds, transfers-in decreased by $13.9 million and transfers-out decreased by $3.7 million. Both of these decreases were chiefly due to a reduction of construction activity in the capital projects funds. The end result of the activity above was a reduction in ending fund balance of just under $600,000.

Proprietary Funds Net Position Analysis

Thurston County's enterprise funds provide the same type of information found in the government-wide financial statements for business-type activities. This information is presented in the same accounting format. Internal service funds, although proprietary, are not included in the following section.

Thurston County
Enterprise Net Position

Assets	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds
Cash & Pooled Investments	$ 13,660,967	$ 2,072,267	$ 3,553,930	$ 1,695,225	$ 20,982,389
Other Current Assets	3,763,339	538,721	341,431	237,234	4,880,725
Restricted Assets:					
Cash and Pooled Investments	-	164,723	-	139,253	303,976
Total Current Assets	17,424,306	2,775,711	3,895,361	2,071,712	26,167,090
Long-Term Assets:					
Receivables and Deff Chrgs.	78,592	1,485,950	-	819,368	2,383,910
Capital Assets	12,400,078	15,827,928	9,702,521	4,022,052	41,952,579
Restrict Assets: Cash and Pooled Investments	17,562,551	-	-	-	17,562,551
Total Long Term Assets	30,041,221	17,313,878	9,702,521	4,841,420	61,899,040
Total Assets	47,465,527	20,089,589	13,597,882	6,913,132	88,066,130
Liabilities					
Current Liabilities:					
Accounts Payable/ Due To's	2,302,755	68,117	299,206	278,562	2,948,640
Restricted Laibilities - Debt	-	920,000	-	81,018	1,001,018
Total Current Liabilities	2,302,755	988,117	299,206	359,580	3,949,658
Long-Term Liabilities:					
Limited G.O. Bonds Payable	-	6,148,888	-	591,032	6,739,920
Comp Abs & OPEB Payable	700,768	91,543	439,101	610,427	1,841,839
Intergov. Loans & Contracts Payable	-	67,146	6,803	698,075	772,024
Accumulated Landfill Closure Costs	17,871,749	-	-	-	17,871,749
Total Long Term Liabilities	18,572,517	6,307,577	445,904	1,899,534	27,225,532
Total Liabilities	20,875,272	7,295,694	745,110	2,259,114	31,175,190
Net Position					
Net Investment in Capital Assets	12,400,078	8,686,729	9,692,777	3,239,659	34,019,243
Restricted For:					
Postclosure, Net Of Related Liability	2,165,994	-	-	-	2,165,994
Debt Service	-	1,948,550	757,963	724,227	3,430,740
Unrestricted (Deficit)	12,024,183	2,158,616	2,402,032	690,132	17,274,963
Total Net Position	$ 26,590,255	$ 12,793,895	$ 12,852,772	$ 4,654,018	$ 56,890,940

The Solid Waste, Grand Mound, and Storm & Surface Water Utility fund are the major enterprise funds for Thurston County in 2012. In 2011, just the Solid Waste and Grand Mound funds were major funds.

The **Solid Waste Fund** provides solid waste disposal and reduction services to the citizens of Thurston County. The **Grand Mound Fund** provides water and waste water services to residents of Grand Mound in southern Thurston County. The **Storm & Surface Water Fund** accounts for assessments levied to minimize the harmful effects of storm water run-off and to construct and improve storm water run-off facilities within the utility's boundaries. These funds comprise 92.2% of enterprise assets and 92.8% of enterprise liabilities. Within these three funds, the two accounts that fluctuated the most and are worth noting here were the Cash and Pooled Investments in the Solid Waste fund and the Capital Assets in the Storm & Surface Water Fund. The cash increase was due to the increased level of activity in the county's Waste and Recovery Center (WARC) as described in the revenue section below. The Capital Asset amount in the Storm Water fund was $9.7 million in 2012. This account increased by $3.1 million, or 45.9%. The reason for this increase was that during the year the county identified some storm water related infrastructure capital assets, contributed to the county, and previously not recorded. Some of these assets were contributed to the county over the course of several years dating back to the 1970's. For those assets constructed prior to 2012, the county recorded them as a prior period adjustment.

Combined net position for enterprise funds was $56.9 million in 2012, of which $52.2 million, or 91.8%, resided in the three major funds noted above. Of the total enterprise funds' net position, $34 million, or 59.8%, are net invested in capital assets, whereas $17.3 million, or 30.4%, are unrestricted. Unrestricted net position increased by $4.6 million from 2011. Total assets for all of the enterprise funds increased by $7.5 million, or 9.3% compared to 2011. Total liabilities in the Enterprise funds were $31.2 million which represented a decrease of $1.2 million over 2011, mainly due to a reduction in the GO Bonds Payable account for normal scheduled debt service payments.

<u>Proprietary Funds Revenue/Expense Analysis</u>
The following table is a summary of enterprise fund revenues and expenses in 2012.

Thurston County Washington
Enterprise Funds Revenues and Expenses

	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds
Revenues:					
Charges for Services	$ 20,884,983	$ 1,337,347	$ 4,801,512	$ 3,493,821	$ 30,517,663
Miscellaneous	298,202	10,382	-	6,674	315,258
Interest Revenue	-	18,522	50,141	25,608	94,271
Other Nonoperating Revenue	442,793	9,266	292,040	294,508	1,038,607
Total Revenues	21,625,978	1,375,517	5,143,693	3,820,611	31,965,799
Expenses:					
Salaries and Benefits	2,519,482	221,451	1,885,045	2,606,230	7,232,208
Other Supplies and Expenses	250,485	73,033	84,192	58,261	465,971
Contractual Services	1,714,187	228,221	403,509	244,536	2,590,453
Longhaul Contract	10,267,410	-	-	-	10,267,410
Interfund Services and Charges	1,442,578	206,485	1,290,309	1,140,094	4,079,466
Depreciation/Amortization	1,056,728	562,154	454,202	175,824	2,248,908
Misc. Nonoperating Expenses	530,744	298,802	75,085	342,971	1,247,602
Total Expenses	17,781,614	1,590,146	4,192,342	4,567,916	28,132,018
Income (Loss) before contrib. and trans.	3,844,364	(214,629)	951,351	(747,305)	3,833,781
Capital Contributions	-	41,580	-	-	41,580
Transfers In (Out)	(33,688)	371,022	(32,361)	1,591,100	1,896,073
Change in Net Position	3,810,676	197,973	918,990	843,795	5,771,434
Net Position as of January 1	22,779,579	12,595,922	9,048,305	3,763,341	48,187,147
Prior Period Adjustments	-	-	2,885,477	46,882	2,932,359
Net Position as of January 1-Restated	22,779,579	12,595,922	11,933,782	3,810,223	51,119,506
Net Position as of December 31	$ 26,590,255	$ 12,793,895	$ 12,852,772	$ 4,654,018	$ 56,890,940

For the total enterprise funds, total operating revenues from charges for services in 2012 are $30.5 million and comprise 95.5% of total enterprise operating and non-operating revenues. Total charges for services for enterprise funds increased $2.8 million, or 10% over prior year. The reasons for this are there was an 8.2% rate increase and the county collected 2,300 more tons of waste at its Waste and Recovery center (Solid Waste fund) compared to 2011. Please note that operating revenues and expenses are not segregated within the accompanying summarized table whereas they are segregated within the fund financial statements.

The **Solid Waste Fund** has provided waste disposal and reduction services through a solid waste transfer facility since 1999 at the Hawk's Prairie Solid Waste and Recovery Center. Solid waste was disposed at a landfill at this site prior to that time. Maintenance of the closed landfill is fully funded through post closure reserves generated from landfill revenues prior to closure. Solid Waste Fund revenues comprise 67.7% of total enterprise revenues and 63.2% of total enterprise expenses. Besides the operating revenue difference noted above in this fund, there were no other accounts that had large notable fluctuations in 2012 compared to 2011.

The **Grand Mound Fund** has provided water and waste water services to the Grand Mound area since 1999. Grand Mound Fund revenues comprise 4.3% of total enterprise revenues and 5.7% of total enterprise expenses. In 2012 both revenues and expenses remained fairly constant over prior year resulting in an increase of total Net Position by $198,000, or 1.6%.

As mentioned earlier, the **Storm & Surface Water Fund** was a non-major enterprise fund in 2011 whereas it qualified as a major fund in 2012. This fund has been collecting assessments from landowners due to storm water run-off since 1985. Operating revenues in this fund were at $4.8 million at the end of 2012. This represents an increase of $881,000, or 22.5% from prior year. The majority of this increase was due to a reclassification of interfund charges from non-operating to operating revenues. As such, total non-operating revenue (expense) decreased by $1.1 million because of this reclassification. Net position for 2012 in this fund increased by $3.8 million compared to 2011. The majority of this increase, or $2.9 million was due to the prior period adjustment for contributed capital mentioned above.

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. The following table shows the changes between the original and final budget as of December 31, 2012. A positive variance is reported if final budget revenues exceed original budget revenues whereas a negative variance is reported if final budget revenues are less than the original budgeted revenues. The reverse is shown for expenditures. A negative variance is reported if final budget expenditures exceed original budget expenditures and a positive variance is shown if the original budget expenditures exceeds the final budgeted expenditures.

Thurston County
General Fund Changes in Budget

	Original Budget	Final Budget	Variance Pos (Neg)
Revenues:			
Taxes	$ 53,640,160	$ 53,640,160	$ -
Licenses & Permits	1,767,950	1,767,950	-
Intergovernmental	10,165,535	11,066,302	900,767
Charges for Services	11,979,714	10,485,252	(1,494,462)
Fines & Forfeitures	1,612,800	1,616,800	4,000
Miscellaneous	1,355,775	1,380,375	24,600
Total General Revenues	**80,521,934**	**79,956,839**	**(565,095)**
Other Financing Sources	4,762,878	5,037,703	274,825
Total Revenues	**$ 85,284,812**	**$ 84,994,542**	**$ (290,270)**
Expenditures by Department:			
Assessor's Office	3,541,445	3,541,445	-
Auditor's Office	5,137,841	5,137,841	-
Assigned Counsel	3,183,437	3,371,765	(188,328)
Clerk's Office	3,297,164	3,297,164	-
Commissioner's Office	1,925,445	1,925,445	-
Coroner's Office	987,617	987,617	-
Corrections	14,810,483	15,130,096	(319,613)
District Court	3,136,173	3,136,173	-
Emergency Management	1,974,973	1,974,973	-
Human Resources	1,693,668	1,693,668	-
Juvenile Probation	7,219,585	7,219,585	-
Non-Departmental	7,068,420	7,177,078	(108,658)
Planning	1,978,232	2,008,311	(30,079)
Prosecuting Attorney	8,027,747	8,274,900	(247,153)
State Examiner	115,000	115,000	-
Sheriff	15,468,180	15,688,114	(219,934)
Superior Court	5,508,401	5,712,274	(203,873)
Treasurer's Office	1,113,506	1,113,506	-
WSU Extension	393,890	386,951	6,939
General Fund Expenditures	**86,581,207**	**87,891,906**	**(1,310,699)**
Fair	530,059	547,059	(17,000)
Geo Data	1,129,256	-	1,129,256
LEOFF I Long Term Care	155,882	219,000	(63,118)
Parks & Trails	1,042,588	1,046,398	(3,810)
Prisoner Concession	353,073	353,073	-
Recreation Services	413,569	364,999	48,570
Reported General Fund Expenditures	**90,205,634**	**90,422,435**	**(216,801)**
Net Changes in Fund Balances	(4,920,822)	(5,427,893)	(507,071)
Fund Balances as of January 1	16,171,363	16,337,771	166,408
Fund Balances as of December 31	**$ 11,250,541**	**$ 10,909,878**	**$ (340,663)**

For revenues, the net decrease in total budgeted revenues from the original budget to the final budget was $290,000 or 0.3%. The most significant decrease was in the Charges for Services category and was due the fact that in the middle of the budget process, the county reclassified its Geo Data fund from a general fund, sub fund, to within the Central Services fund. Therefore, there is an original budget, but no final budget, for this fund. The amount originally budgeted for charges for services in this fund was $1.1 million. This decrease was partially offset by an increase in the intergovernmental revenues which was due to general fund offices and departments being awarded more grant revenues than originally planned.

With regard to expenditures, the net increase in total budget expenditures from the original budget to the final budget was $217,000, or 0.2%. Within this amount are fluctuations that partially offset each other. The most significant dollar value increase in budget expenditures occurred in Superior Court and the Corrections department. In both instances, it was because of increased grant expenditures. The largest expenditure change was related to the Geo Data fund described above.

The final budget ending fund balance was $10.9 million, which represents a decrease of $341,000 from the original budgeted ending fund balance. The difference is due to the changes noted above as well as a mid-year adjustment where the beginning fund balance is adjusted to prior year's ending actual fund balance once that amount is known. During 2012, most of these differences offset each other whereas in years past, the difference has been much greater.

General Fund Budget to Actual Variances

The table on the following page summarizes differences between budget and actual for revenues and expenditures in the General Fund for 2012. Note that transfers are included within the amounts reported for revenues and expenditures for each office and department. The final results for 2012 show actual total revenues (including other financing sources) at $83 million, which is $2 million, or 2.3%, below the final budget. Actual expenditures were $84.9 million, which is $5.5 million or 6.1% under budget.

In regards to revenues, the two largest variances between budget and actual were in the Intergovernmental and Taxes categories. The county received $825,000 less intergovernmental receipts and $565,000 less in Taxes than it had planned.

All offices/departments had a positive expenditure variance in 2012, except Office of Assigned Council. This over-expenditure was just over $12,000 and was due to excess capital outlay expenditures for lease purchases that was approved through a separate authorizing resolution.

Thurston County
General Fund Revenues, Expenditures & Fund Balance

	Final Budget	Actuals	Variance Pos (Neg)
Revenues:			
Taxes	$ 53,640,160	$ 53,075,497	$ (564,663)
Licenses & Permits	1,767,950	1,955,624	187,674
Intergovernmental	11,066,302	10,241,584	(824,718)
Charges for Services	10,485,252	10,522,717	37,465
Fines & Forfeitures	1,616,800	1,858,404	241,604
Miscellaneous	1,380,375	1,505,428	125,053
Total General Revenues	**79,956,839**	**79,159,254**	**(797,585)**
Total Other Financing Sources	5,037,703	3,884,231	(1,153,472)
Total Revenues	**$ 84,994,542**	**$ 83,043,485**	**$ (1,951,057)**
Expenditures by Department:			
Assessor's Office	3,541,445	3,479,641	61,804
Auditor's Office	5,137,841	4,958,764	179,077
Assigned Counsel	3,371,765	3,383,861	(12,096)
Clerk's Office	3,297,164	3,229,711	67,453
Commissioner's Office	1,925,445	1,873,072	52,373
Coroner's Office	987,617	922,745	64,872
Corrections	15,130,096	15,053,246	76,850
District Court	3,136,173	3,007,741	128,432
Emergency Management	1,974,973	1,762,279	212,694
Human Resources	1,693,668	1,392,425	301,243
Juvenile Probation	7,219,585	6,764,964	454,621
Non-Departmental	7,177,078	4,971,070	2,206,008
Planning	2,008,311	1,105,707	902,604
Prosecuting Attorney	8,274,900	8,126,499	148,401
State Examiner	115,000	96,304	18,696
Sheriff	15,688,114	15,448,466	239,648
Superior Court	5,712,274	5,451,026	261,248
Treasurer's Office	1,113,506	1,025,820	87,686
WSU Extension	386,951	368,811	18,140
General Fund Expenditures	**87,891,906**	**82,422,152**	**5,469,754**
Fair	547,059	522,798	24,261
Geo Data	-	293,462	(293,462)
LEOFF I Long Term Care	219,000	206,465	12,535
Parks & Trails	1,046,398	813,548	232,850
Prisoner Concession	353,073	348,058	5,015
Recreation Services	364,999	338,707	26,292
Reported General Fund Expenditures	**90,422,435**	**84,945,190**	**5,477,245**
Net Changes in Fund Balances	(5,427,893)	(1,901,705)	3,526,188
Fund Balances as of January 1	16,337,771	18,451,651	2,113,880
Fund Balances as of December 31	**$ 10,909,878**	**$ 16,549,946**	**$ 5,640,068**

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital assets include land, construction in progress, buildings, improvements, machinery and equipment and infrastructure. Thurston County's total governmental and business-type capital asset balance was $516.8 million at year end. Of this total, $287.2 million (55.6%) are non-depreciable assets and $229.6 million (44.4%) are depreciated. Capital assets comprise 70.4% of total assets. A capital asset breakdown is provided in Note VI within the financial statement section.

Government-wide, net depreciable assets increased by $24.5 million in 2012, while non-depreciable assets decreased by $14.3 million. The main reason for the differences in both categories of assets is the capitalization of the Tilley Master Plan construction project and the contributed capital infrastructure prior period additions.

Long-Term Debt

Total general obligation debt outstanding at year end was $96.3 million ($89.2 million in governmental activities and $7.1 million in Business-type activities). This total represents a decrease of $5.5 million over 2011 and was due the regularly scheduled periodic bond payments. The county did not sell any new GO Bonds in 2012 and it has no plans to in 2013.

At the end of 2012, the county has the capacity to issue $357 million in debt without a vote under the limitation of indebtedness statute and it has a remaining capacity of $267 million. See financial statement note VIII for more information on the various debt issuances outstanding and the original reason for their issuance.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of Thurston County's finances for all those with an interest in the county's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Auditor's Office, Thurston County, 2000 Lakeridge Drive SW, Olympia, WA. 98502.

Statement of Net Position
December 31, 2012
Page 1 of 2

	Primary Government		
ASSETS	**Governmental Activities**	**Business-Type Activities**	**Total**
Current Assets:			
Cash & Pooled Investments	$ 136,118,899	$ 20,982,389	$ 157,101,288
Receivables:			
Taxes Receivable	2,542,690	-	2,542,690
Special Assessment Receivables	69,439	453,077	522,516
Accrued Interest & Penalties	3,477,813	107,831	3,585,644
Customer Account Receivables	18,079,515	2,330,176	20,409,691
Internal Balances	(722,967)	722,967	-
Due from Other Government Units	7,999,208	553,491	8,552,699
Inventory	695,969	-	695,969
Prepayments	147,571	-	147,571
Restricted Assets:			
Cash & Pooled Investments	-	303,976	303,976
Total Current Assets	168,408,137	25,453,907	193,862,044
Long-Term Assets:			
Debt Issue Costs	1,253,553	124,584	1,378,137
Community Loans Receivable	-	293,493	293,493
Special Assessment Receivables	80,903	1,887,241	1,968,144
Investment in Joint Ventures, Net	2,003,998	-	2,003,998
Capital Assets:			
Non-Depreciable	280,657,693	6,529,516	287,187,209
Depreciable, Net	194,183,006	35,423,063	229,606,069
Restricted Assets : Cash and Pooled Investments	-	17,562,551	17,562,551
Total Noncurrent Assets	478,179,153	61,820,448	539,999,601
Total Assets	$ 646,587,290	$ 87,274,355	$ 733,861,645

See accompanying notes to financial statements

Statement of Net Position
December 31, 2012
Page 2 of 2

	Primary Government		
LIABILITIES	**Governmental Activities**	**Business-Type Activities**	**Total**
Current Liabilities:			
Accounts Payable	10,902,973	1,423,816	12,326,789
Notes/Leases Payable	112,366	90,504	202,870
Due to Other Government Units	865,462	-	865,462
Compensated Absences	224,855	21,003	245,858
Claims & Judgments Payable	349,090	-	349,090
Limited G.O. Bonds Payable	5,051,095	920,000	5,971,095
Special Assess. Debt - Gov. Commitment	-	81,018	81,018
Unearned Revenue	608,997	22,226	631,223
Total Current Liabilities	18,114,838	2,558,567	20,673,405
Long-Term Liabilities:			
Limited G.O. Bonds Payable	84,134,622	6,148,888	90,283,510
Special Assess. Debt - Gov. Commitment	-	591,032	591,032
Compensated Absences	6,230,978	581,978	6,812,956
Other Post Employment Benefits Payable	15,178,901	1,259,861	16,438,762
Claims & Judgments Payable	3,650,910	-	3,650,910
Notes/Leases Payable	1,255,331	772,024	2,027,355
Accumulated Landfill Closure Costs	-	17,871,749	17,871,749
Total Noncurrent Liabilities	110,450,742	27,225,532	137,676,274
Total Liabilities	128,565,580	29,784,099	158,349,679
NET POSITION			
Net Investment in Capital Assets	388,913,237	34,019,243	422,932,480
Restricted For:			
Culture & Recreation	30,335	-	30,335
Economic Environment	2,641,676	-	2,641,676
General Government	11,951,687	-	11,951,687
Health and Human Services	32,507,588	-	32,507,588
Internal Service	25,389,649	-	25,389,649
Public Safety	17,918,162	-	17,918,162
Physical Environment	6,091,050	-	6,091,050
Transportation	15,989,274	-	15,989,274
Debt Service	-	3,430,740	3,430,740
Landfill Postclosure	-	2,165,994	2,165,994
Unrestricted (Deficit)	16,589,052	17,874,279	34,463,331
Total Net Position	$ 518,021,710	$ 57,490,256	$ 575,511,966

See accompanying notes to financial statements

Statement Of Activities
For The Year Ended December 31, 2012
Page 1 of 2

Functions/Programs	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants And Contributions	Program Revenues: Capital Grants & Contributions
PRIMARY GOVERNMENT					
Governmental Activities:					
General Government	$ 13,426,603	$ (6,410,302)	$ 6,100,407	$ 1,316,601	$ 272,747
Culture & Recreation	2,253,109	86,180	623,633	89,137	44,997
Economic Environment	6,875,223	210,467	1,584,452	1,760,182	1,467,804
Health & Human Services	47,327,786	790,062	2,691,267	33,924,098	-
Public Safety	73,623,670	2,368,864	7,317,323	6,701,273	929,148
Transportation	24,902,727	1,691,887	1,385,242	497,240	8,863,842
Utilities & Environment	1,835,833	61,819	703,810	244,585	-
Interest and Fiscal Charges	3,776,247	-	-	-	-
Total Governmental Activities	174,021,198	(1,201,023)	20,406,134	44,533,116	11,578,538
Business-Type Activities:					
Solid Waste	16,778,112	321,001	20,884,983	441,473	1,320
Water	690,459	78,004	643,987	3,911	13,860
Sewer	1,472,013	156,009	1,314,930	7,823	27,720
Stormwater	3,665,515	248,626	3,958,390	96,224	195,816
Land Use & Permitting	3,116,825	397,383	2,809,748	-	-
Total Business-Type Activities	25,722,924	1,201,023	29,612,038	549,431	238,716
Total Primary Government	$ 199,744,122	$ -	$ 50,018,172	$ 45,082,547	$ 11,817,254

See accompanying notes to financial statements

Statement Of Activities
For The Year Ended December 31, 2012
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	Net (Expense) Revenue and Changes In Net Position		
	Primary Government		
Functions/Programs	**Governmental Activities**	**Business-Type Activities**	**Total**
PRIMARY GOVERNMENT			
Governmental Activities:			
General Government	$ 673,454	$ -	$ 673,454
Culture & Recreation	(1,581,522)	-	(1,581,522)
Economic Environment	(2,273,252)	-	(2,273,252)
Health & Human Services	(11,502,483)	-	(11,502,483)
Public Safety	(61,044,790)	-	(61,044,790)
Transportation	(15,848,290)	-	(15,848,290)
Utilities & Environment	(949,257)	-	(949,257)
Interest and Fiscal Charges	(3,776,247)	-	(3,776,247)
Total Governmental Activities	(96,302,387)	-	(96,302,387)
Business-Type Activities:			
Solid Waste	-	4,228,663	4,228,663
Water	-	(106,705)	(106,705)
Sewer	-	(277,549)	(277,549)
Stormwater	-	336,289	336,289
Land Use & Permitting	-	(704,460)	(704,460)
Total Business-Type Activities	-	3,476,238	3,476,238
Total Primary Government	$ (96,302,387)	$ 3,476,238	$ (92,826,149)
General Revenues:			
Taxes:			
Property Taxes	63,850,140	-	63,850,140
Sales Taxes	27,723,288	-	27,723,288
Business & Harvest Taxes	773,469	-	773,469
Excise Taxes	2,595,659	-	2,595,659
Other General Revenues:			
Interest & Investment Earnings	5,013,419	94,271	5,107,690
Miscellaneous	144,515	315,602	460,117
Transfers In/(Out)	(1,896,073)	1,896,073	-
Total General Revenues and Transfers	98,204,417	2,305,946	100,510,363
Change in Net Position	1,902,030	5,782,184	7,684,214
Net Position as of January 1	516,279,792	48,775,713	565,055,505
Prior Period Adjustment	(160,112)	2,932,359	2,772,247
Net Position as of January 1 - Restated	516,119,680	51,708,072	567,827,752
Net Position as of December 31	$ 518,021,710	$ 57,490,256	$ 575,511,966

See accompanying notes to financial statements

Balance Sheet
Governmental Funds
December 31, 2012
Page 1 of 2

ASSETS	General Fund	Debt Holding	Detention Facility Sales Tax Holding	Real Estate Excise Tax	Roads
Assets:					
Cash & Pooled Investments	$ 14,545,218	$ 1,965,002	$ 9,357,993	$ 9,328,204	$ 14,869,780
Receivables:					
Taxes Receivable	1,392,743	-	-	-	709,435
Special Assessment Receivables	-	-	-	-	-
Accrued Interest & Penalties	3,309,993	4,337	13,432	12,878	2,924
Customer Account Receivables	2,939,996	-	-	625	21,146
Due from Other Funds	1,083,242	-	-	-	58,947
Due from Other Government Units	1,490,336	1,290,092	-	-	1,826,269
Inventory	-	-	-	-	449,009
Prepayments	9,209	-	-	-	-
Total Assets	$ 24,770,737	$ 3,259,431	$ 9,371,425	$ 9,341,707	$ 17,937,510
LIABILITIES					
Liabilities:					
Accounts Payable	$ 3,280,532	$ -	$ -	$ 581	$ 1,424,485
Due to Other Funds	370,271	353,974	238,434	89,213	95,711
Due to Other Government Units	1,769	-	-	-	-
Unearned Revenues	4,568,219	-	-	-	1,317,954
Advances From Other Funds	-	-	-	-	-
Total Liabilities	8,220,791	353,974	238,434	89,794	2,838,150
FUND BALANCES					
Nonspendable	2,346,978	-	-	-	449,009
Restricted	5,775	2,905,457	9,132,991	9,136,696	7,842,984
Committed	-	-	-	-	-
Assigned	-	-	-	115,217	6,807,367
Unassigned	14,197,193	-	-	-	-
Total Fund Balance	16,549,946	2,905,457	9,132,991	9,251,913	15,099,360
Total Liabilities & Fund Balances	$ 24,770,737	$ 3,259,431	$ 9,371,425	$ 9,341,707	$ 17,937,510

See accompanying notes to financial statements

Balance Sheet
Governmental Funds
December 31, 2012
Page 2 of 2

ASSETS	Medic One	Public Health & Social Services	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash & Pooled Investments	$ 19,655,062	$ 16,838,062	$ 17,402,170	$ 103,961,491
Receivables:				
Taxes Receivable	357,602	25,999	56,911	2,542,690
Special Assessment Receivables	-	11,809	57,630	69,439
Accrued Interest & Penalties	24,755	21,820	75,334	3,465,473
Customer Account Receivables	-	21,409	570,717	3,553,893
Due from Other Funds	-	679,448	176	1,821,813
Due from Other Government Units	-	2,571,736	768,906	7,947,339
Inventory	-	-	-	449,009
Prepayments	-	-	-	9,209
Total Assets	$ 20,037,419	$ 20,170,283	$ 18,931,844	$ 123,820,356
LIABILITIES				
Liabilities:				
Accounts Payable	$ 658,480	$ 2,334,781	$ 1,570,399	$ 9,269,258
Due to Other Funds	1,690	155,550	1,068,260	2,373,103
Due to Other Government Units	158,450	682,725	6,671	849,615
Unearned Revenues	357,602	37,807	255,487	6,537,069
Advances From Other Funds	-	-	-	-
Total Liabilities	1,176,222	3,210,863	2,900,817	19,029,045
FUND BALANCES				
Nonspendable	-	-	-	2,795,987
Restricted	11,297,576	282,417	12,826,682	53,430,578
Committed	-	-	336,395	336,395
Assigned	7,563,621	16,677,003	3,650,168	34,813,376
Unassigned	-	-	(782,218)	13,414,975
Total Fund Balance	18,861,197	16,959,420	16,031,027	104,791,311
Total Liabilities & Fund Balances	$ 20,037,419	$ 20,170,283	$ 18,931,844	$ 123,820,356

See accompanying notes to financial statements

Reconciliation of The Balance Sheet of Governmental Funds
To The Statement of Net Position
December 31, 2012

	Governmental Funds
Fund balance as shown in the Governmental Funds Balance Sheet	$ 104,791,311
The cost of capital assets and joint ventures, which is expended and not recognized in governmental funds, is deferred to future periods in the statement of net position	367,231,353
Debt, which is not reported in governmental funds, is reported in the statement of net position	(88,035,650)
Assets, liabilities and resulting net position of internal service funds, which are separately reported in proprietary fund statements, are included and combined with governmental balances in the statement of net position	132,485,229
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 position	1,427,823
Long term (non-available) receivables, which are deferred in governmental funds, are recognized and accrued as revenues in the statement of net position	20,234,804
Compensated absences and other post employment benefits, which are not reported in governmental funds, are reported as an accrued liability in the statement of net position	(19,513,844)
Interfund balances, which are reported in governmental and proprietary funds, are eliminated in the statement of net position (except for a residual amount outstanding between governmental and enterprise activities)	(599,316)
Net position for governmental funds as shown in statement of net position	$ 518,021,710

See accompanying notes to financial statements

Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
For The Year Ended December 31, 2012
Page 1 of 2

	General Fund	Debt Holding	Detention Facility Sales Tax Holding	Real Estate Excise Tax	Roads
Revenues:					
Taxes	$ 53,075,497	$ -	$ 3,945,855	$ 2,206,538	$ 17,214,851
Licenses & Permits	1,955,624	-	-	-	451,006
Intergovernmental	10,241,584	-	-	-	10,648,568
Charges for Services	10,522,717	-	-	14,265	912,533
Fines & Forfeits	1,858,404	-	-	-	-
Miscellaneous Revenue	1,505,428	39,096	93,636	91,481	67,325
Total Revenues	79,159,254	39,096	4,039,491	2,312,284	29,294,283
Expenditures:					
Current:					
General Government	13,815,209	-	-	-	-
Culture & Recreation	1,801,526	-	-	-	-
Economic Environment	1,621,791	-	-	-	-
Health & Human Services	-	-	-	-	-
Public Safety	63,588,737	-	4,192	-	-
Transportation	249,182	-	-	-	18,906,514
Utilities & Environment	586,621	-	-	-	-
Capital Outlay	250,409	-	-	-	9,394,795
Debt Service:					
Principal	110,989	-	-	-	10,967
Interest & Fiscal Charges	21,480	-	-	-	6,048
Total Expenditures	82,045,944	-	4,192	-	28,318,324
Excess (Deficiency) of Revenues Over Expenditures	(2,886,690)	39,096	4,035,299	2,312,284	975,959
Other Financing Sources (Uses)					
Capital Lease Financing	95,374	-	-	-	-
Sale of Capital Assets	125,528	-	-	-	169,006
Debt Issuance	-	-	-	-	472,931
Transfers In	3,663,329	-	-	-	1,804,965
Transfers Out	(2,899,246)	(4,199,811)	(6,190,802)	(4,893,518)	(1,141,063)
Total Other Financing Sources (Uses)	984,985	(4,199,811)	(6,190,802)	(4,893,518)	1,305,839
Net Changes In Fund Balances	(1,901,705)	(4,160,715)	(2,155,503)	(2,581,234)	2,281,798
Restated Fund Balances as of January 1	18,451,651	7,066,172	11,288,494	11,833,147	12,817,562
Prior Period Adjustments	-	-	-	-	-
Fund Balances as of January 1 - Restated	18,451,651	7,066,172	11,288,494	11,833,147	12,817,562
Fund Balances as of December 31	$ 16,549,946	$ 2,905,457	$ 9,132,991	$ 9,251,913	$ 15,099,360

See accompanying notes to financial statements

Statement of Revenues, Expenditures and Changes In Fund Balances
Governmental Funds
For The Year Ended December 31, 2012
Page 2 of 2

	Medic One	Public Health & Social Services	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	$ 9,464,078	$ 844,196	$ 12,099,760	$ 98,850,775
Licenses & Permits	-	573,472	-	2,980,102
Intergovernmental	174,615	32,399,529	4,169,496	57,633,792
Charges for Services	141	2,202,995	2,780,354	16,433,005
Fines & Forfeits	-	-	19,308	1,877,712
Miscellaneous Revenue	162,403	428,196	991,708	3,379,273
Total Revenues	9,801,237	36,448,388	20,060,626	181,154,659
Expenditures:				
Current:				
General Government	-	-	923,546	14,738,755
Culture & Recreation	-	-	154	1,801,680
Economic Environment	-	-	5,151,666	6,773,457
Health & Human Services	9,767,683	37,365,397	-	47,133,080
Public Safety	-	-	8,379,493	71,972,422
Transportation	-	-	-	19,155,696
Utilities & Environment	-	-	1,159,223	1,745,844
Capital Outlay	14,326	-	5,357,303	15,016,833
Debt Service:				
Principal	2,448	9,555	4,231,413	4,365,372
Interest & Fiscal Charges	36	5,997	3,772,850	3,806,411
Total Expenditures	9,784,493	37,380,949	28,975,648	186,509,550
Excess (Deficiency) of Revenues Over Expenditures	16,744	(932,561)	(8,915,022)	(5,354,891)
Other Financing Sources (Uses)				
Capital Lease Financing	-	-	-	95,374
Sale of Capital Assets	35,699	2,445	5,617	338,295
Debt Issuance	-	-	-	472,931
Transfers In	-	2,695,627	12,288,676	20,452,597
Transfers Out	-	-	(3,980,130)	(23,304,570)
Total Other Financing Sources (Uses)	35,699	2,698,072	8,314,163	(1,945,373)
Net Changes In Fund Balances	52,443	1,765,511	(600,859)	(7,300,264)
Restated Fund Balances as of January 1	18,808,754	15,648,926	16,631,886	112,546,592
Prior Period Adjustments	-	(455,017)	-	(455,017)
Fund Balances as of January 1 - Restated	18,808,754	15,193,909	16,631,886	112,091,575
Fund Balances as of December 31	$ 18,861,197	$ 16,959,420	$ 16,031,027	$ 104,791,311

See accompanying notes to 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, 2012

		Governmental Funds
Change in fund balance as shown in the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances		$ (7,300,264)
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	15,016,833	
Depreciation (asset usage), which is not reported in governmental funds, is recognized and reported in the statement of activities	(9,208,020)	
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	1,806,922	7,615,735
Long-Term Debt:		
Bond and capital lease principal payments (which are reported as expenditures in governmental funds), are not reported as expenditures in the statement of activities (however, they are reported as reductions in the amount owed in the statement of net position)	4,365,372	
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 position and then expensed over the life of the bond issue in the statement of activities	26,195	
Long-term bond and capital lease financing proceeds (which are reported as "other financing sources" in governmental funds), are not recognized or reported in the statement of activities (however, they are reported as an increase in the amount owed in the statement of net position for new debt).	(564,335)	3,827,232
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	(313,067)	
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	(1,211,773)	
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	1,201,023	(323,817)
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	217,793	
Compensated absences and other post employment benefits, which are not reported in governmental funds, are reported as an expense in the statement of activities	(2,134,649)	(1,916,856)
Change in net position for governmental funds as shown in the Statement of Activities		$ 1,902,030

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
Page 1 of 7

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Revenues By Funding Source				
General Revenues:				
Taxes	$ 53,640,160	$ 53,640,160	$ 53,075,497	$ (564,663)
Licenses & Permits	1,767,950	1,767,950	1,955,624	187,674
Intergovernmental	10,165,535	11,066,302	10,241,584	(824,718)
Charges for Services	11,979,714	10,485,252	10,522,717	37,465
Fines & Forfeits	1,612,800	1,616,800	1,858,404	241,604
Miscellaneous Revenue	1,355,775	1,380,375	1,505,428	125,053
Total General Revenues	80,521,934	79,956,839	79,159,254	(797,585)
Other Financing Sources:				
Capital Lease Financing	-	-	95,374	95,374
Other Finance Sources - Capital Asset Sales	150,700	150,700	125,528	(25,172)
Transfers In	4,612,178	4,887,003	3,663,329	(1,223,674)
Total Other Financing Sources	4,762,878	5,037,703	3,884,231	(1,153,472)
Total Revenues	$ 85,284,812	$ 84,994,542	$ 83,043,485	$ (1,951,057)

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
Page 2 of 7

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Expenditures by Department				
Assessor's Office:				
General Government	$ 3,496,445	$ 3,506,445	$ 3,445,935	$ 60,510
Capital Outlay	20,000	10,000	8,532	1,468
Transfers Out	25,000	25,000	25,174	(174)
Total Assessor's Office	3,541,445	3,541,445	3,479,641	61,804
Auditor's Office:				
General Government	5,125,803	5,125,384	4,910,565	214,819
Capital Outlay	2,000	2,000	30,626	(28,626)
Debt Service:				
Principal	6,829	7,084	5,620	1,464
Interest and Fiscal Charges	3,209	3,373	3,257	116
Transfers Out	-	-	8,696	(8,696)
Total Auditor's Office	5,137,841	5,137,841	4,958,764	179,077
Assigned Counsel:				
Public Safety	3,178,937	3,367,265	3,365,699	1,566
Capital Outlay	-	-	13,648	(13,648)
Debt Service:				
Principal	2,500	2,500	4,448	(1,948)
Interest and Fiscal Charges	2,000	2,000	66	1,934
Total Assigned Counsel	3,183,437	3,371,765	3,383,861	(12,096)
Clerk's Office:				
Public Safety	3,258,164	3,258,164	3,207,418	50,746
Debt Service:				
Principal	28,000	28,000	18,313	9,687
Interest and Fiscal Charges	11,000	11,000	3,980	7,020
Total Clerk's Office	3,297,164	3,297,164	3,229,711	67,453

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
Page 3 of 7

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Commissioner's Office:				
General Government	1,639,558	1,639,558	1,593,963	45,595
Transportation	281,576	281,576	248,721	32,855
Capital Outlay	-	-	24,581	(24,581)
Debt Service:				
Principal	4,180	4,180	5,067	(887)
Interest and Fiscal Charges	131	131	740	(609)
Total Commissioner's Office	1,925,445	1,925,445	1,873,072	52,373
Coroner's Office:				
Public Safety	978,816	978,816	908,837	69,979
Economic Environment	4,800	4,800	9,900	(5,100)
Debt Service:				
Principal	3,781	3,781	3,788	(7)
Interest and Fiscal Charges	220	220	220	-
Total Coroner's Office	987,617	987,617	922,745	64,872
Corrections:				
Public Safety	14,799,237	15,118,850	15,026,853	91,997
Capital Outlay	-	-	13,664	(13,664)
Debt Service:				
Principal	10,796	10,796	11,661	(865)
Interest and Fiscal Charges	450	450	1,068	(618)
Total Corrections	14,810,483	15,130,096	15,053,246	76,850
District Court				
Public Safety	3,133,670	3,133,670	3,005,238	128,432
Debt Service:				
Principal	2,338	2,338	2,338	-
Interest and Fiscal Charges	165	165	165	-
Total District Court	3,136,173	3,136,173	3,007,741	128,432

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
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	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Emergency Management:				
Public Safety	1,946,473	1,946,473	1,733,086	213,387
Capital Outlay	25,000	25,000	8,528	16,472
Debt Service:				
Principal	2,000	2,000	651	1,349
Interest and Fiscal Charges	1,500	1,500	14	1,486
Transfers Out	-	-	20,000	(20,000)
Emergency Management	1,974,973	1,974,973	1,762,279	212,694
Human Resources:				
General Government	1,562,009	1,562,009	1,276,733	285,276
Public Safety	120,664	120,664	98,375	22,289
Capital Outlay	-	-	13,790	(13,790)
Debt Service:				
Principal	9,195	9,195	1,867	7,328
Interest and Fiscal Charges	1,800	1,800	1,660	140
Total Human Resources	1,693,668	1,693,668	1,392,425	301,243
Juvenile Probation:				
Public Safety	7,219,585	7,219,585	6,756,771	462,814
Debt Service:				-
Principal	-	-	7,132	(7,132)
Interest and Fiscal Charges	-	-	1,061	(1,061)
Total Juvenile Probation	7,219,585	7,219,585	6,764,964	454,621

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
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	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Non-Departmental:				
General Government	2,152,591	2,135,665	1,465,889	669,776
Public Safety	100,000	368,590	128,182	240,408
Utilities & Environment	644,672	644,672	586,621	58,051
Transportation	994	994	461	533
Economic Environment	350,300	350,300	276,280	74,020
Culture and Recreation	30,000	44,000	-	44,000
Capital Outlay	20,000	20,000	-	20,000
Debt Service:				
Principal	-	2,940	2,940	-
Interest and Fiscal Charges	-	228	227	1
Transfers Out	3,769,863	3,609,689	2,510,470	1,099,219
Total Non-Departmental	7,068,420	7,177,078	4,971,070	2,206,008
Planning:				
Economic Environment	1,972,732	2,002,811	1,096,847	905,964
Capital Outlay	5,500	5,500	8,860	(3,360)
Total Planning	1,978,232	2,008,311	1,105,707	902,604
Prosecuting Attorney:				
Public Safety	7,994,247	8,192,466	8,087,265	105,201
Capital Outlay	-	48,934	8,662	40,272
Debt Service:				
Principal	25,500	25,500	25,756	(256)
Interest and Fiscal Charges	8,000	8,000	4,816	3,184
Total Prosecuting Attorney	8,027,747	8,274,900	8,126,499	148,401
State Examiner:				
General Government	115,000	115,000	96,304	18,696
Total State Examiner	115,000	115,000	96,304	18,696

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
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	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Sheriff:				
Public Safety	15,459,508	15,572,636	15,291,848	280,788
Capital Outlay	-	106,073	105,521	552
Principal	6,764	7,347	8,108	(761)
Interest and Fiscal Charges	1,908	2,058	1,545	513
Transfers Out	-	-	41,444	(41,444)
Total Sheriff	15,468,180	15,688,114	15,448,466	239,648
Superior Court:				
Public Safety	5,492,478	5,696,351	5,424,642	271,709
Capital Outlay	-	-	13,997	(13,997)
Debt Service:				
Principal	13,900	13,900	9,856	4,044
Interest and Fiscal Charges	2,023	2,023	2,531	(508)
Total Superior Court	5,508,401	5,712,274	5,451,026	261,248
Treasurer's Office				
General Government	1,113,506	1,113,506	1,025,820	87,686
Total Treasurer's Office	1,113,506	1,113,506	1,025,820	87,686
WSU Extension				
Culture and Recreation	390,858	383,919	365,237	18,682
Debt Service:				
Principal	1,417	1,417	3,444	(2,027)
Interest and Fiscal Charges	1,615	1,615	130	1,485
Total WSU Extension	393,890	386,951	368,811	18,140
Total General Fund Expenditures	86,581,207	87,891,906	82,422,152	5,469,754

See accompanying notes to financial statements

General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012
Page 7 of 7

Reconcilation of Budgetary Perspective Differences Due to GASB 54:

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Fair:				
Culture and Recreation	530,059	547,059	522,798	24,261
Total Fair	530,059	547,059	522,798	24,261
Geo Data:				
General Government	1,007,892	-	-	-
Capital Outlay	5,010	-	-	-
Transfers Out	116,354	-	293,462	(293,462)
Total Geo Data	1,129,256	-	293,462	(293,462)
LEOFF I Long Term Care:				
Public Safety	155,882	219,000	206,465	12,535
Total LEOFF I Long Term Care	155,882	219,000	206,465	12,535
Parks & Trails:				
Culture and Recreation	917,062	920,872	813,548	107,324
Capital Outlay	125,526	125,526	-	125,526
Total Parks & Trails	1,042,588	1,046,398	813,548	232,850
Prisoner Concession:				
Public Safety	353,073	353,073	348,058	5,015
Total Prisoner Concession	353,073	353,073	348,058	5,015
Recreation Services:				
Culture and Recreation	193,681	121,911	99,943	21,968
Economic Environment	219,888	243,088	238,764	4,324
Total Recreation Services	413,569	364,999	338,707	26,292
Total GASB 54 Expenditures	$ 3,624,427	$ 2,530,529	$ 2,523,038	$ 7,491
Total Reported General Fund Expenditures	$ 90,205,634	$ 90,422,435	$ 84,945,190	$ 5,477,245
Net Changes in Fund Balances	(4,920,822)	(5,427,893)	(1,901,705)	3,526,188
Restated Fund Balances as of January 1	16,171,363	16,337,771	18,451,651	2,113,880
Fund Balances as of December 31	$ 11,250,541	$ 10,909,878	$ 16,549,946	$ 5,640,068

See accompanying notes to financial statements

Medic One
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	$ 9,435,590	$ 9,435,590	$ 9,464,078	$ 28,488
Intergovernmental	86,000	86,000	174,615	88,615
Charges for Services	30	30	141	111
Miscellaneous Revenue	321,681	321,681	162,403	(159,278)
Total Revenues	9,843,301	9,843,301	9,801,237	(42,064)
Expenditures:				
Current:				
Health & Human Services	11,755,536	11,759,613	9,767,683	1,991,930
Capital Outlay	378,200	378,200	14,326	363,874
Debt Service:				
Principal	5,852	2,448	2,448	-
Interest & Fiscal Charges	709	36	36	-
Total Expenditures	12,140,297	12,140,297	9,784,493	2,355,804
Excess (Deficiency) of Revenues Over Expenditures	(2,296,996)	(2,296,996)	16,744	2,313,740
Other Financing Sources (Uses)				
Sale of Capital Assets	33,000	33,000	35,699	2,699
Transfers In	6,500	6,500	-	(6,500)
Transfers Out	(6,500)	(6,500)	-	6,500
Total Other Financing Sources (Uses)	33,000	33,000	35,699	2,699
Net Changes In Fund Balances	(2,263,996)	(2,263,996)	52,443	2,316,439
Fund Balances as of January 1	16,954,016	18,808,652	18,808,754	102
Fund Balances as of December 31	$ 14,690,020	$ 16,544,656	$ 18,861,197	$ 2,316,541

See accompanying notes to financial statements

Public Health & Social Services
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	$ 776,000	$ 776,000	$ 844,196	$ 68,196
Licenses & Permits	602,570	602,570	573,472	(29,098)
Intergovernmental	32,334,463	32,985,760	32,399,529	(586,231)
Charges for Services	3,100,873	2,988,221	2,202,995	(785,226)
Miscellaneous Revenue	502,890	460,890	428,196	(32,694)
Total Revenues	37,316,796	37,813,441	36,448,388	(1,365,053)
Expenditures:				
Current:				
Economic Environment	75,000	75,000	-	75,000
Health & Human Services	40,705,430	41,174,253	37,365,397	3,808,856
Capital Outlay	500,000	500,000	-	500,000
Debt Service:				
Principal	6,725	6,725	9,555	(2,830)
Interest & Fiscal Charges	5,005	5,005	5,997	(992)
Total Expenditures	41,292,160	41,760,983	37,380,949	4,380,034
Excess (Deficiency) of Revenues Over Expenditures	(3,975,364)	(3,947,542)	(932,561)	3,014,981
Other Financing Sources (Uses)				
Sale of Capital Assets	11,250	11,250	2,445	(8,805)
Transfers In	2,927,943	2,927,943	2,695,627	(232,316)
Transfers Out	(30,600)	(30,600)	-	30,600
Total Other Financing Sources (Uses)	2,908,593	2,908,593	2,698,072	(210,521)
Net Changes In Fund Balances	(1,066,771)	(1,038,949)	1,765,511	2,804,460
Fund Balances as of January 1	11,044,386	15,648,575	15,648,926	351
Prior Period Adjustments	-	-	(455,017)	(455,017)
Fund Balances as of January 1 - Restated	11,044,386	15,648,575	15,193,909	(454,666)
Fund Balances as of December 31	$ 9,977,615	$ 14,609,626	$ 16,959,420	$ 2,349,794

See accompanying notes to financial statements

Roads and Transportation
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget (GAAP Basis) and Actual
For The Year Ended December 31, 2012

	Original 2012 Budget	Final 2012 Budget	Actual 2012	Variance with Final Budget Positive or (Negative)
Revenues:				
Taxes	$ 17,167,482	$ 17,167,482	$ 17,214,851	$ 47,369
Licenses & Permits	400,200	400,200	451,006	50,806
Intergovernmental	17,668,966	18,948,183	10,648,568	(8,299,615)
Charges for Services	1,002,469	1,002,469	912,533	(89,936)
Miscellaneous Revenue	44,700	44,700	67,325	22,625
Total Revenues	36,283,817	37,563,034	29,294,283	(8,268,751)
Expenditures:				
Current:				
Transportation	22,330,457	22,762,979	18,906,514	3,856,465
Capital Outlay	18,600,955	21,941,960	9,394,795	12,547,165
Debt Service:				
Principal	10,979	10,979	10,967	12
Interest & Fiscal Charges	6,025	6,025	6,048	(23)
Total Expenditures	40,948,416	44,721,943	28,318,324	16,403,619
Excess (Deficiency) of Revenues Over Expenditures	(4,664,599)	(7,158,909)	975,959	8,134,868
Other Financing Sources (Uses)				
Sale of Capital Assets	10,000	10,000	169,006	159,006
Other Fin. Sources - Bond Proceeds	1,000,000	1,000,000	472,931	(527,069)
Transfers In	4,410,000	5,181,960	1,804,965	(3,376,995)
Transfers Out	(1,752,103)	(1,952,103)	(1,141,063)	811,040
Total Other Financing Sources (Uses)	3,667,897	4,239,857	1,305,839	(2,934,018)
Net Changes In Fund Balances	(996,702)	(2,919,052)	2,281,798	5,200,850
Fund Balances as of January 1	8,940,676	12,817,265	12,817,562	297
Fund Balances as of December 31	$ 7,943,974	$ 9,898,213	$ 15,099,360	$ 5,201,147

See accompanying notes to financial statements

Statement of Net Position
Proprietary Funds
December 31, 2012
Page 1 of 2

ASSETS	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
	Enterprise Funds					
Current Assets:						
Cash & Pooled Investments	$ 13,660,967	$ 2,072,267	$ 3,553,930	$ 1,695,225	$ 20,982,389	$ 32,157,408
Receivables:						
Special Assessment Receivables	-	200,351	193,627	59,099	453,077	-
Accrued Interest & Penalties	-	100,256	4,418	3,157	107,831	12,340
Customer Account Receivables	2,014,781	188,752	-	126,643	2,330,176	218,890
Due From Other Funds	1,300,938	44,429	44,118	46,665	1,436,150	632,994
Due From Other Government Units	447,620	4,933	99,268	1,670	553,491	51,869
Inventory	-	-	-	-	-	246,960
Prepayments	-	-	-	-	-	44,995
Restricted Assets:						
Cash and Pooled Investments	-	164,723	-	139,253	303,976	-
Total Current Assets	17,424,306	2,775,711	3,895,361	2,071,712	26,167,090	33,365,456
Noncurrent Assets:						
Debt Issue Costs	-	124,584	-	-	124,584	-
Community Loans Receivable	-	-	-	293,493	293,493	-
Special Assessment Receivables	-	1,361,366	-	525,875	1,887,241	-
Advances to Other Funds	78,592	-	-	-	78,592	-
Capital Assets:						
Non-Depreciable	2,566,060	1,212,715	1,788,260	962,481	6,529,516	7,924,531
Depreciable, Net	9,834,018	14,615,213	7,914,261	3,059,571	35,423,063	101,688,813
Restricted Assets : Cash and Pooled Investments	17,562,551	-	-	-	17,562,551	-
Total Noncurrent Assets	30,041,221	17,313,878	9,702,521	4,841,420	61,899,040	109,613,344
Total Assets	47,465,527	20,089,589	13,597,882	6,913,132	88,066,130	142,978,800

See accompanying notes to financial statements

Statement of Net Position
Proprietary Funds
December 31, 2012
Page 2 of 2

LIABILITIES	Enterprise Funds: Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Current Liabilities:						
Accounts Payable	1,058,791	39,107	142,764	183,154	1,423,816	1,633,715
Notes/Leases Payable	-	5,165	2,941	82,398	90,504	-
Due To Other Funds	1,237,333	949	147,759	5,050	1,391,091	126,763
Due To Other Government Units	-	-	-	-	-	15,847
Compensated Absences	6,631	1,770	5,742	6,860	21,003	27,414
Claims and Judgments Payable	-	-	-	-	-	349,090
Unearned Revenue	-	21,126	-	1,100	22,226	-
Lim. Tax G. O. Bond - Current Portion	-	920,000	-	-	920,000	174,463
Spec Assessment Debt - Govern. Commitment	-	-	-	81,018	81,018	-
Total Current Liabilities	2,302,755	988,117	299,206	359,580	3,949,658	2,327,292
Noncurrent Liabilities:						
Limited G.O. Bonds Payable	-	6,148,888	-	-	6,148,888	2,343,301
Special Assess. Debt - Gov. Commitment	-	-	-	591,032	591,032	-
Compensated Absences	183,741	49,027	159,116	190,094	581,978	759,672
Other Post Employment Benefits Payable	517,027	42,516	279,985	420,333	1,259,861	1,333,804
Claims and Judgments Payable	-	-	-	-	-	3,650,910
Notes/Leases Payable	-	67,146	6,803	698,075	772,024	-
Advances From Other Funds	-	-	-	-	-	78,592
Accumulated Landfill Closure Costs	17,871,749	-	-	-	17,871,749	-
Total Noncurrent Liabilities	18,572,517	6,307,577	445,904	1,899,534	27,225,532	8,166,279
Total Liabilities	20,875,272	7,295,694	745,110	2,259,114	31,175,190	10,493,571
NET POSITION						
Net Investment in Capital Assets	12,400,078	8,686,729	9,692,777	3,239,659	34,019,243	107,095,580
Restricted For:						
Postclosure	2,165,994	-	-	-	2,165,994	-
Debt Service	-	1,948,550	757,963	724,227	3,430,740	-
Unrestricted (Deficit)	12,024,183	2,158,616	2,402,032	690,132	17,274,963	25,389,649
Total Net Position	$ 26,590,255	$ 12,793,895	$ 12,852,772	$ 4,654,018	$ 56,890,940	$ 132,485,229

See accompanying notes to financial statements

Reconciliation of The Statement of Net Position of Proprietary Funds To The Statement of Net Position
December 31, 2012

	Business Type Funds
Enterprise net position as shown in the Proprietary Funds Statement of Net Position	$ 56,890,940
Internal balances for additional amounts owed between governmental and business units have not been included in governmental fund statements.	599,316
Net position for business-type funds as shown in Statement of Net Position	$ 57,490,256

See accompanying notes to financial statements

Statement of Revenues, Expenses and Changes In Fund Net Position
Proprietary Funds
For The Year Ended December 31, 2012

	Enterprise Funds					
	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Operating Revenues:						
Charges for Services	$ 20,884,983	$ 1,337,347	$ 4,801,512	$ 3,493,821	$ 30,517,663	$ 17,070,289
Equipment Rental	-	-	-	-	-	6,376,209
Miscellaneous	298,202	10,382	-	6,674	315,258	25,348
Total Operating Revenues	21,183,185	1,347,729	4,801,512	3,500,495	30,832,921	23,471,846
Operating Expenses:						
Salaries and Benefits	2,519,482	221,451	1,885,045	2,606,230	7,232,208	8,608,578
Other Supplies and Expenses	250,485	73,033	84,192	58,261	465,971	2,963,846
Contractual Services	1,714,187	228,221	403,509	244,536	2,590,453	5,515,905
Longhaul Contract	10,267,410	-	-	-	10,267,410	-
Interfund Services and Charges	1,442,578	206,485	1,290,309	1,140,094	4,079,466	1,719,082
Depreciation/Amortization	1,056,728	562,154	454,202	175,824	2,248,908	5,752,129
Claims Payments	-	-	-	-	-	856,159
Total Operating Expenses	17,250,870	1,291,344	4,117,257	4,224,945	26,884,416	25,415,699
Operating Income (Loss)	3,932,315	56,385	684,255	(724,450)	3,948,505	(1,943,853)
Nonoperating Revenue (Expenses):						
Interest Revenue	-	18,522	50,141	25,608	94,271	77,392
Other Nonoperating Revenue (Expense)	(87,951)	49,579	216,977	(15,265)	163,340	242,444
Interest Expense & Fiscal Charges	-	(339,115)	(22)	(33,198)	(372,335)	(89,541)
Total Nonoperating Revenue (Expense)	(87,951)	(271,014)	267,096	(22,855)	(114,724)	230,295
Income Before Contributions and Transfers	3,844,364	(214,629)	951,351	(747,305)	3,833,781	(1,713,558)
Capital Contributions	-	41,580	-	-	41,580	3,612,262
Transfers In	-	371,022	-	1,591,100	1,962,122	1,238,461
Transfers Out	(33,688)	-	(32,361)	-	(66,049)	(282,561)
Change in Net Position	3,810,676	197,973	918,990	843,795	5,771,434	2,854,604
Net Position as of January 1	22,779,579	12,595,922	9,048,305	3,763,341	48,187,147	129,630,625
Prior Period Adjustments	-	-	2,885,477	46,882	2,932,359	-
Net Position as of January 1 - Restated	22,779,579	12,595,922	11,933,782	3,810,223	51,119,506	129,630,625
Net Position as of December 31	$ 26,590,255	$ 12,793,895	$ 12,852,772	$ 4,654,018	$ 56,890,940	$ 132,485,229

See accompanying notes to financial statements

Reconciliation of The Statement of Revenues, Expenses and Changes In Fund Net Position of Proprietary Funds To The Statement of Activities

For The Year Ended December 31, 2012

		Business-Type Funds
Change in enterprise net position as shown in the Statement of Revenues, Expenses and Changes in Fund Net Position	$	5,771,434
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		1,211,773
Allocated direct and indirect costs from the County's cost plan		(1,201,023)
Change in net position for business-type funds as shown in the Statement of Activities	$	5,782,184

See accompanying notes to financial statements

Statement Of Cash Flows
Proprietary Funds
For The Year Ended December 31, 2012
Page 1 of 2

	Enterprise Funds					
	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:						
Cash Received from Customers	$ 20,695,074	$ 1,630,720	$ 4,769,279	$ 3,501,929	$ 30,597,002	$ 22,967,093
Cash Paid for Goods & Services	(13,945,663)	(535,947)	(1,731,439)	(1,516,853)	(17,729,902)	(9,907,835)
Cash Paid to Employees	(2,465,771)	(220,549)	(1,829,064)	(2,522,709)	(7,038,093)	(8,183,651)
Net Cash Provided (Used) by Operating Activities	4,283,640	874,224	1,208,776	(537,633)	5,829,007	4,875,607
Cash Flows from Noncapital Financing Activities:						
Transfers In	-	371,022	-	1,554,861	1,925,883	1,238,461
Transfers Out	(33,688)	-	(32,361)	-	(66,049)	(282,561)
Advances Issued to other Funds	36,320	-	-	-	36,320	-
Advances Received from other Funds	-	-	-	-	-	(36,320)
Grant Proceeds	305,450	-	335,283	798	641,531	37,357
Tax and Assessment Receipts	-	-	(3,811)	-	(3,811)	154,616
Community Loans Issued to Homeowners	-	-	-	21,552	21,552	-
Community Loan Financing Payments	-	-	-	(167,043)	(167,043)	-
Community Loan Financing Proceeds	-	-	-	146,976	146,976	-
Insurance Recoveries	-	-	-	-	-	14,967
Tax Payments	(529,788)	(52,375)	(74,497)	(18,756)	(675,416)	(10,705)
Interest Payments	-	-	-	(32,514)	(32,514)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(221,706)	318,647	224,614	1,505,874	1,827,429	1,115,815
Cash Flows from Capital & Related Financing Activities:						
Capital Asset Sales & Dispositions	-	-	-	-	-	94,829
Capital Asset Purchases	(766,589)	(134,279)	(619,673)	(677,593)	(2,198,134)	(5,084,307)
Bond/Loan Payments	-	(809,484)	6,884	(239,368)	(1,041,968)	(71,724)
Grant Proceeds	1,320	-	195,816	-	197,136	-
Contributed Capital	-	41,580	-	-	41,580	-
Assessment Receipts	-	399,149	-	92,446	491,595	-
Interest Payments	-	(321,504)	(22)	(684)	(322,210)	(89,541)
Net Cash Provided (Used) by Capital & Related Financing Activities	(765,269)	(824,538)	(416,995)	(825,199)	(2,832,001)	(5,150,743)
Cash Flows from Investing Activities:						
Interest Receipts	-	56,846	50,166	26,728	133,740	103,375
Net Cash Provided (Used) by Investing Activities	-	56,846	50,166	26,728	133,740	103,375
Net Increase (Decrease) in Cash & Cash Equivalents	3,296,665	425,179	1,066,561	169,770	4,958,175	944,054
Cash & Cash Equivalents as of January 1	27,926,853	1,811,811	2,487,369	1,664,708	33,890,741	31,213,354
Cash & Cash Equivalents as of December 31	$ 31,223,518	$ 2,236,990	$ 3,553,930	$ 1,834,478	$ 38,848,916	$ 32,157,408

See accompanying notes to financial statements

Statement Of Cash Flows
Proprietary Funds
For The Year Ended December 31, 2012
Page 2 of 2

	Enterprise Funds					
	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income To Net Cash Provided (Used) by Operating Income:						
Operating Income	$ 3,932,315	$ 56,385	$ 684,255	$ (724,450)	$ 3,948,505	$ (1,943,853)
Adjustments to Reconcile Operating Income to						
Net Cash Provided (Used) by Operating Activities:						
Depreciation Expense	1,056,728	562,154	454,202	175,824	2,248,908	5,752,129
(Increase) Decrease in:						
Customer Account Receivables	(180,934)	(14,231)	-	(10,675)	(205,840)	3,603
Due from Other Funds	(307,177)	293,122	(32,233)	12,109	(34,179)	(464,775)
Due from Other Government Units	-	-	-	-	-	(43,581)
Inventories	-	-	-	-	-	25,293
Prepaid Expense	-	-	-	-	-	212,327
Increase (Decrease) in:						
Accounts Payable	98,227	24,600	36,304	116,573	275,704	980,828
Due to Other Funds	77,905	(52,808)	10,267	(190,535)	(155,171)	76,796
Due to Other Government Units	-	-	-	-	-	15,847
Claims and Judgments	-	-	-	-	-	(163,934)
Unearned Revenue	-	4,100	-	-	4,100	-
Compensated Absences Payable	53,711	902	55,981	83,521	194,115	424,927
Accumulated Landfill Closure	(447,135)	-	-	-	(447,135)	-
Total Adjustments	351,325	817,839	524,521	186,817	1,880,502	6,819,460
Net Cash Provided (Used) by Operating Activities	$ 4,283,640	$ 874,224	$ 1,208,776	$ (537,633)	$ 5,829,007	$ 4,875,607

	Solid Waste	Grand Mound	Storm Water	Other Enterprise Funds	Total Enterprise Funds	Internal Service Funds
Noncash Investing, Capital, and Financing Activities:						
Loss on Purchase/Sale of Capital Assets	$ (956)	$ -	$ (566)	$ -	$ (1,522)	$ (48,620)
Prior Period Adjustment - Capital Asset Adjustments and Transfers	$ -	$ -	$ 2,885,477	$ -	$ 2,885,477	$ -
Prior Period Adjustment - Septic Loan Receivables	$ -	$ -	$ -	$ 46,882	$ 46,882	$ -
Capital Asset Transfers In	$ -	$ -	$ -	$ 36,239	$ 36,239	$ -
Contribution of Capital Assets	$ -	$ -	$ -	$ -	$ -	$ 3,612,262

See accompanying notes to financial statements

Statement Of Fiduciary Net Position
Fiduciary Funds
December 31, 2012

ASSETS	Investment Trust Fund	Private Purpose Trust Fund	Agency Funds
Assets:			
Cash & Pooled Investments	$ 329,187,280	$ 1,426,142	$ 14,116,161
Cash and Investments in Trust	-	-	108,519
Deposits with Fiscal Agent	-	-	60,000
Receivables:			
Accrued Interest Receivables	139,564	-	-
Customer Account Receivables	2,177	-	-
Investments at Fair Value:			
US Agency & Instrumentality Securities	1,363,867	-	-
Total Assets	330,692,888	1,426,142	14,284,680
LIABILITIES			
Liabilities:			
Warrant Payable	-	-	12,495,034
Accounts Payable	-	-	353,657
Payroll Payable	-	-	1,267,470
Due to Other Governments	-	-	168,519
Total Liabilities	-	-	14,284,680
NET POSITION			
Investments Held in Trust for Pool Participants	330,692,888	-	-
Investments Held in Trust for Other Purposes	-	1,426,142	-
Total Net Position	$ 330,692,888	$ 1,426,142	$ -

See accompanying notes to financial statements

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For The Year Ended December 31, 2012

	Investment Trust Fund	Private Purpose Trust Fund
Additions:		
Contributions:		
Additions By Participants	$ 1,216,894,139	$ 12,010,581
Trust Revenues	207,820	-
Total Contributions	1,217,101,959	12,010,581
Investment Income:		
Net Increase In Fair Value Of Investments	210,004	-
Interest, Dividends and Other	2,789,440	477
Total Investment Income	2,999,444	477
Total Additions	1,220,101,403	12,011,058
Deductions:		
Distributions to Participants	$1,145,152,513	12,083,046
Trust Administrative Costs	207,820	-
Total Deductions	1,145,360,333	12,083,046
Change in Net Position Held for Individuals, Organizations and Other Governments	74,741,070	(71,988)
Net Position as of January 1 - Restated	255,951,818	1,498,130
Net Position as of December 31	$ 330,692,888	$ 1,426,142

See accompanying notes to financial statements

NOTES TO THE FINANCIAL STATEMENTS

Year Ended December 31, 2012

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 governmental 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 County was incorporated in 1852 and operates under the laws of the state of Washington applicable to counties. As required by the generally accepted accounting principles the financial statements present Thurston County as the primary government. The County has no component units for which it is financially accountable. Thurston County is a statute county, which means the organization of the County is prescribed by state statute. The County has a commissioner form of government with a governing body consisting of three County Commissioners.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the 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. Our policy is to allocate indirect costs to a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements or a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financials statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Under this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. For example, property taxes are recognized if they are collected within 60 days after year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, licenses, fines and forfeitures and interest associated within the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessment receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the county.

The County reports the following major governmental funds:

- *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.
- *Roads Special Revenue Fund* – accounts for the design, construction, and maintenance of County roads. Most of the revenues for this fund come from transportation related taxes and grants.
- *Medic One Special Revenue Fund* - accounts for countywide delivery of advanced life support response and transport services. The revenues for this fund come from a portion of the county's property tax levy.
- *Public Health and Social Services Special Revenue Fund* - accounts for the following services: mental health, developmental disabilities, substance abuse prevention & treatment, children and family, environmental protection, and personal health. Most of the revenues in this fund come from health related state and federal grants.
- *Detention Facility Sales Tax Holding* Capital Projects *Fund* - is a holding fund for local option sales taxes levied to construct adult and juvenile detention facilities.
- *Debt Holding Capital Projects Fund* – is a holding fund for general obligation debt proceeds pending transfer to construction funds to fund construction of public safety and other approved capital projects.
- *Real Estate Excise Tax Capital Projects Fund* – is a holding fund that accounts for the proceeds dedicated to capital projects from the one-half percent tax on real property sales in unincorporated Thurston County.

The County reports the following major proprietary funds:

- *Solid Waste* - accounts for county-wide solid waste activities including waste prevention, recycling and disposal activities at the County's waste and recovery center.
- *Grand Mound Water and Wastewater* - accounts for maintenance and operations of the Grand Mound water & wastewater systems.
- *Storm & Surface Water Utility* – accounts for assessments levied to minimize the harmful effects of storm water runoff and to construct and improve storm water run-off facilities within the utility's boundaries in unincorporated Thurston County.

Additionally, the county reports the following fund types:

- *Internal Service Funds* account for technology acquisition/improvement, building maintenance, equipment acquisition/maintenance, risk management and payroll/benefit administration provided to other departments or agencies of the County on a cost reimbursement basis.
- *Investment Trust Funds* account for external pooled and non-pooled investments held by the County Treasurer on behalf of external participants in the County's investment program.
- *Private Purpose Trust Funds* report amounts deposited with the County Clerk through Superior Court trust arrangements and agreements.
- *Agency Funds* are custodial in nature and do not present results of operations or have a measurement focus. These funds account for deposits and other assets that are temporarily held in suspense prior to transfer and distribution to other governmental units, private parties or the County.

As a general rule the effect of the interfund activity has been eliminated for the government-wide financial statements. Exceptions to this general rule include exchange or exchange-like transactions for internal services that are normally provided internally or to the public. This excludes internal services of internal service funds since the doubling effect of the cost of these services has already been removed from the financial statements.

Amounts reported as program revenues include 1) charges to customers, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. General revenues include all taxes, interest earnings, sale of capital assets (if material), and transfers.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Solid Waste, Grand Mound, Storm & Surface Water Utility, and Other Enterprise Funds and the County's internal service funds are charges to customers for sales and services. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. Budgetary Information

1. Scope of Budget

Annual appropriated budgets are adopted for all County funds in accordance with the provisions of the Revised Code of Washington (RCW), as interpreted by Budgeting, Accounting, and Reporting System (BARS) of the State of Washington and on a basis consistent with generally accepted accounting principles. Appropriations are authorized at the fund level for all funds, except the General Fund, where expenditures may not exceed appropriations at the department level. The budgets constitute the legal authority for expenditures at these levels. All appropriations lapse at year-end.

During the budget process, each County official submits detailed estimates of anticipated revenue and expenditure requests for the subsequent budget year. The data is compiled and made available for public comment beginning the first Monday in October. A recommended budget is submitted to the Board of County Commissioners in the third week of November. Public hearings are held the first week of December and the final budget is adopted, by resolution, shortly thereafter.

2. Amending the Budget

The Board of County Commissioners must approve revisions that alter total expenditures of any County fund or General Fund department. These changes must be approved by resolution by a majority of Commissioners at a public hearing. General Fund departments or other County funds may transfer budget amounts between expenditure items without Board approval if these adjustments do not exceed the total department or fund budget.

The financial statements report authorized original and final budgets. The original budget is the first complete appropriated budget. The final budget is the original budget adjusted by all reserves, transfers, allocations, supplemental appropriations, and other legally authorized changes applicable for the fiscal year.

E. Assets, Liabilities, Fund Balance and Net Position

1. Cash Deposits and Investments (See Note IV – Deposits and Investments)

It is the County's policy to invest all temporary cash surpluses. At December 31, 2012, all cash and cash equivalents were cash on hand and demand deposits with average maturities as noted in Note IV. This amount is classified on the balance sheet as cash and pooled investments in various funds. The interest on these investments is allocated to the various funds on an average daily balance basis.

The amounts reported as cash and cash equivalents also include compensating balances maintained with certain banks in lieu of payments for services rendered. The average compensating balances maintained during the year was approximately $7,874,000.

The County's cash and cash equivalents are considered to be cash on hand and demand deposits. The County pools internal and external cash and investments into one pool for investment purposes with the County Treasurer, except as otherwise requested, in order to facilitate the management of cash. For the purposes of the statement of cash flows, the County considers all amounts invested in its cash pool to be cash and cash equivalents. All other investments, if applicable, are reported as investments at cost. For more information on the county's investments, see Note IV – Deposits and Investments.

2. Receivables (See Note VII – Receivable Balances)

Taxes receivable consist of delinquent property taxes and related interest and penalties (See Property Taxes Note V). The County considers property taxes to be available if they are collected within 60 days after year end. However, the County does not accrue these amounts as revenue unless they are material to the amount collected or to the outstanding balance.

Accrued interest receivable consists of amounts earned on investments, notes, and contracts at the end of the year. The County considers interest on investments to be available if they will be collected within 60 days after year-end.

Special Assessment receivables consist of current and delinquent assessments and related penalties and interest against the property benefited. Long-term special assessments are outstanding unbilled special assessments and are recorded when levied. Special assessments and utility billings are collectible through liens on property. Therefore, no estimates of uncollectible amounts are established. In the governmental funds, special assessment receivables are offset by unearned revenues for county road improvement and lake management districts, public health assessments, and the countywide noxious weed program. In enterprise funds, they represent receivables for repayment of general obligation and special assessment debt issued to construct water and wastewater facilities and to fund storm water operations. See Note VIII for more information about the County's debt.

Customer account receivables are amounts owed by private individuals or organizations for County services. They primarily include receivables for court fines and forfeitures, incarceration fees and fees for public health services. Customer account receivables are considered to be available if they are expected to be collected within twelve months after year-end. Receivables include amounts owed for which billings have not been prepared and are recorded net of estimated uncollectible amounts.

3. Amounts Due to and from Other Funds and Governments, Accounts Payable, Interfund Loans and Advances Receivable

Activity between funds that are representative of lending/borrowing arrangements and outstanding at year end are reported in the fund financial statements as interfund loans receivable and payable if due within one year or advances to and from other funds if due within more than one year. Advances to other funds are offset by a non-spendable fund balance account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable financial resources. A separate schedule of advances to and from other funds is furnished in Note IX - Interfund Receivables and Payables. All other outstanding balances between funds, including interfund loans receivable and payable due within one year, are reported as “due to/from other funds”. The county reports accrued wages payable as accounts payable, whenever possible, for simplicity.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.” Interfund balances between governmental funds and interfund balances between proprietary funds have been eliminated and are not included in the government-wide statement of net position.

Due to and from other funds and other governments is reported as a cash flow change impacting operating activities in the statement of cash flows. However, cash flows from governmental receivables are treated differently for enterprise and internal service funds in the statement of cash flows. Due from other governments for enterprise funds is generally reported as a cash flow change impacting grant cash proceeds from non-capital financing activities. Due from other governments for internal service funds is generally reported as a cash flow change that impacts operating activities.

4. Inventories and Prepaid Items

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

The purchase method, where the cost is expended when the item is purchased, is used in governmental funds, except for the Roads special revenue and the Equipment Rental internal service funds, where the perpetual inventory method is used. The perpetual inventory method capitalizes the cost when inventory is purchased and then expends the cost when the item is consumed. Inventories recorded in the Roads Fund are stated at cost on a moving weighted average basis. Enterprise funds had no reportable material inventories at year end.

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. Capital Assets and Depreciation (See Note VI – Capital Assets and Commitments)

Capital assets, which include land, buildings, improvements to land and buildings, vehicles, machinery, equipment, easements, construction in progress and infrastructure assets and all other tangible and intangible assets used in operations, are reported in the applicable governmental or business-type columns in the government-wide financial statements. Infrastructure assets are usually stationary and normally can be preserved a significantly greater number of years than most other capital assets. Examples of infrastructure include roads, bridges, drainage systems, sidewalks, trails and paths, and water and sewer systems. Capital assets are defined by the County as assets with an initial, individual cost of $5,000 or more, including ancillary costs, with an estimated useful life in excess of one year.

Capital assets are valued at cost where historical records are available and at estimated historical cost where no records exist. Donated capital assets are valued at their estimated fair value at the date of donation.

In June 1999 Government Accounting Standards Board (GASB) issued Statement #34, which required the inclusion of infrastructure capital assets in local government's basic financial statements. In accordance with this Statement, the County has recorded the value of all infrastructure assets acquired after June 30, 1980 in its statement of net position. In certain instances, engineering estimates, as well as annual reports of the County Road Administration Board and Washington State Department of Transportation were used to value the estimated historical costs of assets. In other instances, historical costs were derived by estimated historical costs on a discounted and depreciated current replacement value basis. Infrastructure acquired prior to July 1, 1980, except for roads right of way/easements and certain storm water structures, is not reported.

Improvements to capital assets that replace depreciated assets, or materially add to the value or extend the life of the asset, are capitalized. Other repairs or normal maintenance are expensed. Outlays for capital assets and improvements are capitalized as projects when constructed. The net book values of infrastructure assets are removed from the system when fully depreciated. The net book values of all other fully and partially depreciated assets are retained within the system until replaced or sold.

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

Asset Class	Estimated Useful Life
Machinery & Equipment	3 – 20 years
Improvements	10 – 40 years
Buildings	10 – 40 years
Infrastructure	15 – 50 years

Machinery and equipment purchased on capital leases are treated as capital assets, indicating a constructive or actual transfer of the benefits and risks of ownership to the County, and are valued at the lesser of the fair value of the leased property or the present value of the minimum lease payments required by contract.

6. Compensated Absences (See Note VIII – Long Term and Other Significant Debt)

Compensated absences are absences for which employees will be paid, such as vacation leave. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

7. Long-Term Debt (See Note VIII – Long Term and Other Significant Debt)

Revenue bonds and other long term liabilities (including general obligation bonds) that are directly related to and financed from enterprise funds are accounted for in the respective enterprise fund. All other County long-term debt is reported in the governmental column in the entity-wide statement of net position. Bond premiums and discounts, and issuance costs are deferred and amortized over the life of the bonds using the straight-line interest method since it is not materially different than the effective 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.

When bonds are sold by a governmental fund, bond premiums, discounts, and issuance costs are recognized in the fund financial statements in the current period. The face amount of debt is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, is reported as debt service expenditures. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuance are reported as other financing uses.

Amounts reserved for long-term debt are shown as Restricted fund balance in the fund financial statements and Restricted Net Position in the statement of net position.

8. Debt Issue Costs and Unearned Revenue

Debt issue Costs in the government wide financial statements defer expenditures for debt issuance which are amortized over the life of the respective bond issues.

Unearned revenues in the fund financial statements include amounts collected before revenue recognition criteria are met and receivables for delinquent taxes that are not yet available under the modified accrual basis of accounting. Unearned revenues in the government-wide financial statements represent resources received but not yet earned.

9. Rebateable Arbitrage

Thurston County has not incurred any rebateable arbitrage as of December 31, 2012. Rebateable arbitrage, if incurred, will be treated as a reduction in revenue.

10. Net Position

Fund equity is recognized as net position in proprietary funds and entity wide statements. A portion of the County's net position are subject to external legal restrictions on how they may be used and therefore are not available for general spending at the discretion of the County. This is considered restricted net position. Examples include fees and charges for services levied for a specific purpose or use, operating/capital grants restricted by the grantor, and Solid Waste cash and investments restricted to fund a 30 year landfill post-closure care period (see Note XIV – Closure and Post Closure Care Costs). Unless otherwise noted, net position is unreserved and undesignated. When both restricted and unrestricted resources are available for use, it is the County's policy to use restricted and unrestricted resources proportionally based on their overall contribution to total fund resources and to the remaining year end fund balance.

11. Fund Balance Classification

Fund equity is recognized as fund balance in governmental funds. Beginning in 2011, the County has implemented GASB Statement No. 54 into its financial statements. Per this statement, there are five fund balance classifications as follows: Non-Spendable, Restricted, Committed, Assigned, and Unassigned.

In relation to this statement, the County has adopted policy/procedure #2200. Specifics of this are as follows:

- The Board of County Commissioners (BoCC) has the authority to set aside governmental funds for a specific purpose. For funds to be set aside as Committed for any purpose, a formal resolution by the BoCC is required to be passed on, or prior to, December 31st of the applicable calendar year. The same action is required by the BoCC to remove a commitment of fund balance.
- Funds that are *intended* to be used for a specific purpose, but have not received the formal approval action by the BoCC, may be recorded as Assigned Fund Balance. The policy delegated the authority to assign amounts to be used for specific purposes to the Financial Management Committee (FMC). Redeploying of assigned resources to an alternative use does not require formal action by the BoCC.
- When both restricted and unrestricted funds are available for expenditure, it is county policy that restricted funds be spent first, unless legal requirements disallow it. It is also county policy that when committed, assigned and unassigned funds are available for expenditure, it is assumed that committed funds are spent first, assigned funds second, and unassigned funds last.

12. Minimum Fund Balance

The County's formal adopted minimum fund balance policy for the General Fund stipulates that the minimum balance will equal one month of average budgeted annual expenditures. The BoCC has the ultimate responsibility of monitoring this balance on a periodic basis. For all other governmental funds, establishment of an appropriate minimum balance is the responsibility of the department managing that fund.

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 Position

Fund balance in the governmental funds balance sheet is reconciled to net position in the statement of net position. One element of that reconciliation, as detailed below, was for $367,231,353 because the cost of capital assets, which is expended in governmental funds, is deferred to future periods in the statement of net position:

Governmental Net Book Value - End of Prior Year	$ 365,197,231
Distribution of Governmental Assets to Internal Service Assets	(3,322,791)
Gains (Losses) and Adjustments on Dispositions of Capital Assets	(449,705)
Governmental Capital Outlays	15,016,833
Governmental Depreciation & Amortization Expense	(9,210,215)
Governmental Net Book Value - End of Current Year	$ 367,231,353

Another element of the reconciliation, as detailed below, was for $88,035,650 because long-term debt, which is not reported in governmental funds, is reported in the statement of net position:

Governmental Debt - End of Prior Year	$ 94,684,997
Bond/Note Proceeds	472,931
Lease Financing Proceeds & Other Adjustments	43,508
Principal Payments	(4,802,236)
Debt Transfers to Equipment Rental for the Tilley Road Project	(2,363,550)
Computed Governmental Debt - End of Current Year	$ 88,035,650

A third element of the reconciliation, as detailed below, was for $132,485,229 because assets and liabilities of internal service funds, which are separately reported in proprietary fund statements, are included and combined with governmental balances in the statement of net position:

Net Position - End of Prior Year	$ 129,630,625
Reclassification of Governmental Assets as Internal Service Assets	3,322,791
Net Transfers In/Out	955,900
Net Profit	(1,424,087)
Net Position - End of Current Year	$ 132,485,229

Cash	$ 32,157,408
Capital Assets	109,613,344
Other Assets	1,208,048
Claims and Judgments Payable	(3,650,910)
Other Liabilities	(6,842,661)
Net Position - End of Current Year	$ 132,485,229

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

The governmental fund statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental activities as reported in the government-wide statement of activities. These line item reconciliations are available and reported in detail within this statement.

NOTE III – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

There have been no material violations of finance-related legal or contractual provisions.

B. Excess of Expenditures Over Appropriations

The County's Office of Assigned Council department, within its General Fund, incurred $12,096 in excess capital outlay expenditures for lease purchases that were approved through a separate authorizing resolution.

The Investment Administration, Tax Refund and Treasurer's M & O Funds were excluded from the special revenue combining schedules of Revenues, Expenditures and Changes in Fund Balance - Budget (GAAP Basis) and Actual because these funds are not statutorily required to have budget authority and County budget policies do not require budgets for these funds.

C. Deficit Fund Equity

The Jail capital projects fund had a $782,218 deficit fund balance at December 31, 2012. The deficit is fully funded by *unspent* proceeds from the Debt Holding Fund. The Land Use & Permitting enterprise fund had a $179,155 deficit in net position at December 31, 2012. Additional fee increases enacted in prior years and an expected increase in building activity should work to eliminate the carry forward effects of this deficit from 2012. In 2011 the fund balance deficit in this fund was $407,569.

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 depositaries as specified by the Washington Public Deposit Protection Commission (PDPC). All deposits, including money markets and certificates of deposits are entirely covered by federal depositary 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, 2012 and throughout the year were insured or collateralized with securities held by the County Treasurer or by their agent in the County Treasurer's name. Total undistributed cash deposits at December 31, 2012 were $8,355,763.

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, money market account and the State Treasurer's Local Government Investment Pool (LGIP). There is no statutory regulatory oversight of the LGIP other than annual audits through the Washington State Auditor's Office. The fair value of County shares in the LGIP is dollar for dollar equal to the value of pool shares.

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 2012 the County 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, 2012, the County's investment values and maturities for pool and individual fund investments are as follows:

Investment Type	Book Value	Weighted Average Maturity (Years)
Pool Investments:		
State Treasurer's LGIP	$ 97,190,000	0.0
Money Market Account	15,000,000	0.0
U.S. agencies	396,650,000	3.4
Total Pool Investments	$ 508,840,000	2.7

The interest rate, credit and concentration risks are described as follows:

Interest Rate Risk – The adopted investment policy limited investment maturities to a maximum of five years, with the exception of preapproval by the County Treasurer.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To limit this risk, state law does not allow general governments to invest in corporate equities. County policy further limits risk to investments in securities that have one of the three highest ratings of a national rating agency at the time of investment.

The ratings of debt securities as of December 31, 2012 are:

Debt Security	S&P Rating
Fannie Mae (Federal National Mortgage Association)	AA+
Freddie Mac (Federal Home Loan Mortgage Corporation)	AA+
Federal Home Loan Bank	AA+
Federal Farm Credit Bank	AA+
Washington State Investment Pool	Not Rated

Concentration Risk – Concentration risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. 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, cash deposits and pool accruals to the fund and entity wide statements is as follows:

Schedules of Deposits and Investments
Composition of Cash & Investments
December 31, 2012

	Total	Pooled Cash Investments	Non-Pooled Cash & Investments
State Treasurer's Local Govt. Investment Pool (LGIP)	$ 97,190,000	$ 97,190,000	$ -
Money Market Account	15,000,000	15,000,000	-
U.S. Agency & Instrumentality Securities	396,650,000	396,650,000	-
Total Investment Pool Investments	**508,840,000**	**508,840,000**	-
Deposits With Financial Institutions	8,355,763	8,355,763	-
Net Increase (Decrease) in Fair Value of Investments	1,363,867	1,363,867	-
Pool Accruals	1,294,374	1,294,374	-
Total Investment Pool Cash & Investments	**519,854,004**	**519,854,004**	-
Fiscal and Petty Cash	91,379	-	91,379
Clerk's Trust Funds	1,426,142	-	1,426,142
Total Reported Cash & Investments	**$ 521,371,525**	**$ 519,854,004**	**$ 1,517,521**

Reconciliation of Cash & Investments to Statements
December 31, 2012

		Statements of	
	Total	Fiduciary Net Position	Net Position
Cash & Pooled Investments - County Funds	$ 174,936,436	$ -	$ 174,936,436
Cash & Pooled Investments - Investment Trust Fund	329,187,280	329,187,280	-
Cash & Pooled Investments - Agency Funds	14,224,680	14,224,680	-
Net Increase (Decrease) in Investment Fair Value	1,363,867	1,363,867	-
Pool Accruals	141,741	141,741	-
Total Investment Pool Cash & Investments	**519,854,004**	**344,917,568**	**174,936,436**
Fiscal and Petty Cash	91,379	60,000	31,379
Private Purpose Trust Funds	1,426,142	1,426,142	-
Total Reported Cash & Investments	**$ 521,371,525**	**$ 346,403,710**	**$ 174,967,815**

A summary of restricted and unrestricted cash and investments is as follows:

Restricted and Unrestricted Cash & Investments
December 31, 2012

	Total	Restricted	Unrestricted
Cash & Pooled Investments	$ 521,371,525	$ 364,270,237	$ 157,101,288
Investments	-	-	-
Total	**$ 521,371,525**	**$ 364,270,237**	**$ 157,101,288**

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 the TCIP. Authorized investments for the TCIP are the same as investments held outside of the pool. These are defined in statute and discussed in Note IV (B). The 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 local governments and districts 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 experienced a net increase in the fair value of the investments during 2012. At 12/31/2012, the market value of investments was $1,363,867 higher than the amortized cost. These unrealized gains will not be recognized in the various funds as management intends to hold these investments to maturity, unless value is gained by swapping out securities at a premium, recognizing income and reinvesting in a replacement security that balances out specific categories such as maturities, effective duration or types of investments. During 2012, TCIP sold twenty-one investments with a total realized gain of $336,928.

Fair value of the TCIP is reviewed by the County Treasurer, on an monthly basis, and quarterly by the County Finance Committee. Fair value is determined using information from "Finser", a financial services system.

Participation in the TCIP is voluntary. Districts do have the option to participate in the TCIP or they can have the Treasurer manage their cash and investments outside of the TCIP by requesting specific investment amounts and maturity dates. Currently, there are no outside districts with investments outside the TCIP.

A condensed statement of net position and statement of changes in net position for the external portion of the investment trust pool and the Clerk's private purpose trust fund at December 31, 2012 is reported in the following schedule:

Condensed Statement of Net Position
December 31, 2012

	Investment Trust Fund	Private Purpose Trust Fund
Cash, Cash Equivalents, Investments and Pooled Investments	$ 344,917,568	$ 1,426,142
Total Assets	**344,917,568**	**1,426,142**
Pool Liabilities	(14,224,680)	-
Total Liabilities	(14,224,680)	-
Net Position Held in Trust for Pool Participants	**$ 330,692,888**	**$ 1,426,142**

Condensed Statement of Changes in Net Position
December 31, 2012

	Investment Trust Fund	Private Purpose Trust Fund
Changes in Net Position Resulting from Operations	$ 2,789,440	$ 477
Earnings Distributions to Participants	(2,789,440)	(477)
Changes in Net Position Resulting from Depositor Transactions	74,741,070	(71,988)
Net Position Available	74,741,070	(71,988)
Net Position Beginning of Year	255,951,818	1,498,130
Net Position End of Year	**$ 330,692,888**	**$ 1,426,142**

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.
April 30	First of two equal installment payments is due.
October 31	Second installment is due.

Property tax is recorded as a receivable 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 subject to three limitations:

1. Initiative 747 limits annual regular property tax increases to 1% or the Implicit Price Deflator, whichever is less. An increase above 1% is allowed only with voter approval. The 1% limit excludes increases due to the addition of new construction and state assessed utility increases.

2. 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.

3. 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.

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 2011 for collection in 2012:

	Levy In Dollars Per Thousand	Assessed Value	Total Levy
General Fund	$ 1.4472	$ 23,803,208,509	$ 34,447,017
Medic One	$ 0.4007	$ 23,803,208,509	$ 9,538,134
Roads	$ 1.7282	$ 11,749,082,868	$ 20,304,912

NOTE VI – CAPITAL ASSETS AND COMMITMENTS

A. Capital Assets

Capital assets activity for the year ended December 31, 2012 was as follows:

	Beginning Balance 01/01/2012	Increases	Decreases & Adjustments	Ending Balance 12/31/2012
GOVERNMENTAL TYPE ACTIVITIES				
Capital Assets - Non-Depreciable:				
Land	$ 255,474,104	$ 239,905,975	$ (237,952,273)	$ 257,427,806
Construction in Progress	40,424,494	7,004,914	(24,199,521)	23,229,887
Capital Assets - Non-Depreciable	295,898,598	246,910,889	(262,151,794)	280,657,693
Capital Assets - Depreciable:				
Buildings	116,547,284	56,182,958	(31,954,516)	140,775,726
Improvements Other Than Buildings	6,253,795	906,917	(222,480)	6,938,232
Machinery & Equipment	39,004,544	6,012,108	(4,052,413)	40,964,239
Infrastructure	137,231,567	349,024,388	(346,718,908)	139,537,047
Original Cost	299,037,190	412,126,371	(382,948,317)	328,215,244
Less Accumulated Depreciation:				
Buildings	(26,248,688)	(3,569,439)	1,178,380	(28,639,747)
Improvements Other Than Buildings	(3,200,131)	(425,593)	105,478	(3,520,246)
Machinery & Equipment	(27,836,681)	(3,286,966)	1,778,305	(29,345,342)
Infrastructure	(70,107,076)	(7,678,151)	5,258,324	(72,526,903)
Accumulated Depreciation	(127,392,576)	(14,960,149)	8,320,487	(134,032,238)
Capital Assets - Depr, Net	171,644,614	397,166,222	(374,627,830)	194,183,006
Total Original Cost	594,935,788	659,037,260	(645,100,111)	608,872,937
Total Accumulated Depreciation	(127,392,576)	(14,960,149)	8,320,487	(134,032,238)
Governmental Capital Assets, Net	$ 467,543,212	$ 644,077,111	$ (636,779,624)	$ 474,840,699

Depreciation expense was charged to functions as follows:

Depreciation Expense was charged to functions as follows:	
General Government	$ 388,828
Public Safety	440,121
Utilities and Environment	2,010
Transportation	7,863,212
Economic Environment	295
Health and Human Services	34,764
Culture and Recreation	478,790
Subtotal	9,208,020
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.	5,752,129
Total Governmental Activities Depreciation Expense	$ 14,960,149

Business Type Activities for the year ended December 31, 2012 was as follows:

	Beginning Balance 01/01/2012	Prior Period Adjustment	Revised Beginning Balance 01/01/2012	Increases	Decreases & Adjustments	Ending Balance 12/31/2012
BUSINESS TYPE ACTIVITIES						
Capital Assets, not being depreciated:						
Land	$ 1,812,915	$ -	$ 1,812,915	$ 30,461	$ (23,617)	$ 1,819,759
Construction In Progress	3,825,154	-	3,825,154	1,894,767	(1,010,164)	4,709,757
Total Capital Assets, not being depreciated	5,638,069	-	5,638,069	1,925,228	(1,033,781)	6,529,516
Capital Assets, being depreciated:						
Buildings	24,686,164	-	24,686,164	-	(7,657)	24,678,507
Improvements other than buildings	25,696,936	-	25,696,936	5,360,598	(7,898,395)	23,159,139
Machinery & Equipment	5,826,670	-	5,826,670	344,655	(113,435)	6,057,890
Infrastructure	9,876,111	6,842,837	16,718,948	14,454,405	(10,891,649)	20,281,704
Total Capital Assets, being depreciated	66,085,881	6,842,837	72,928,718	20,159,658	(18,911,136)	74,177,240
Less Accumulated Depreciation For:						
Buildings	(7,457,266)	-	(7,457,266)	(750,096)	7,658	(8,199,704)
Improvements other than buildings	(19,304,364)	-	(19,304,364)	(464,903)	666,631	(19,102,636)
Machinery & Equipment	(3,715,887)	-	(3,715,887)	(345,976)	105,474	(3,956,389)
Infrastructure	(2,172,540)	(3,979,753)	(6,152,293)	(687,933)	(655,222)	(7,495,448)
Total Accumulated Depreciation	(32,650,057)	(3,979,753)	(36,629,810)	(2,248,908)	124,541	(38,754,177)
Total Capital Assets being depreciated, net	33,435,824	2,863,084	36,298,908	17,910,750	(18,786,595)	35,423,063
Business Type Activities Capital Assets, net	$ 39,073,893	$ 2,863,084	$ 41,936,977	$ 19,835,978	$ (19,820,376)	$ 41,952,579

Depreciation expense was charged to functions as follows:

Depreciation expense was charged to functions as follows:	
Solid Waste	$ 1,056,728
Water	231,508
Sewer	474,017
Stormwater	454,202
Land Use & Permitting	32,453
Total	$ 2,248,908

B. Construction Commitments

Thurston County has the following active construction commitments, including the Accountability and Restitution Center and Tilley Master Plan project, as of December 31, 2012:

Project	Spent-to-Date	Remaining Commitment
Accountability and Restitution Center	$ 42,870,561	$ 536,753
Tilley Master Plan	19,713,215	1,316,696
Building 5 - New Roof and HVAC/Fiber	631,088	957,118
3400 Building - Roof Replacement/Seismic Repair	650,612	1,640,478
Total	$ 63,865,476	$ 4,451,045

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

NOTE VII – RECEIVABLE BALANCES

Receivables as of December 31, 2012 for the County's individual major funds, non-major funds and internal service funds are shown in the following table:

	Taxes	Special Assessment	Interest and Penalties	Customer Accounts	Due from other Governments	Community Loans	Total
Governmental Activities:							
General Fund	$ 1,392,743	$ -	$ 3,309,993	$ 2,939,996	$ 1,490,336	$ -	$ 9,133,068
Debt Holding	-	-	4,337	-	1,290,092	-	1,294,429
Detention Facility Sales Tax Holding	-	-	13,432	-	-	-	13,432
Real Estate Excise Tax	-	-	12,878	625	-	-	13,503
Roads	709,435	-	2,924	21,146	1,826,269	-	2,559,774
Medic One	357,602	-	24,755	-	-	-	382,357
Public Health and Social Services	25,999	11,809	21,820	21,409	2,571,736	-	2,652,773
Other Governmental	56,911	57,630	75,334	570,717	768,906	-	1,529,498
Internal Service	-	-	12,340	218,890	51,869	-	283,099
Total Governmental Activities	$ 2,542,690	$ 69,439	$ 3,477,813	$ 3,772,783	$ 7,999,208	$ -	$ 17,861,933
Business-Type Activities:							
Solid Waste	$ -	$ -	$ -	$ 2,014,781	$ 447,620	$ -	$ 2,462,401
Grand Mound	-	1,561,717	100,256	188,752	4,933	-	1,855,658
Storm Water	-	193,627	4,418	-	99,268	-	297,313
Other Enterprise Funds	-	584,974	3,157	126,643	1,670	293,493	1,009,937
Total Business-Type Activities	$ -	$ 2,340,318	$ 107,831	$ 2,330,176	$ 553,491	$ 293,493	$ 5,625,309

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the year, the various components of unearned revenue and unearned revenue reported in the governmental funds were as follows:

Unearned Revenue	
Delinquent property taxes receivable (General Fund)	1,392,743
Delinquent property taxes receivable (Roads Fund)	709,435
Delinquent property taxes receivable (Medic One)	357,602
Delinquent property taxes receivable (Public Health & Social Services)	25,999
Delinquent property taxes receivable (Other Governmental Funds)	56,911
Delinquent special assessment receivable (Public Health & Social Services)	11,809
Delinquent special assessment receivable (Other Governmental Funds)	57,630
Delinquent accrued interest and penalties receivable (General Fund)	3,175,476
Delinquent accrued interest and penalties receivable (Other Governmental Funds)	140,945
Deferred Revenue-Other (Roads Fund)	608,519
Total deferred/unearned revenue for governmental funds	$ 6,537,069

NOTE VIII – LONG-TERM AND OTHER SIGNIFICANT DEBT

A. Disclosures About Each Significant Debt Incurred

1. General Obligation Bonds

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 eventually 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 real estate excise tax fees and proprietary revenues.

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 annual principal installments from $400,000 to $800,000 a year. The term of the bonds is 20 years with the final payment due in 2024. The balance at December 31, 2012 was $7,670,000.

2005 Limited 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 (which were used to finance the juvenile detention facility, jail improvements and RID #2) 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 was utilized to finance park acquisitions and other capital improvements. The bonds bear an interest rate of 3.0% to 5.0% semi annually with annual principal installments ranging from $100,000 to $3,000,000 a year. The term of the bonds is 20 years with the final payment due in 2025. The balance at December 31, 2012 was $16,185,000 of which $5,225,000 was for the Grand Mound Utility.

2007 Limited General Obligation Bonds of $5,000,000 were issued in 2007. The bonds were used to partially fund a second county jail. The term of the bonds is 20 years with the final payment due in 2027. The bonds bear interest rates of 3.75% to 4.0% payable semi-annually with annual principal installments ranging from $125,000 to $375,000 a year. The balance at December 31, 2012 was $4,155,000.

2009 Limited General Obligation Bonds of $42,765,000 were issued in 2009. The bonds were used to fund construction of the Accountability Restitution Center, communication system upgrades, and other approved capital projects. The term of the bonds is 20 years with the final payment due in 2029. The bonds bear interest rates of 3.0% to 5.0% payable semi-annually with annual principal installments ranging from $755,000 to $3,130,000 a year. The balance at December 31, 2012 was $40,125,000.

2010 Limited General Obligation Bonds of $29,665,000 were issued in 2010. The bonds were used as follows:

$8,775,000 was used for an advance refunding of $1,800,000 of outstanding 1999 bonds and for a partial advance refunding of $6,730,000 of outstanding 2002 bonds. The bonds bear an interest rate of 2% to 4% payable semi-annually with annual principal installments ranging from $555,000 to $1,505,000. The term of the bonds is 12 years with final payment due in 2022. The advanced refunding portion of the 1999 bonds is serviced by the Grand Mound Debt Service Fund (Enterprise Fund). The balance at December 31, 2012 was $8,220,000 of which $1,815,000 was for the Grand Mound Utility.

$18,850,000 of Taxable Build America Bonds were issued to finance construction of the Tilley Road project, communication system upgrades and other building improvements. The bonds bear an interest rate of .75% to 5.4% payable semi-annually with annual principal installments ranging from $825,000 to $1,285,000. The Build America Bonds also have an interest subsidy from the Internal Revenue Service to be received in semi-annual installments of 35% of the interest amount. The term of the bonds is 20 years with final payment due in 2030. The balance at December 31, 2012 was $17,165,000.

$2,040,000 of Taxable Qualified Energy Conservation Bonds were issued to finance a portion of the Tilley Road project. The bonds bear an interest rate of 5.5% payable in semi-annual interest payments. Qualified Energy Conservation Bonds also have an interest subsidy from the Internal Revenue Service to be received in semi-annual installments ranging from $41,746 to $74,398. The term of the bonds is 18 years with a single principal payment due in 2029. The balance at December 31, 2012 was $ 2,040,000. A sinking fund was created in 2011 for future principal payments for the QECB bonds. The balance of the sinking fund at December 31, 2012 was $195,338.

The annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	5,005,000	3,726,141	920,000	284,800
2014	5,265,000	3,553,631	910,000	239,100
2015	5,505,000	3,367,519	915,000	193,900
2016	5,810,000	3,169,731	880,000	175,600
2017	5,880,000	3,406,249	985,000	158,000
2018 - 2022	22,495,000	11,965,244	2,430,000	159,750
2023 - 2027	23,110,000	7,146,376	-	-
2028 - 2030	15,450,000	1,564,730	-	-
Total	$ 88,520,000	$ 37,899,621	$ 7,040,000	$ 1,211,150

2. Loans and Contracts Payable

The Community Loan Repayment Funds (Enterprise Funds) entered into eight 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 term of each of the loans with the State of Washington Department of Ecology is twenty years.

The first loan is not to exceed $300,000 with an interest rate of 5% per annum. Repayment began in 1996. The balance at December 31, 2012 is $51,424. The second loan is not to exceed $200,000 with an interest rate of 0%. The balance at December 31, 2012 is $34,776. The third loan is not to exceed $200,000 with an interest rate of 4.3%. Repayment began in 2003. The balance at December 31, 2012 is $84,697. The fourth loan is not to exceed $100,000 with an interest rate of 0%. Repayments began in 2003. The balance at December 31, 2012 is $11,053. The fifth loan is not to exceed $150,000 with an interest rate of 1.5%. Repayment began in 2005. The balance as of December 31, 2012 is $66,525. The sixth loan is not to exceed $200,000 with an interest rate of 1.5%. Repayment began in 2009. The balance at December 31, 2012 was $144,335. The seventh loan is not to exceed $254,695 with an interest rate of 2.2%. Repayment began in 2012. The balance as of December 31, 2012 was $251,941. The eighth loan is not to exceed $250,000 with an interest rate of 2.6%. Repayment will begin when the draws are substantially complete. The balance as of December 31, 2012 was $25,379.

Public Works entered into a state revolving fund (DWSRF) loan agreement with the State of Washington Department of Commerce to construct a corrosion control system for the Grand Mound water system in 2006. The term of the loan is for twenty years and the amount financed was $132,518 with an interest rate of 1%. The balance as of December 31, 2012 was $72,311.

Public Works entered into a loan agreement with the State of Washington Department of Ecology to construct a sanitary sewer system for Woodland Creek in 2011. The term of the loan is for twenty years and the loan is not to exceed $1,227,780 with an interest amount of 2.8%. Payments will begin in 2014 upon completion of the project. The balance as of December 31, 2012 was $1,107,862.

3. Special Assessment Bonds

The County has also issued special assessment debt for the construction and replacement of wastewater collection systems within the County. This debt will be repaid from amounts levied against the property owners benefited by this construction. The County must provide the resources to cover a deficiency due to any unpaid or delinquent special assessments until other resources, such as foreclosure proceeds, are received. The special assessment debt outstanding is as follows:

In 2004, the County 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. The original principal amount was $1,526,507. Repayments began in 2004 and the loan balance as of December 31, 2012 was $661,105. The interest rate of the loan is 0% with a 20-year repayment term. At December 31, 2012, the amount of delinquent assessment principal was $6,015.

In 1997, Olympic View Debt Redemption Fund (Enterprise Fund) has a 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 original principal amount was $94,000. The loan is due in 2016 and has a balance at December 31, 2012 of $10,944.

The annual debt service requirements to maturity for the loans, contracts payable and special assessment debt are as follows:

Year Ending December 31	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2013	-	-	141,010	16,183
2014	64,398	16,718	142,641	14,338
2015	48,691	32,425	144,338	12,427
2016	50,072	31,044	127,199	10,680
2017	51,493	29,624	132,190	19,398
2018 - 2022	280,216	125,366	503,735	45,264
2023 - 2027	322,273	83,309	151,083	14,981
2028 - 2032	290,719	35,504	72,294	3,242
Total	$ 1,107,862	$ 353,989	$ 1,414,491	$ 136,513

4. Leases

a. Operating Lease Liabilities

The County has lease commitments for leases of buildings and office space that are cancelable and non-cancelable with lease terms primarily from month to month with one that extends to 2015. Operating lease expenditures for the year ended December 31, 2012 were $1,095,177. The future minimum lease payments for these leases are:

Year Ending December 31	Amount
2013	$ 282,293
2014	268,611
2015	1,139
Total	$ 552,043

b. Capital Lease Liabilities

The County has entered into the transactions that are recorded as capital lease purchases to account for copier leases. These long-term contracts incorporate some or all of the benefits and risks of ownership. The leased assets and related obligations are accounted for in the statement of net position. The net capital lease amount shown below reflects the assets continuing to be financed through the capital lease. These lease agreements qualify as capital leases for accounting purposes, and therefore, have been recorded at the present value of the future minimum lease payments as of the inception date. The assets acquired through capital lease are as follows:

Asset	Governmental Activities	Business-Type Activities
Machinery & Equipment	$ 569,568	$ 186,544
Less: accumulated depreciation	(309,733)	(66,457)
Present Value of Minimum Lease Payments	259,835	120,087
Plus amount representing interest	42,594	15,629
Total Invested in Capital Leases	**$ 302,429**	**$ 135,716**

The future minimum lease obligations and net present value of minimum lease payments for assets acquired through capital leases as of December 31, 2012 were as follows:

Year Ending December 31	Governmental Activities	Business-Type Activities
2013	$ 135,266	$ 39,168
2014	85,300	39,168
2015	51,585	37,749
2016	24,355	19,631
2017	5,923	-
Total Minimum Lease Payments	302,429	135,716
Less: Interest	(42,594)	(15,629)
Present Value of Minimum Lease Payments	**$ 259,835**	**$ 120,087**

c. Lease Receivables

The County currently leases some of its property to various tenants under long-term cancelable and non-cancelable contracts. The following is an analysis of the County's investment in property under long-term operating leases as of December 31, 2012:

Asset	Governmental Activities	Business-Type Activities
Land	$ 752,493	$ 13,001
Buildings	7,133,498	19,157
Less: Accumulated Depreciation	(1,572,338)	(7,491)
Total Invested in Long Term Leases	$ 6,313,653	$ 24,667

The county received $114,767 of operating lease revenues from these contracts in 2012. Amounts that will be received in future years under these lease agreements are noted below:

Year Ending December 31	Amount
2013	$ 102,111
2014	104,645
2015	107,244
2016	1
2017	1
2018 - 2030	13
Total Lease Receivable	$ 314,015

The $15 receivable from 2016 through 2030 is for a park and ride lease with Intercity Transit which is located at the Waste and Recovery Center.

5. 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 10.5-24.75 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. County employees, who chose the alternative leave plan, earn 16.50-30.75 days of annual or personal 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 personal leave may be accrued. Accumulated unpaid vacation/annual leave is recorded as earned by employees. In the traditional plan, terminating employees are entitled to be paid for unused vacation up to a maximum of 240 hours and, if retiring, half of unused sick leave, to a maximum of 360 hours. Alternative plan employees who terminate are entitled to be paid for unused leave up to 280 hours.

The County reported a liability of $7,058,814 at December 31, 2012 for that portion of unpaid accumulated vacation and personal leave payable in the Statement of Net Position. This liability includes $5,668,747 for governmental funds, $787,086 for internal service funds and $602,981 for enterprise funds. $245,858 of this liability is expected to be incurred in 2013. Leave costs are paid from governmental funds that fund the personnel costs for those employees. Vested sick leave is not considered material and is not accrued.

6. Other Post Employment Benefits

Thurston County administers two post employment benefit programs that provide primarily post employment medical benefits to retired Thurston County employees. These programs are for retired Law Enforcement Officers and Fire Fighters (LEOFF) under the LEOFF 1 retirement act and for all Thurston County employees through the state managed Public Employees Benefits Board (PEBB). A long term governmental liability of $1,886,365 was recognized for LEOFF 1 benefits in the statement of net position in 2012. A long term liability of $14,552,397 was also recognized for PEBB benefits in the financial statements. This liability was allocated between governmental and proprietary funds based on current active full time employees. Consequently, $13,292,536 was recognized in the statement of net position for governmental and internal service funds and $1,259,861 was recognized for enterprise funds. Note XII contains detailed information on these two post employment benefit programs including the computation of the current accrued cost and the associated long term liability.

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 Debt and Other Long-Term Liabilities
For The Year Ended December 31, 2012

	Beginning Balance	New Issues And Adjustments	Retirements And Adjustments	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds	$ 93,260,000	$ -	$ 4,740,000	$ 88,520,000	$ 5,005,000
Deferred amounts:					
On refunding	(765,494)	-	(60,429)	(705,065)	(60,430)
For issuance premiums	1,477,307	-	106,525	1,370,782	106,525
Total bonds payable	93,971,813	-	4,786,096	89,185,717	5,051,095
Notes/loans payable	634,931	472,931	-	1,107,862	-
Capital leases payable	302,391	-	42,556	259,835	112,366
Claims and judgments payable	4,163,934	55,184	219,118	4,000,000	349,090
Compensated absences	6,372,077	349,370	265,614	6,455,833	224,855
Other post employment benefits (OPEB)	12,703,082	2,475,819	-	15,178,901	-
Total governmental activities	**$ 118,148,228**	**$ 3,353,304**	**$ 5,313,384**	**$ 116,188,148**	**$ 5,737,406**
Business-type activities:					
Bonds payable:					
General obligation bonds	$ 7,840,000	$ -	$ 800,000	$ 7,040,000	$ 920,000
Deferred amounts:					
On refunding	(293,437)	-	(36,352)	(257,085)	-
For issuance premiums	326,644	-	40,671	285,973	-
Total bonds payable	7,873,207	-	804,319	7,068,888	920,000
Notes/loans/special assessments payable	1,520,741	25,380	131,630	1,414,491	141,010
Capital leases payable	102,646	61,315	43,874	120,087	30,512
Compensated absences	610,826	17,616	25,461	602,981	21,003
Other post employment benefits (OPEB)	1,057,901	201,960	-	1,259,861	-
Total business-type activities	**$ 11,165,321**	**$ 306,271**	**$ 1,005,284**	**$ 10,466,308**	**$ 1,112,525**

Internal Service funds predominately serve governmental funds. Accordingly, their long-term liabilities are included in totals for governmental activities. At year end, $787,086 of internal service fund compensated absences are included in the amounts above. Internal service funds also include $2,517,764 of general obligation bonds payable and $1,333,804 of other post employment benefits payable. Claims and judgments are generally liquidated by the Insurance Risk Management Internal Service Fund and compensated absences are liquidated by the funds incurring the liability. Enterprise segment information is not disclosed since revenue streams are not pledged to support proprietary long-term debt.

The County liquidates and funds past and future pension and OPEB obligations through employee and employer paid pension and medical benefit obligations. Therefore, only funds with FTEs would fund these types of obligations which would exclude the following reported County Funds: Auditor Election Reserve Detention Facilities Sales Tax Holding, Emergency Management Council, Real Estate Excise Tax, REET Technology Fund, Trial Court Improvement, Treatment Sales Tax, Stadium/Convention/Art Center, Tax Refunds, Conservation Futures, Debt Service Funds, Capital Project Funds and the Community Loan Program Fund.

C. Assets Available for Debt Service

The County is meeting debt service requirements. The County has sufficient assets in a variety of different funds to meet current and future debt service payments. At December 31, 2012, the County had $230,352 available in reserve in governmental debt service funds to service general obligation and assessment debt. The County's general obligation debt, as noted above, will be funded by cash balances and future revenue streams from the Real Estate Tax and Detention Facility Sales Tax Holding Funds which are reported as major funds in the fund financial statements. At December 31, 2012, the County also had $3,430,740 in net position restricted for business type debt which primarily include current and long term special assessment receivables that have been assessed on benefitting utility districts.

D. Legal Debt Margin

State law limits Thurston County's non-voted debt capacity of 1 ½% and voted debt capacity of 2 ½% of the assessed valuation. The capacity amounts are as follows for 2012:

Purpose of Indebtedness	Total Capacity	Remaining Capacity
General Government (No vote required)	$ 357,048,128	$ 267,006,193
General Government (With 3/5-majority vote)	$ 595,080,213	$ 505,038,278

E. 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, 2012

	01/01/12	Increases	Decreases	12/31/12
Refunded & Defeased Bonds Outstanding	$ 14,580,000	$ -	$ (1,240,000)	$ 13,340,000

General Obligation Bonds of $26,135,000 were issued in 2005 of which $7,510,000 was used for an advance refunding of $7,500,000 of outstanding 1999 enterprise bonds. 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 duration of the original issue.

General Obligation Bonds of $29,665,000 were issued in 2010 of which $8,775,000 was used for an advance refunding of $1,800,000 of outstanding 1999 enterprise bonds and $6,730,000 of 2002 general obligation bonds. The advance refunding of the bonds resulted in an economic gain of $998,350 with a $1,126,494 reduction in debt service payments over the duration of the original issue.

NOTE IX – INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

Interfund transactions usually involve the exchange of goods and services between funds in a normal business relationship. These amounts, which are reported in the fund financial statements, were eliminated in the government-wide statements. The composition of interfund receivables and payables in the fund financial statements as of December 31, 2012 is shown in the following table.

	Due From Other Funds									
Due to Other Funds	**General Fund**	**Roads**	**Public Health**	**Non-Maj Gov**	**Internal Service**	**Solid Waste**	**Grand Mound**	**Storm Water**	**Non-Maj Enter**	**Total**
General Fund	$ 2,102	$ 20,774	$ 62,499	$ -	$ 13,829	$ 269,988	$ -	$ -	$ 1,079	$ 370,271
Debt Holding	-	-	-	-	353,974	-	-	-	-	353,974
Detention Facility	238,434	-	-	-	-	-	-	-	-	238,434
Real Estate Excise Tax	13,605	-	-	-	-	-	44,396	-	31,212	89,213
Roads	2,014	322	721	-	91,808	789	33	-	24	95,711
Medic One	-	-	-	-	1,690	-	-	-	-	1,690
Public Health	107,495	-	-	-	4,395	-	-	37,024	6,636	155,550
Non-Major Governmental	685,471	239	357,096	176	22,997	-	-	2,281	-	1,068,260
Internal Service	5,820	-	-	-	84,025	36,918	-	-	-	126,763
Solid Waste	20,907	3,076	183,530	-	35,560	993,183	-	1,077	-	1,237,333
Grand Mound	-	309	175	-	423	42	-	-	-	949
Stormwater	7,394	32,398	72,730	-	23,769	18	-	3,736	7,714	147,759
Non-Major Enterprise	-	1,829	2,697	-	524	-	-	-	-	5,050
Total Due to/Due from	$ 1,083,242	$ 58,947	$ 679,448	$ 176	$ 632,994	$ 1,300,938	$ 44,429	$ 44,118	$ 46,665	$ 3,890,957

B. Interfund Loans and Advances

Interfund loans and advances are fund transfers, usually interest bearing, which will be repaid in future years. Interfund loans are fund transfers for less than a year that are outstanding at year end and advances are fund transfers for more than one year. These amounts, which are reported in the fund financial statements, were eliminated in the government-wide statements.

The Solid Waste Fund advanced $182,082 to the Central Services Department Fund in 2011. There is a five year repayment period starting in 2011. The advance bears an interest rate of 2.457% with monthly payments of $3,228 including interest throughout the repayment period. The final payment of $3,221 will be made in 2016. The remaining balance at December 31, 2012 was $78,592.

C. Interfund Transfers

Interfund transfers are subsidies and 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. Transfers out from the General Fund are usually made to subsidize activities in other funds such as Fair and Public Health that are not fully funded by taxes, grants or program and service fees. Transfers in to the General Fund are primarily from sales tax holding funds for public safety purposes. Transfers out of Detention Facilities Sales Tax and Debt Holding Funds are primarily to fund public safety capital projects in capital project funds and public safety operations in the General Fund. Transfers in to Public Health and Social Services comprise subsidies and support service payments from the General and Treatment Sales Tax Funds. Transfers in to and out of proprietary and non-major governmental funds are primarily for debt service and associated capital projects. Transfers also include transfers of residual fund balances to active ongoing funds from funds that were closed out and terminated during the year.

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, 2012 are summarized below:

	Transfer In							
Transfer Out	**General Fund**	**Roads**	**Public Health**	**Non-Major Govt**	**Internal Service**	**Grand Mound**	**Non-Major Enterprise**	**Total**
General Fund	$ -	$ -	$ 1,282,529	$ 341,805	$ 368,777	$ -	$ 906,135	$ 2,899,246
Debt Holding	-	-	-	3,683,625	516,186	-	-	4,199,811
Detention Facility Hldg	1,301,115	-	-	4,889,687	-	-	-	6,190,802
Real Estate Excise Tax	15,000	1,783,385	-	2,039,146	-	371,022	684,965	4,893,518
Roads	-	-	-	1,067,668	73,395	-	-	1,141,063
Non-Major Govt	2,304,214	-	1,413,098	260,462	2,356	-	-	3,980,130
Internal Service	43,000	-	-	6,283	233,278	-	-	282,561
Solid Waste	-	-	-	-	33,688	-	-	33,688
Ground Mound	-	-	-	-	-	-	-	-
Storm Water	-	21,580	-	-	10,781	-	-	32,361
Non-Major Enterprise	-	-	-	-	-	-	-	-
Total Transfers	$ 3,663,329	$ 1,804,965	$ 2,695,627	$ 12,288,676	$ 1,238,461	$ 371,022	$ 1,591,100	$ 23,653,180

NOTE X – PENSION PLANS

Substantially all Thurston County's full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to the GASB Statement 27, *Accounting for Pensions by State and Local Government Employers* and the GASB Statement 50*, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27*.

Public Employees' Retirement System (PERS) Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; community and technical colleges, college and university employees not participating in higher education retirement programs; employees of district and municipal courts; and employees of local governments. Approximately 50 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3. Notwithstanding, PERS Plan 2 and Plan 3 members may opt out of plan membership if terminally ill, with less than five years to live.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2012, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

The monthly benefit is subject to a minimum for retirees who have 25 years of service and have been retired 20 years, or who have 20 years of service and have been retired 25 years. If a survivor option is chosen, the benefit is reduced. Plan 1 members retiring from inactive status prior to the age of 65 may also receive actuarially reduced benefits. Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is $350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 members can receive credit for military service while actively serving in the military if such credit makes them eligible to retire. Members can also purchase up to 24 months of service credit lost because of an on-the-job injury.

The survivor of a PERS Plan 1 member who dies after having earned ten years of service credit has the option, upon the member's death, of either a monthly survivor benefit or the lump sum of contributions plus interest.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit and are 55 years of age or older are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions:

- With a benefit that is reduced by 3 percent for each year before age 65; or.
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option. The surviving spouse or eligible child(ren) of a PERS Plan 2 member who dies after having earned ten years of service credit has the option of either a monthly benefit or a lump sum payment of the member's contributions plus interest.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For DRS' fiscal year 2012, PERS Plan 3 employee contributions were $95.2 million, and plan refunds paid out were $66.2 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.

PERS Plan 3 benefit retirement benefits are also actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS Plan 2 and Plan 3 members may have up to ten years of interruptive military service credit; five years at no cost and five years that may be purchased by paying the required contributions.

PERS Plan 2 and Plan 3 members who become totally incapacitated for continued employment while serving the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PERS Plan 2 and Plan 3 members can purchase up to 24 months of service credit lost because of an on-the-job injury.

PERS members may also purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's retirement benefit.

Beneficiaries of a PERS Plan 2 or Plan 3 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, on or after June 10, 2004, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PERS member who dies in the line of service as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Members who chose to participate would: accrue service credit at the higher multiplier beginning with the date of their election; be subject to the benefit cap of 75 percent of AFC; stop contributing to the Judicial Retirement Account (JRA); pay higher contributions; and be given the option to increase the multiplier on past judicial service. Members who did not choose to participate would: continue to accrue service credit at the regular multiplier; not be subject to a benefit cap; continue to participate in JRA, if applicable; continue to pay contributions at the regular PERS rate; and never be a participant in the JBM Program.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program. Members required into the JBM program would: return to prior PERS Plan if membership had previously been established; be mandated into Plan 2 and not have a Plan 3 transfer choice, if a new PERS member; accrue the higher multiplier for all judicial service; not contribute to JRA; and not have the option to increase the multiplier for past judicial service.

There are 1,184 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	79,363
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	29,925
Active Plan Members Vested	105,578
Active Plan Members Non-vested	46,839
Total	**261,705**

Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent, based on member choice. Two of the options are graduated rates dependent on the employee’s age.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

Members Not Participating in JBM:

	PERS Plan 1	***PERS Plan 2***	***PERS Plan 3***
Employer*	7.21%**	7.21%**	7.21%***
Employee	6.00%****	4.64%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for state elected officials is 10.74% for Plan 1 and 7.21% for Plan 2 and Plan 3.
*** Plan 3 defined benefit portion only.
**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.64% for Plan 2.
***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Members Participating in JBM:

	PERS Plan 1	***PERS Plan 2***	***PERS Plan 3***
Employer-State Agency*	9.71%	9.71%	9.71%**
Employer-Local Government*	7.21%	7.21%	7.21%**
Employee-State Agency	9.76%	9.10%	7.50%***
Employee-Local Government	12.26%	11.60%	7.50%***

* The employer rates include the employer administrative expense fee currently set at 0.16%.
** Plan 3 defined benefit portion only.
***Minimum rate.

Both County and the employees made the required contributions. The County required contributions for the years ended December 31 were as follows:

	PERS Plan 1	**PERS Plan 2**	**PERS Plan 3**
2012	$ 166,172	$ 3,251,388	$ 353,904
2011	$ 166,987	$ 2,750,826	$ 290,328
2010	$ 179,089	$ 2,019,168	$ 229,265

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plans 1 and 2

Plan Description

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement commissioned officers, firefighters and, as of July 24, 2005, emergency medical technicians. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers, who were first included prospectively effective July 27, 2003, being an exception. LEOFF retirement benefit provisions are established in Chapter 41.26 RCW and may be amended only by the State Legislature.

LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature.

LEOFF retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in LEOFF Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest earnings upon separation from LEOFF-covered employment.

LEOFF Plan 1 members are vested after the completion of five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of Final Average Salary
20 or more years	2.0%
10 but less than 20 years	1.5%
5 but less than 10 years	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. A cost-of-living allowance is granted (based on the Consumer Price Index).

LEOFF Plan 1 provides death and disability benefits. Death benefits for survivors of Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each eligible surviving child, with a limitation on the combined benefit of 60 percent of the FAS; or (2) If no eligible spouse, eligible children receive 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS, divided equally.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 1 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability benefit or service retirement benefit.

LEOFF Plan 1 members may purchase up to five years of additional service credit once eligible for retirement. This credit can only be purchased at the time of retirement and can be used only to provide the member with a monthly annuity that is paid in addition to the member's benefit.

LEOFF Plan 2 members are vested after the completion of five years of eligible service.

Plan 2 members are eligible for retirement at the age of 53 with five years of service, or at age 50 with 20 years of service. Plan 2 members receive a benefit of 2 percent of the FAS per year of service (the FAS is based on the highest consecutive 60 months), actuarially reduced to reflect the choice of a survivor option. Members who retire prior to the age of 53 receive reduced benefits. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53. Otherwise, the benefits are actuarially reduced for each year prior to age 53. A cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 benefit amount is 2 percent of the FAS for each year of service. Benefits are reduced to reflect the choice of survivor option and for each year that the member's age is less than 53, unless the disability is duty-related. If the member has at least 20 years of service and is age 50, the reduction is 3 percent for each year prior to age 53.

A disability benefit equal to 70 percent of their FAS, subject to offsets for workers' compensation and Social Security disability benefits received, is also available to those LEOFF Plan 2 members who are catastrophically disabled in the line of duty and incapable of future substantial gainful employment in any capacity. Effective June 2010, benefits to LEOFF Plan 2 members who are catastrophically disabled include payment of eligible health care insurance premiums.

Members of LEOFF Plan 2 who leave service because of a line of duty disability are allowed to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement benefit of at least 10 percent of FAS and 2 percent per year of service beyond five years. The first 10 percent of the FAS is not subject to federal income tax.

LEOFF Plan 2 retirees may return to work in an eligible position covered by another retirement system, choose membership in that system and suspend their pension benefits, or not choose membership and continue receiving pension benefits without interruption.

LEOFF Plan 2 members who apply for retirement may purchase up to five years of additional service credit. The cost of this credit is the actuarial equivalent of the resulting increase in the member's benefit.

LEOFF Plan 2 members can receive service credit for military service that interrupts employment. Additionally, LEOFF Plan 2 members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

LEOFF Plan 2 members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a LEOFF Plan 2 member who is killed in the course of employment receive retirement benefits without actuarial reduction, if found eligible by the Director of the Department of Labor and Industries. Benefits to eligible surviving spouses and dependent children of LEOFF Plan 2 members killed in the course of employment include the payment of on-going health care insurance premiums paid to the Washington state Health Care Authority.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a LEOFF Plan 2 member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

Legislation passed in 2009 provides to the Washington-state-registered domestic partners of LEOFF Plan 2 members the same treatment as married spouses, to the extent that the treatment is not in conflict with federal laws.

There are 373 participating employers in LEOFF. Membership in LEOFF consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	9,947
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	656
Active Plan Members Vested	13,942
Active Plan Members Nonvested	3,113
Total	**27,658**

Funding Policy

Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plans. Starting on July 1, 2000, Plan 1 employers and employees contribute zero percent as long as the plan remains fully funded. Plan 2 employers and employees are required to pay at the level adopted by the LEOFF Plan 2 Retirement Board.

The Legislature, by means of a special funding arrangement, appropriates money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the recommendations of the Pension Funding Council and the LEOFF Plan 2 Retirement Board. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For DRS' fiscal year 2012, the state contributed $52.8 million to LEOFF Plan 2.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.26 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	LEOFF Plan 1	LEOFF Plan 2
Employer*	0.16%	5.24%**
Employee	0.00%	8.46%
State	N/A	3.38%

*The employer rates include the employer administrative expense fee currently set at 0.16%.
** The employer rate for ports and universities is 8.62%.

Both County and the employees made the required contributions. The County required contributions for the years ended December 31 were as follows:

	LEOFF Plan 1	LEOFF Plan 2
2012	$ 141	$ 397,035
2011	$ 166	$ 371,198
2010	$ 294	$ 314,046

Public Safety Employees' Retirement System (PSERS) Plan 2

Plan Description

PSERS was created by the 2004 Legislature and became effective July 1, 2006. PSERS retirement benefit provisions have been established by Chapter 41.37 RCW and may be amended only by the State Legislature.

PSERS is a cost-sharing multiple-employer retirement system comprised of a single defined benefit plan, PSERS Plan 2.

PSERS membership includes:

- Full-time employees hired by a covered employer before July 1, 2006, who met at least one of the PSERS eligibility criteria and elected membership during the period of July 1, 2006 to September 30, 2006; and
- Full-time employees, hired on or after July 1, 2006 by a covered employer, that meet at least one of the PSERS eligibility criteria.

A *covered employer* is one that participates in PSERS. Covered employers include the following:

- State of Washington agencies: Department of Corrections, Department of Natural Resources, Gambling Commission, Liquor Control Board, Parks and Recreation Commission, and Washington State Patrol;
- Washington State counties;
- Washington State cities except for Seattle, Tacoma and Spokane; and
- Correctional entities formed by PSERS employers under the Interlocal Cooperation Act.

To be eligible for PSERS, an employee must work on a full-time basis and:

- Have completed a certified criminal justice training course with authority to arrest, conduct criminal investigations, enforce the criminal laws of Washington and carry a firearm as part of the job; or
- Have primary responsibility to ensure the custody and security of incarcerated or probationary individuals; or
- Function as a limited authority Washington peace officer, as defined in RCW 10.93.020; or
- Have primary responsibility to supervise eligible members who meet the above criteria.

PSERS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the plan accrue interest at a rate specified by the Director of DRS. During DRS' fiscal year 2012, the rate was five and one-half percent compounded quarterly. Members in PSERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from PSERS-covered employment.

PSERS Plan 2 members are vested after completing five years of eligible service.

PSERS members may retire with a monthly benefit of 2 percent of the average final compensation (AFC) at the age of 65 with five years of service, or at the age of 60 with at least 10 years of PSERS service credit, or at age 53 with 20 years of service. The AFC is the monthly average of the member's 60 consecutive highest-paid service credit months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS members who retire prior to the age of 60 receive reduced benefits. If retirement is at age 53 or older with at least 20 years of service, a 3 percent per year reduction for each year between the age at retirement and age 60 applies.

PSERS Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The monthly benefit is 2 percent of the AFC for each year of service. The AFC is based on the member's 60 consecutive highest creditable months of service. Benefits are actuarially reduced for each year that the member's age is less than 60 (with ten or more service credit years in PSERS), or less than 65 (with fewer than ten service credit years). There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PSERS Plan 2 members can receive service credit for military service that interrupts employment. Additionally, PSERS members who become totally incapacitated for continued employment while serving in the uniformed services, or a surviving spouse or eligible child(ren), may request interruptive military service credit.

PSERS members may also purchase up to 24 consecutive months of service credit for each period of temporary duty disability.

Beneficiaries of a PSERS Plan 2 member with ten years of service who is killed in the course of employment receive retirement benefits without actuarial reduction. This provision applies to any member killed in the course of employment, if found eligible by the Director of the Department of Labor and Industries.

A one-time duty-related death benefit is provided to the estate (or duly designated nominee) of a PSERS member who dies as a result of injuries or illness sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

There are 76 participating employers in PSERS. Membership in PSERS consisted of the following as of the latest actuarial valuation date for the plan of June 30, 2011:

Retirees and Beneficiaries Receiving Benefits	15
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	1
Active Plan Members Vested	167
Active Plan Members Nonvested	4,020
Total	**4,203**

Funding Policy
Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates. The employer and employee contribution rates for Plan 2 are developed by the Office of the State Actuary to fully fund Plan 2. The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.37 and 41.45 RCW.

The required contribution rates expressed as a percentage of current-year covered payroll, as of December 31, 2012, are as follows:

	PSERS Plan 2
Employer*	8.87%
Employee	6.36%

*The employer rate includes an employer administrative expense fee of 0.16%.

Both County and the employees made the required contributions. The County required contributions for the years ended December 31 were as follows:

	PSERS Plan 2
2012	$ 652,604
2011	$ 558,103
2010	$ 421,031

NOTE XI – RISK MANAGEMENT

A. Risk Pool and General Liability Insurance

Thurston County is one of twenty-seven members that participated in the Washington Counties Risk Pool (Pool) during 2012. Chapter 48.62 RCW and 200-100 WAC 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 services. It is overseen by the State Risk Manager and subject to fiscal audits performed annually by the State Auditor.

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 several 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. The enabling Interlocal Agreement was amended once in 2000 to add the Membership Compact, a commitment to strengthen the Pool by helping its member counties implement and/or enhance local risk management efforts to reduce losses and support best management practices. The Membership Compact supports these goals through three major elements: membership involvement, risk control practices, and targeted risk management programs.

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, and property insurance program are on an "occurrence" basis. The Pool provides the following forms of group purchased insurance coverage for its members: "following form" excess liability, and jointly-purchased property insurance as a member option that includes structures, vehicles, mobile equipment, and EDP equipment. For property insurance, members are solely responsible for paying per occurrence deductibles between $5,000 and $50,000 for all other perils coverage. Special events/concessionaires are another optional group purchase insurance coverage.

Members make an annual contribution to fund the pool. The Pool acquires liability reinsurance and "following form" excess insurance from unrelated underwriters that is subject to a per-occurrence self-insured retention of $100,000, or the member-selected deductible, whichever is greater. Members are responsible for their elected deductible amounts ranging from $10,000 to $500,000 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 the maximum limits of each policy.

Except for the Pool's self insured retention (the greater of the member's deductible or $100,000), the initial $10 million of coverage has been fully reinsured since October 1994 by superior-rated commercial carriers. The remaining insurance (up to $15 million) is acquired as "following form" excess insurance from superior-rated commercial carriers. There are no aggregate limits to the payments made for any one member county or all member counties combined.

The pool is governed by a board of directors that is comprised of at least 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. 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 as a cooperative program with joint liability among the participating members. Claims are filed by members with the pool. Any deficits or program assets which are insufficient to cover program liabilities are financed by proportional reassessments against that year's membership. The Pool's reassessment receivable at December 31, 2012 remains at zero, as no contingent liabilities were known to exist at that time.

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. Furthermore, the County's settlements have not exceeded the County's insurance coverage in each of the past three years. In the opinion of management, the County's insurance policies, including it's participation in the Washington Counties Risk Pool, in conjunction with our funded retention are adequate to pay all known or pending claims as they come due.

The County paid general claims costs of $512,529 during 2012. The County's suggested claim reserves, at a 98% confidence level, and therefore the County's potential liability, for claims and costs, not covered by the risk pool, were estimated on December 31, 2012 as $4,000,000. This 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 from our claims experience. This loss estimate does not include liabilities for non-covered claims, e.g. aviation activities, some employment relations including past wages or benefits, some pollutants, property losses / takings, certain municipal activities, punitive damages, willful civil violations and other loss exposures not currently insured. As estimates, these values fluctuate significantly and are subject to inherent variability and may or may not become payable over the course of several years.

Schedule of Claims and Judgments Payable

	2012	2011
Beginning claims liability	$ 4,163,934	$ 4,025,796
Claims incurred during the year (including IBNRs)*	348,595	449,963
Claims payments	(512,529)	(311,825)
Ending claims liability	$ 4,000,000	$ 4,163,934

*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 VII.F., the County also has a contingent financial liability for the payment of refunded debt.

NOTE XII – OTHER POST-EMPLOYMENT BENEFITS

The County provides other post-employment benefits (OPEB) in addition to pension benefits described in Note X.

A. LEOFF

Lifetime full medical coverage is provided to uniformed law enforcement officers as members of the Law Enforcement Officers and Fire Fighters (LEOFF 1) retirement system. A liability for the accumulated unfunded actuarially required contribution is reported in the Statement of Net Position. The actual medical costs are reported as expenditures in the year they are incurred.

1. Plan Description

The County provides lifetime medical care In accordance with the Washington LEOFF 1 Act (RCW 41.26) for retired full time, fully compensated, law enforcement officers who established membership in the LEOFF 1 retirement system on or before September 30, 1977. All or most of the County's LEOFF 1 officers are eligible for benefits when they reach normal retirement age through a defined benefit healthcare plan administered by the County.

Thurston County reimburses retired LEOFF 1 officers for reasonable medical charges usually provided by one of the County's employee medical insurance programs. Under the authorization of the LEOFF Disability Board, direct payment is made for other retiree medical expenses not covered by standard medical plan benefit provisions. Financial reporting for the LEOFF retiree healthcare plan is included in the County's Comprehensive Annual Financial Report.

In 2012, 17 retirees received benefits under this act. As of December 31, 2012, there was 1 active officer who may become eligible for those benefits when they reach normal retirement age.

2. Funding Policy

Funding for LEOFF retiree healthcare costs is provided entirely by the County as required by RCW. The County's funding policy is based upon pay-as-you-go financing requirements.

3. Annual OPEB Cost and Net OPEB Obligation

The County's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County's annual OPEB cost for the fiscal year ending December 31, 2012, the amount actually contributed to the plan, and changes in the County's net OPEB obligation. The net OPEB obligation of $1,886,765 is reported as a non-current liability on the Statement of Net Position.

	Year Ending 12/31/2010	Year Ending 12/31/2011	Year Ending 12/31/2012
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 23,239	$ 14,957	$ 13,897
Amortization of UAAL*	529,791	514,336	514,881
Annual Required Contribution	$ 553,030	$ 529,293	$ 528,778
Determination of Net OPEB Obligation:			
Annual Required Contribution	$ 553,030	$ 529,292	$ 528,778
Interest on Prior Year Net OPEB Obligation	50,253	63,712	74,292
Adjustment to ARC	(103,983)	(131,833)	(153,724)
Annual OPEB Cost	499,300	461,172	449,345
Contributions Made	(200,206)	(226,472)	(213,506)
Increase in Net OPEB Obligation	$ 299,094	$ 234,700	$ 235,839
Net OPEB Obligation - End Of Year:			
Net OPEB Obligation - Beginning of Year	$ 1,116,734	$ 1,415,828	$ 1,650,526
Increase in Net OPEB Obligation	299,094	234,698	235,839
Net OPEB Obligation-end of year (NOO)	$ 1,415,828	$ 1,650,526	$ 1,886,365

The County's OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	$ 499,300	$ 200,206	40.1%	$ 1,415,828	$ 235,757	2413.39%
12/31/2011	$ 461,172	$ 226,472	49.1%	$ 1,650,526	$ 159,474	3463.72%
12/31/2012	$ 449,345	$ 213,506	47.5%	$ 1,886,365	$ 104,010	5316.40%

4. Funded Status and Funding Progress

As of December 31, 2012 the plan was 0% funded. The Actuarial Accrued Liability (AAL) for benefits was $5,529,586 and the actuarial value of the assets was $0 resulting in a UAAL of $5,529,586.

The cost of retiree health care benefits is recognized in the General Fund as claims are paid. For 2012, these costs total $56,999 with a cost per retiree of $3,353. Thurston County uses the Long Term Care Special Revenue Fund to purchase additional long-term care insurance for LEOFF 1 retirees.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial liabilities for benefits.

5. Actuarial Methods and Assumptions

We used the alternative measurement method permitted under GASB Statement No. 45. A single retirement age of 56.24 was assumed for all active members for the purpose of determining the AAL and normal cost. Retirement, disablement, termination, and mortality rates were assumed to follow the LEOFF 1 rates used in the June 30, 2009 actuarial valuation report issued by the Office of the State Actuary (OSA). Healthcare costs and trends were determined by Milliman and used by OSA in the state-wide LEOFF 1 medical study performed in 2011. The results were based on grouped data with 4 active groupings and 4 inactive groupings. The actuarial cost method used to determine the AAL was Projected Unit Credit. The AAL and NOO are amortized on an open basis as a level dollar over 15 years. The discount rate used in the assumption was 4.50 percent and the inflation rate used was 3.50 percent. These assumptions are individually and collectively reasonable for the purposes of this valuation.

The UAAL is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at December 31, 2012 was 25 years.

B. <u>PEBB</u>

Thurston County provides to its retirees employer provided subsidies for post-employment medical and life insurance benefits provided through the Public Employee Benefits Board (PEBB). A liability for the accumulated unfunded actuarially required contribution is reported in the entity-wide and proprietary statements of net position. The actual medical costs are paid through annual fees and premiums to the PEBB.

1. Plan Description

The PEBB was created within the Washington State Health Care Authority to administer medical, dental, and life insurance plans for public employees and retirees and their dependents. The subsidies provided by PEBB to the County include the following:

• Explicit Medical Subsidy for Post-65 retirees
• Implicit Medical Subsidy for Pre-65 retirees

The explicit subsidies are monthly amounts per retiree. The implicit medical subsidy is the difference between the total cost of pre-65 medical benefits and the pre-65 contributions paid by retirees.

2. Eligibility

County members are eligible for PEBB after becoming eligible for retirement under the Public Employees' Retirement System (PERS) 1, 2, or 3 or under Public Safety Employees' Retirement System (PSERS) 2. The eligibility for each plan is as follows:

- PERS 1
  - Age 60 with five years of service
  - Age 55 with twenty-five years of service
  - Any age with thirty years of service

- PERS 2
  - Age 55 with twenty years of service
  - Age 65 with five years of service

- PERS 3
  - Age 55 with ten years of service
  - Age 65 with five years of service
  - In addition, PERS 3 members who terminate and are at least age 55 with twenty or more years of service gain pre-retirement access to PEBB

- PSERS 2
  - Age 65 with five years of service
  - Age 60 with at least ten years of PSERS service
  - Age 50 with twenty years of service

Former members who are entitled to a deferred vested pension benefit are not eligible to receive medical benefits after pension benefit commencement.

3. Medical Benefits

Upon retirement, members are permitted to receive medical benefits. The table below displays non-Medicare (pre-65) monthly premiums available for the 2012 calendar year:

Plan	Employee Only	Employee & Spouse	Employee & Children	Full Family
Aetna Public Employees Plan	$ 531.44	$ 1,056.44	$ 925.19	$ 1,450.19
Group Health Classic	$ 470.73	$ 935.02	$ 818.95	$ 1,283.24
Group Health Value	$ 421.44	$ 836.44	$ 732.69	$ 1,147.69
Kaiser Permanente Classic	$ 471.51	$ 936.58	$ 820.31	$ 1,285.38
Kaiser Permanente Value	$ 441.08	$ 875.72	$ 767.06	$ 1,201.70
Uniform Medical Plan	$ 440.20	$ 873.96	$ 765.52	$ 1,199.28

Explicit Medicare subsidies are capped at $150 per month for 2012.

4. Funding Policy

The funding policy is based upon pay-as-you-go financing requirements.

5. Annual OPEB Cost and Net OPEB Obligation

The County's annual other post employment benefit (OPEB) cost is calculated based upon the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities over a period of 25 years as of December 31, 2012. The following table shows the components of the County's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the County's net obligation.

	Year Ending 12/31/2010	Year Ending 12/31/2011	Year Ending 12/31/2012
Determination of Annual Required Contribution:			
Normal Cost at Year End	$ 1,833,764	$ 1,665,505	$ 1,665,505
Amortization of UAAL*	1,188,521	1,048,032	1,048,032
Annual Required Contribution	$ 3,022,285	$ 2,713,537	$ 2,713,537
Determination of Net OPEB Obligation:			
Annual Required Contribution	$ 3,022,285	$ 2,713,537	$ 2,713,537
Interest on Prior Year Net OPEB Obligation	310,836	434,064	544,971
Adjustment to ARC	(272,098)	(379,250)	(512,810)
Annual OPEB Cost	3,061,023	2,768,351	2,745,698
Contributions Made	(322,635)	(303,757)	(303,757)
Increase in Net OPEB Obligation	$ 2,738,388	$ 2,464,594	$ 2,441,941
Net OPEB Obligation - End Of Year:			
Net OPEB Obligation - Beginning of Year	$ 6,907,474	$ 9,645,862	$ 12,110,456
Increase in Net OPEB Obligation	2,738,388	2,464,594	2,441,941
Net OPEB Obligation-end of year	$ 9,645,862	$ 12,110,456	$ 14,552,397

*Unfunded Actuarial Accrued Liability (UAAL)

The County's annual OPEB cost, the percentage of OPEB cost contributed to the plan, and the net OPEB obligation for 2012 were as follows:

Fiscal Year Ended	Annual OPEB Cost	Contribution	Percentage of OPEB Cost Contributed	Net OPEB Obligation	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	$ 3,061,023	$ 322,635	10.54%	$ 9,645,863	$ 76,838,632	40.62%
12/31/2011	$ 2,768,351	$ 303,757	10.97%	$ 12,110,456	$ 66,592,253	40.03%
12/31/2012	$ 2,745,698	$ 303,757	11.06%	$ 14,552,397	$ 68,962,110	38.65%

6. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was 0% funded. The accrued liability for benefits was $26.7 million, and the actuarial value of assets was $0, resulting in a UAAL of $26.7 million.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

7. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

All demographic assumptions, healthcare assumptions, and methods used match those disclosed in the 2011 OPEB Report published by the Washington State Office of the State Actuary. Specifically, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions include a 4.50 percent discount rate, which is based upon the long-term investment yield on the investments that are expected to be used to finance the payment of benefits. The healthcare cost inflation trends start at approximately 7 percent in 2011 and gradually decrease to 5 percent in 2083 and beyond. The inflation rate used in the assumption was 3.50 percent. The data used for this valuation was identified by department number from the data disclosed in the 2011 OPEB Report. Please see http://osa.leg.wa.gov/index/index.htm for more detail.

The UAAL is amortized as a level percentage of expected payroll over a 30 year period beginning December 31, 2007. It is being amortized on a closed basis at the assumed discount rate. The remaining amortization period at December 31, 2012 was 25 years.

NOTE XIII – JOINT VENTURES/JOINTLY GOVERNED ORGANIZATIONS

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

Animal Control Services is a joint venture governed by a six-member board of which Thurston County is a member. Each member's contribution is based on a formula factoring population and basic service components. Thurston County's cost is based on their computed share of services in compliance with the interlocal agreement with Animal Control Services. The County contributed $523,576 as its share of operations in 2012 which is 53.69% of the total contributions from participating agencies. The County's equity interest at December 31, 2012 is therefore $2,003,996. The financial health of this joint venture remains strong mainly due to a steady stream of revenue received from the Cities of Olympia, Lacey, and Tumwater, and Thurston County. Net Position for Animal Control at the end of 2012 totaled $3,732,532. 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.

Animal Control		
Total Assets	$	3,960,808
Liabilities		(228,276)
Net Position	$	3,732,532
Total Revenues	$	1,623,812
Total Expenses		1,600,267
Net Income	$	23,545
Beginning Net Position 1/1/12	$	3,708,987
Net Income (Loss)		23,545
Ending Net Position - 12/31/12	$	3,732,532

The Inter-local 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 Inter-local Drug Control Unit in 2012. The Inter-local Drug Control Unit is funded by grants and seizures of drug funds. Financial information on the Inter-local 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 $63,045 as its share of operations in 2012. The assessment was based on population and violation fees collected. Thurston County did not have an equity interest in ORCAA in 2011. Complete financial statements for ORCAA can be obtained from its administrative office at 2940 B Limited Lane NW, Olympia, Washington 98502.

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 $197,395 as its share of operations in 2012 for intergovernmental professional services. The assessment was based on population and contractual commitments. Thurston County did not have an equity interest in TRPC in 2011. Complete financial statements for TRPC can be obtained from its administrative office at 2424 Heritage Court SE Suite A, Olympia, Washington 98502.

The Chehalis River Flood Control Authority is a jointly-governed organization governed by an eleven-member body of which Thurston County is a member. This Authority was formed for the purpose of study, analysis, and implementation of flood control projects to protect the Chehalis River Basin. Thurston County has neither contributed to operations, nor has an equity interest in this Authority. More information regarding this Authority can be obtained from the Lewis County Community Development Department, at 2025 NE Kresky Ave., Chehalis, Washington 98532.

NOTE XIV – 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 $17,871,749 on December 31, 2012.

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, 2012, cash and pooled investments of $17,443,774 are held for these purposes. An additional $118,777 is contractually restricted for equipment replacement resulting in $17,562,551 in 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 XV – FUND BALANCES, GOVERNMENTAL FUNDS

The following table discloses the specific purposes of restricted, committed, assigned and unrestricted fund balances for all governmental funds as of December 31, 2012.

Specific Purpose Fund Balance Classifications
Governmental Funds
December 31, 2012
1 of 2

		Major Special Revenue		
ASSETS	**General Fund**	**Roads**	**Medic One**	**Public Health & Social Services**
FUND BALANCES				
Nonspendable:				
Fines & Forfeitures	2,337,769	-	-	-
Inventory	-	449,009	-	-
Prepayments	9,209	-	-	-
Total Non-Spendable	2,346,978	449,009	-	-
Restricted for:				
General Government	4,092	-	-	-
Culture and Recreation	-	-	-	-
Economic Environment	-	-	-	-
Health & Human Services	-	-	11,297,576	282,417
Public Safety	1,683	-	-	-
Transportation	-	7,842,984	-	-
Utilities & Environment	-	-	-	-
Total Restricted	5,775	7,842,984	11,297,576	282,417
Committed for:				
General Government	-	-	-	-
Total Committed	-	-	-	-
Assigned to:				
General Government	-	-	-	-
Culture and Recreation	-	-	-	-
Economic Environment	-	-	-	-
Health & Human Services	-	-	7,563,621	16,677,003
Public Safety	-	-	-	-
Transportation	-	6,807,367	-	-
Utilities & Environment	-	-	-	-
Total Assigned	-	6,807,367	7,563,621	16,677,003
Unassigned	14,197,193	-	-	-
Total Fund Balance	**$ 16,549,946**	**$ 15,099,360**	**$ 18,861,197**	**$ 16,959,420**

Specific Purpose Fund Balance Classifications
Governmental Funds
December 31, 2012
2 of 2

	Major Capital Projects			
ASSETS	**Debt Holding**	**Detention Facility Sales Tax Holding**	**Real Estate Excise Tax**	**Other Funds**
FUND BALANCES				
Nonspendable:				
Fines & Forfeitures	-	-	-	-
Inventory	-	-	-	-
Prepayments	-	-	-	-
Total Non-Spendable	-	-	-	-
Restricted for:				
General Government	-	-	9,136,696	700,989
Culture and Recreation	-	-	-	19,464
Economic Environment	-	-	-	2,430,127
Health & Human Services	-	-	-	2,955,638
Public Safety	2,905,457	9,132,991	-	1,140,250
Transportation	-	-	-	30,968
Utilities & Environment	-	-	-	5,549,246
Total Restricted	2,905,457	9,132,991	9,136,696	12,826,682
Committed for:				
General Government	-	-	-	336,395
Total Committed	-	-	-	336,395
Assigned to:				
General Government	-	-	115,217	349,754
Culture and Recreation	-	-	-	2,598
Economic Environment	-	-	-	223,576
Health & Human Services	-	-	-	-
Public Safety	-	-	-	2,489,493
Transportation	-	-	-	820
Utilities & Environment	-	-	-	583,927
Total Assigned	-	-	115,217	3,650,168
Unassigned	-	-	-	(782,218)
Total Fund Balance	**$ 2,905,457**	**$ 9,132,991**	**$ 9,251,913**	**$ 16,031,027**

NOTE XVI – NET INVESTMENT IN CAPITAL ASSETS

Net Investment in Capital Assets includes all capitalized assets, less outstanding obligations for current and long term bonds, and notes payable related to capital investments. These amounts are adjusted for unexpended bond proceeds, other borrowings, negative equities, debt incurred to finance capital acquisitions by outside parties, and non-capital financings as noted below.

Reconciliation of Net Investment in Capital Assets

	Governmental Activities	Business-Type Activities
Capital Assets, Net of Depreciation	$ 474,840,699	$ 41,952,579
Less: Total Reported Outstanding Debt	(90,553,414)	(8,603,466)
Plus: Outside Agency Outstanding Debt	1,720,495	
Plus: Debt Holding Fund Balance (Unspent Debt Proceeds)	2,905,457	-
Non-Capital Debt (Septic Loan Financing)	-	670,130
Net Investment in Capital Assets	**$ 388,913,237**	**$ 34,019,243**

NOTE XVII – OTHER DISCLOSURES

A. Prior Period Adjustments

The county reported prior period adjustments of $(160,112) and $2,932,359 in Governmental Activities and Business-type Activities respectively. A detail discussion of each of these prior period adjustments is as follows:

Governmental Activities

- $455,017 in restricted fund balance was reclassified to a Due to Other Governments liability for funds that are potentially due upon demand by the State of Washington resulting in a negative prior period adjustment to the Public Health & Social Services Fund.
- A $294,905 prior period adjustment was recorded that increased capital asset balances because during the year it was discovered that several capital related expenditures occurring 2010 and 2011 for the Tilley road project were never capitalized.

Business-type Activities

- $2,885,477 in net book or market value of storm water assets contributed in prior years was recognized and added to the Storm Water Fund as a prior period adjustment.
- The Community Loan Program non-major Enterprise fund made a $46,882 prior period adjustment increase. This fund receives public works trust fund loans from the State of Washington for the purpose of repairing septic systems for low income members of the community. Loan amounts that are made to the recipients of the services are based on costs incurred by the county to repair the systems. Each year the county reclassifies these expenses as receivables in its general ledger system. This prior period adjustment was recorded for the 2011 reclassification.

B. Fund Changes

The WRIA Water & Waste Fund's name was changed to Basin Planning & Enhancement Projects in the 2012 financial statements.

The REET Technology Fund, which was rolled into and reported within the General Fund in the 2011 financial statements, was reclassified to a capital projects fund in the 2012 financial statements.

The following funds were abolished and are no longer included or reported in the 2012 financial statements:

- Workforce Development
- Communications
- RSN – IRMA – Thurston

The following funds were established in 2012 and added to the 2012 financial statements:

- Communications – 911 Excise Tax
- Paths & Trails

C. Contingencies

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 other claims cannot be reasonably estimated.

D. Accounting and Reporting Changes

During the year, the County implemented two GASB statements as follows:

- GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement.* This new standard is preferable because it will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. There was no change to any beginning Net Position/Fund Balance as a result of this statement.
- GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This new standard is preferable because it will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. There was no change to any beginning Net Position/Fund Balance as a result of this statement.

REQUIRED SUPPLEMENTARY INFORMATION
RETIREE MEDICAL BENEFITS
SCHEDULE OF FUNDING PROGRESS

LEOFF 1 Retiree Medical Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	$ -	$ 5,689,718	$ 5,689,718	0%	$ 235,757	2413.38%
12/31/2011	$ -	$ 5,523,732	$ 5,523,732	0%	$ 159,474	3463.72%
12/31/2012	$ -	$ 5,529,586	$ 5,529,586	0%	$ 104,010	5316.40%

PEBB Retiree Medical Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2010	$ -	$ 31,215,533	$ 31,215,533	0%	$ 76,838,632	40.62%
12/31/2011	$ -	$ 26,655,663	$ 26,655,663	0%	$ 66,592,253	40.03%
12/31/2012	$ -	$ 26,655,663	$ 26,655,663	0%	$ 68,962,110	38.65%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
Department of Agriculture/Pass-Through from WA Office of Superintendent of Public Instruction	School Breakfast Program	10.553	N/A	$ 19,965		$ 19,965	3, 4
Department of Agriculture/Pass-Through from WA Office of Superintendent of Public Instruction	National School Lunch Program	10.555	N/A	$ 3,358			3, 4
			N/A	$ 30,322			
			Subtotal	$ 33,680		$ 33,680	
Department of Agriculture/Pass-Through from Wa State Treasurer	Schools and Roads - Grants to States	10.665	N/A	$ 623		$ 623	4
Department of Agriculture/Pass-Through from Wa State Treasurer	Military Forest Yield	12.999	N/A	$ 57,763		$ 57,763	4,6
Department of Housing and Urban Development/Pass-Through from WA Department of Commerce	Community Development Block Grants/State's program and Non-Entitlement Grants in Hawaii	14.228	11-64100-029	$ 11,355			
			09-64009-033	$ 907,458			8
			10-64009-032	$ 400,667			8
			10-641000-009	$ 126,713			8
			Subtotal	$ 1,446,193		$ 1,446,193	
Department of Housing and Urban Development/Pass-Through from WA Department of Commerce	Emergency Solutions Grant Program	14.231	13-46107-028	$ 32,966		$ 32,966	8
Department of Housing and Urban Development	Home Investment Partnerships Program	14.239	M08-DC-53-0207		$ 56,624		8
			M09-DC-53-0207		$ 151,081		8
			M10-DC-53-0207		$ 145,446		8
			M11-DC-53-0207		$ 341,713		8, 9
			Subtotal		$ 694,864	$ 694,864	
Department of the Interior	Fish and Wildlife Management Assistance	15.608	F11AC00026		$ 6,023	$ 6,023	
Department of the Interior/ Pass Through Wa Dept of Fish and Wildlife	Cooperative Endangered Species Conservation Fund	15.615	FAA #WA E-53-HP-1 WDFW #12-1139	$ 47,872		$ 47,872	
Department of the Interior	Endangered Species Conservation-Recovery Implementation Funds	15.657	F12AC00219		$ 18,205	$ 18,205	5
Office of National Drug Control Policy/Pass-Through from Educational Service District 105	High Intensity Drug Trafficking Area	16.000	9009000063 & 9000000058	$ 28,890			6
Office of the National Drug Control Policy/Pass-Through from WA State Patrol	Marijuana Eradication 2011		C120832FED	$ 9,713			
			Subtotal	$ 38,603		$ 38,603	
Department of Justice	Violence Against Women Act Court Training and Improvement Grants	16.013	2011-WC-AX-K022		$ 31,082	$ 31,082	
Department of Justice/Pass-Through from WA DSHS	Juvenile Accountability Block Grants	16.523	N/A	$ 11,333		$ 11,333	4
Department of Justice/Pass-Through from WA Administrative Office of the Courts	National Crime History Improvement Program (NCHIP)	16.554	ICA12271	$ 14,241		$ 14,241	
Department of Justice/ Pass-Through WA Department of Commerce	Crime Victim Assistance	16.575	S13-31119-037	$ 106,105			
			S12-31119-037	$ 107,331			
			Subtotal	$ 213,436		$ 213,436	
Department of Justice	Drug Court Discretionary Grant Program	16.585	2010-DC-BX-0019		$ 125,744	$ 125,744	
Department of Justice/Pass-Through from WA Administrative Office of the Courts	Violence Against Women Formula Grants	16.588	ICA12274	$ 5,000			
			ICA12275	$ 3,044			

The accompanying notes to the Schedule of Expenditure of Federal Awards are an integral part of this Schedule.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	From Direct Awards	Total	Foot-note Ref.
Department of Justice/Pass-Through from WA Department of Commerce			F11-31103-032	$ 16,522			
			F11-31103-033	$ 17,511			
			Subtotal	$ 42,077		$ 42,077	
Department of Justice	Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	2010-WE-AX-0011		$ 140,990	$ 140,990	
Department of Justice/Pass-Through from WA DSHS	Residential Substance Abuse Treatment for State Prisoners	16.593	1263-38489 Amendment 01	$ 85,565		$ 85,565	
Department of Justice	State Criminal Alien Assistance Program	16.606	2012 SCAAP		$ 41,376	$ 41,376	
Department of Justice/Pass-Through from WA Association of Sheriffs and Police Chiefs	Public Safety Partnership and Community Policing Grants	16.710	WAMI 10104	$ 9,982		$ 9,982	
Department of Justice	Edward Byrne Memorial Justice Assistance Grant Program	16.738	2009-DJ-BX-0153		$ 1,778		
			2011-DJ-BX-2561		$ 3,113		
Department of Justice/Pass-Through from WA Department of Commerce			M11-34021-010	$ 103,600			
			Subtotal	$ 103,600	$ 4,891	$ 108,491	
Department of Justice	ARRA-Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to States and Territories	16.803	ARRA-2009-SB-B9-1395		$ 22,429	$ 22,429	7
Department of Transportation/Pass-Through from WA DOT	Highway Planning and Construction	20.205	ER-1201(007)	$ 166,855			
			STPUS-5271(001)	$ 9,434			
			STPR-F341(004)	$ 1,140,000			
			STPR-H345(003)	$ 39,002			
			HPP-2034(065)	$ 144,421			
			HSIP-000S(235)	$ 10,318			
			HRRR-000S(239)	$ 6,621			
			HSIP-000S(265)	$ 104,485			
			Subtotal	$ 1,621,136		$ 1,621,136	
Department of Transportation/Pass-Through from WA Traffic Safety Commission	State and Community Highway Safety	20.600	C912-05	$ 4,052			
			N/A	$ 10,519			4
			N/A	$ 900			4
			N/A	$ 1,951			4
			N/A	$ 941			4
			N/A	$ 2,979			4
			N/A	$ 2,342			4
			N/A	$ 5,636			4
			Subtotal	$ 29,320		$ 29,320	
Department of Transportation/Pass-Through from WA Traffic Safety Commission	Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	N/A	$ 535			4
			N/A	$ 1,861			4
			Subtotal	$ 2,396		$ 2,396	
Department of Transportation/Pass-Through from WA Traffic Safety Commission	Occupant Protection Incentive Grants	20.602	N/A	$ 1,633		$ 1,633	4
Environmental Protection Agency	Puget Sound Watershed Management Assistance	66.120	PO-J12401-1		$ 93,463	$ 93,463	5
Environmental Protection Agency/ Pass-Through from Puget Sound Partnership	Puget Sound Action Agenda Outreach, Education and Stewardship Support Program	66.122	2013-08	$ 6,496		$ 6,496	5

The accompanying notes to the Schedule of Expenditure of Federal Awards are an integral part of this Schedule.

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
Environmental Protection Agency/Pass-Through from Puget Sound Partnership	Puget Sound Action Agenda: Technical Investigations and Implementation Assistance Program	66.123	2012-29	$ 79,814			
Environmental Protection Agency/Pass-Through from WA Department of Health			C16904	$ 74,852			
			Subtotal	$ 154,666		$ 154,666	
Environmental Protection Agency	Targeted Watersheds Grants	66.439	WS-96073601		$ 37,845	$ 37,845	5
Environmental Protection Agency/ Pass-Through from WA Department of Ecology	Capitalization Grants for Clean Water State Revolving Funds	66.458	L1100004	$ 1,022,595		$ 1,022,595	
Environmental Protection Agency/ Pass-Through from WA Department of Health	Capitalization Grants for Drinking Water State Revolving Funds	66.468	C16904	$ 17,750		$ 17,750	
Environmental Protection Agency	Protection of Children from Environmental Health Risks	66.609	CH 83511901		$ 29,226	$ 29,226	
Department of Education/Pass-Through from WA Office of Superintendent of Public Instruction	Twenty-First Century Community Learning Centers	84.287	993559	$ 33,310		$ 33,310	
Department of Health and Human Services/Pass-Through from WA Department of Health	Public Health Emergency Preparedness	93.069	C16904	$ 82,622		$ 82,622	
Department of Health and Human Services/Pass-Through from WA DSHS	Projects for Assistance in Transition from Homelessness (PATH)	93.150	1269-592786/1169-34916	$ 72,951		$ 72,951	8
Department of Health and Human Services	Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	5H79T1023097-02		$ 366,565	$ 366,565	
Department of Health and Human Services/Pass-Through from WA Department of Health	Immunization Cooperative Agreements	93.268	C16904	$ 59,628		$ 59,628	
Department of Health and Human Services	National Community Centers of Excellence in Women's Health	93.290	CCEWH111027-01-00		$ 324,285	$ 324,285	8
Department of Health and Human Services/Pass-Through from Grays Harbor County Department of Health	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants financed in part by 2012 Prevention and Public Health	93.531	N/A	$ 106,150		$ 106,150	4, 8

The accompanying notes to the Schedule of Expenditure of Federal Awards are an integral part of this Schedule.

THURSTON COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
Department of Health and Human Services/Pass-Through from WA Department of Health	PPHF 2012: Prevention and Public Health Fund (Affordable Care Act)-Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by 2012 Prevention and Public Health Funds	93.539	C16904	$ 4,844		$ 4,844	
Department of Health and Human Services/Pass-Through from WA DSHS	Child Support Enforcement	93.563	2110-80383 75-1501-0-1-609 Subtotal	$ 866,704 $ 74,954 $ 941,658		$ 941,658	
Department of Health and Human Services/Pass-Through from WA Office of the Secretary of State	Voting Access for Individuals with Disabilities-Grants to States	93.617	G-4279 EAID	$ 6,563		$ 6,563	
Department of Health and Human Services/Pass-Through from WA Health Care Authority	Medical Assistance Program	93.778	0563-75757	$ 349,953		$ 349,953	10
Department of Health and Human Services/Pass-Through from WA Department of Health	National Bioterrorism Hospital Preparedness Program	93.889	C16904	$ 22,673		$ 22,673	
Department of Health and Human Services/Pass-Through from WA DSHS	Block Grants for Community Mental Health Services	93.958	1169-35520	$ 204,985		$ 204,985	8
Department of Health and Human Services/Pass-Through from WA DSHS	Block Grants for Prevention and Treatment of Substance Abuse	93.959	1163-27329	$ 597,789		$ 597,789	8
Department of Health and Human Services/Pass-Through from WA Department of Health	Maternal and Child Health Services Block Grant to the States	93.994	C16904	$ 169,535		$ 169,535	
Executive Office of the President/Pass-Through from WA State Patrol	High Intensity Drug Trafficking Areas Program	95.001	G11NW0002A	$ 10,000		$ 10,000	
Department of Homeland Security/Pass-Through from WA Parks & Recreation Commission	Boating Safety Financial Assistance	97.012	N/A Boating Safety Program Subtotal	$ 20,273 $ 20,743 $ 41,016		$ 41,016	4
Department of Homeland Security/Pass-Through from WA Military Department	Disaster Grants-Public Assistance (Presidentially Declared Disasters)	97.036	4056-DR-WA Jan 2012 Storm 1817-DR-WA Jan 2009 Storm Subtotal	$ 525,492 $ 10,996 $ 536,488		$ 536,488	
Department of Homeland Security/Pass-Through from WA Military Department	Hazard Mitigation Grant	97.039	E11-080 (Thurston 019ES-10-047 HazMit)	$ 33,989		$ 33,989	
Department of Homeland Security/Pass-Through from WA Military Department	Emergency Management Performance Grants	97.042	E13-138 (Thurston 29A-2013-006 FFY-2012 EMPG) E12-114 (Thurston 29A-2011-059 FFY-2011 EMPG) Subtotal	$ 62,139 $ 38,699 $ 100,838		$ 100,838	
Department of Homeland Security	Cooperating Technical Partners	97.045	EMS-2012-CA-0013A (Thurston 29A-2012-023A)		$ 30,199	$ 30,199	

The accompanying notes to the Schedule of Expenditure of Federal Awards are an integral part of this Schedule.

THURSTON COUNTY, WASHINGTON
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended December 31, 2012

Federal Agency Name/ Pass-Through Agency Name	Federal Program Name	CFDA Number	Other I.D. Number	Expenditures: From Pass-Through Awards	Expenditures: From Direct Awards	Expenditures: Total	Foot-note Ref.
Department of Homeland Security/Pass-Through from WA Military Department	Homeland Security Grant Program	97.067	E11-247 (Thurston 92A-2011-022/FFY-2010 SHSP)	$ 506,066			8
			E10-248 (Thurston 019ES-10-013/FFY-2009 SHSP)	$ 101,468			8
			E12-230 (Thurston 29A-2012-007/FFY-2011 SHSP)	$ 37,140			8
			E13-019 (Thurston 29A-2012-025/FFY-2009 SHSP Ext)	$ 26,141			8
Department of Homeland Security/Pass-Through from WA Commission for National and Community Service			K857 (Thurston 29A-2011-023 FFY-2010-CCP)	$ 12,574			
			Subtotal	$ 683,389		$ 683,389	
Department of Homeland Security/Pass-Through from City of Seattle Police Department, Office of Emergency Management	Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2010-29 (Thurston 019ES-10-015)	$ 24,109			
			2011-43 (Thurston 29A-11-061 FFY-2010 RCPGP)	$ 118,202			
			Subtotal	$ 142,311		$ 142,311	
Department of Homeland Security/Pass-Through from Marine Exchange of Puget Sound	ARRA-Port Security Grant Program	97.116	ARRA-EMW-2011-PU-K00268-S01	$ 60,437		$ 60,437	7
Total Federal Awards Expended				$ 9,275,020	$ 1,967,187	$ 11,242,207	

The accompanying notes to the Schedule of Expenditure of Federal Awards are an integral part of this Schedule.

THURSTON COUNTY
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended December 31, 2012

NOTE 1 – BASIS OF ACCOUNTING

The Schedule of Financial Assistance is prepared on the same basis of accounting as Thurston County's financial statements. Thurston County uses the accrual basis of accounting for all funds except the government types and agency funds, which use the modified accrual basis of accounting.

NOTE 2 – PROGRAM COSTS

The amounts shown as current year expenditures represent only the federal and state portion of the costs. Actual program costs, including Thurston County's portion, may be more than shown.

NOTE 3 – NONCASH AWARDS

The amount of food commodities reported on this schedule is the value of the commodities distributed by the County during the current year and priced as prescribed by the Office of the Superintendent of Public Instruction.

The amount of supplies reported on this schedule is the value of supplies distributed by the County during the current year and paid by the Washington State Department of Health.

NOTE 4 – NOT AVAILABLE (N/A)

The County was unable to obtain other identification numbers.

NOTE 5 – INDIRECT COST RATE

Expenditures include indirect cost recovery. The County used the indirect cost rate allowed per grant agreement.

NOTE 6 – CFDA NUMBER

Per contractual agreement with Northwest HIDTA Drug Court Development Initiative, ONDCP does not use CFDA numbers.

In addition, the Department of Defense does not use a CFDA number for Military Forest Yield payments.

NOTE 7 – AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) of 2009

Expenditures for this program were funded by ARRA

NOTE 8 – AMOUNTS AWARDED TO SUBRECIPIENTS

The total amount of current year expenditures include amounts passed through to a subrecipient.

NOTE 9 – PROGRAM INCOME

The total amount of $14,146.34 current year expenditures include amounts received as program income.

NOTE 10 – MEDICAL ASSISTANCE PROGRAM

Due to timing issues associated with a random sample method used by the granting agency to calculate allowable expenditures, the amount reported for the year is the actual known expenditures at the time of schedule preparation.

ABOUT THE STATE AUDITOR'S OFFICE

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

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

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

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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Chief of Staff	**Doug Cochran**
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Deputy Director of State and Local Audit	**Kelly Collins, CPA**
Deputy Director of State and Local Audit	**Jan M. Jutte, CPA, CGFM**
Deputy Director of State and Local Audit	**Sadie Armijo**
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Deputy Director of Communications	**Thomas Shapley**
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