



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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November 30, 2010

The Honorable Christine Gregoire, Governor
Honorable Members of the Legislature
Citizens of the State
State of Washington
Olympia, Washington 98504

In accordance with Revised Code of Washington 43.88.027, the Office of Financial Management has prepared this Comprehensive Annual Financial Report (CAFR) of the state of Washington for the fiscal year ending June 30, 2010. Full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control established for this purpose, rests with the state. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

The State Auditor has issued an unqualified (“clean”) opinion on the Washington State financial statements for the fiscal year ending June 30, 2010. The independent auditor’s report is located at the front of the financial section of this report.

Management’s Discussion and Analysis (MD&A) immediately follows the independent auditor’s report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

Following the MD&A are the basic financial statements, including the government-wide financial statements, the fund financial statements, and the notes to the financial statements. The required supplementary information, combining and individual fund financial statements, and the statistical section, complete the CAFR.

Profile of Washington State

Washington State was created in 1889 by an enabling act of Congress. The state is located on the Pacific Coast, in the northwestern corner of the continental United States, and comprises 71,303 square miles. Its current population is 6.7 million. Washington is famous for its breathtakingly beautiful scenery and sharp contrasts. On the west side of the state, high mountains rise above coastal waters. The forests of the Olympic Peninsula are among the world’s rainiest places. The state’s coastline has hundreds of bays and inlets that make excellent harbors, while in the eastern part, flat semi-desert land stretches for long distances without a single tree.

Washington's location makes it a gateway for land, sea, and air travel to Alaska and Pacific Rim countries. Ships from all parts of the world dock at Washington ports. Costco Wholesale Corporation, headquartered in Issaquah, operates an international chain of membership warehouses. Microsoft, a leader in the computer software industry, makes its home in Redmond. Major internet retailer Amazon.com is headquartered in Seattle, and the Weyerhaeuser Company, a major producer of wood and related products, is headquartered in Federal Way.

East of the Cascade Mountain range, farmers raise livestock and grow a variety of crops such as wheat, potatoes, and tree fruits. Washington leads the nation in apple, cherry, and hops production, makes world-class wine, and produces large amounts of lumber, pulp, paper, and other wood products. Western Washington's mild, moist climate makes that region excellent for dairy farming and the production of flower bulbs.

GOVERNMENTAL STRUCTURE

As established in the State Constitution, Washington State has Executive, Legislative, and Judicial branches of government. The Executive Branch has nine elected officials: the Governor, Lieutenant Governor, Secretary of State, State Treasurer, State Auditor, Attorney General, Superintendent of Public Instruction, Insurance Commissioner, and Commissioner of Public Lands. Forty-one agency heads are appointed by, and report to, the Governor. Eighty-nine agency heads report to a board appointed, in whole or in part, by the Governor. The Legislative Branch consists of the Senate (with forty-nine members) and the House of Representatives (with ninety-eight members). The Judicial Branch consists of the State Supreme Court, the highest court in the state, which has nine Justices. Every two years, three Justices are elected for six-year terms. A Chief Justice is chosen from among the most senior Justices. The Judicial Branch also includes the state's superior courts, justices of the peace, and such inferior courts as the Legislature may provide.

TYPES OF SERVICES PROVIDED AND REPORTING ENTITY

The state provides a wide range of services that include education, transportation, environmental and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, the State of Washington as legally defined, as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statement No. 14. Note 1.A to the financial statements explains more fully which organizations are included in the reporting entity.

THE BUDGET CYCLE

Washington enacts budgets for a two-year cycle, beginning on July 1 of each odd-numbered year. By law, the Governor must propose a biennial budget in December, the month before the Legislature convenes in regular session. The biennial budget enacted by the Legislature can be modified in any legislative session through changes to the original appropriations. Since the inception of annual legislative sessions in 1979, it has become common for the Legislature to enact annual revisions to the state's biennial budget. These revisions are referred to as supplemental budgets.

Operating appropriations are generally made at the fund/account and agency level; however, in a few cases, appropriations are made at the fund/account and agency/program level. Operating appropriations cover either the entire biennium or a single fiscal year within the biennium. Capital appropriations are biennial and are generally made at the fund/account, agency, and project level. The legal level of budgetary control is at the fund/account, agency and appropriation level, with administrative controls established at lower levels of detail in certain instances.

Washington State's Economy and Revenue Outlook

SUMMARY

Since the nation's recession began in December 2007, Washington State has lost almost 193,000 jobs, or about 6.5 percent of total nonfarm employment. While the state appeared to lag the nation into this slowdown, local losses accelerated in late 2008 and, for the most part, began to mirror national trends. By June 2009, the nation was officially out of recession and national economic indicators were signaling a recovery in economic output. However, employment was noticeably restrained as employers sought to increase output through productivity gains rather than by hiring additional workers. Employment patterns were inconsistent throughout 2010 as the use of temporary Census workers in the late spring and summer masked the lethargic employment trends in the remainder of the economy. Employment growth is expected to turn positive in the last quarter of 2010 and accelerate slowly through 2011. Because of Washington's export-dependent economy, and because of the relative strength of the Asian economies, Washington is expected to lead the nation out of the recession in terms of income growth, thanks to higher average wages in aerospace and software.

It is expected that Washington's recovery and expansion will build upon the diversity of the state's economy, elements that include a vital export base, the presence of knowledge-based industries, such as business, professional, health, and financial services, and an attractive quality of life. All of these elements should continue to support population growth.

Washington State's nonfarm employment fell by 3.9 percent in Fiscal Year 2010, compared to the 2.0 percent drop in Fiscal Year 2009, and the 2.2 percent gain in Fiscal Year 2008. The aerospace industry was able to maintain relatively steady payrolls despite weakness in the global airline industry and thanks, primarily, to a long backlog of orders. However, consolidation of military operations could weaken payrolls a bit in Fiscal Year 2011. Total manufacturing employment fell 7.3 percent in Fiscal Year 2010 as consumers pulled back on purchases of big-ticket items and sought to pare down their debt and rebuild their asset base.

Washington's unemployment rate increased markedly in Fiscal Year 2010, as the slowing national economy, weakening housing markets, and accelerating energy costs began to take their toll on labor markets. Even though the annual unemployment rate jumped to 9.3 percent, Washington's jobless rate fell below the national average in 35 of the previous 39 months.

Personal income grew just 0.2 percent in Fiscal Year 2010, as both wage and non-wage income were impacted by layoffs and retreating financial markets. Real personal income – after factoring out inflation – fell by 1.0 percent in Fiscal Year 2010 and was flat in Fiscal Year 2009. These rates were well below the 3.4 percent increase in 2008 and 5.7 percent increase in 2007.

Washington's outlook for Fiscal Year 2011 is for modest gains in economic growth as the recovery from the financial crisis and national and international recessions gain a degree of traction in the local economy. Nonfarm employment in Washington is forecasted to increase in Fiscal Year 2011 by 0.3 percent after two consecutive years of declining employment. Personal income in Fiscal Year 2011 is predicted to grow by 3.7 percent in current terms, and by 2.4 percent in real terms.

General Fund-State revenues are forecasted to decline at a 4.4 percent rate in the 2009-11 Biennium, compared to the 0.1 percent increase in the 2007-09 Biennium, and the 17.3 percent pace in the 2005-07 Biennium. Due to statutory changes during the last legislative session, the General Fund-State now includes several related accounts. The slowing economy and slumping housing markets have had a negative effect on revenue growth. Particularly hard hit have been retail sales and real estate excise taxes.

ECONOMIC CONDITION IN FISCAL YEAR 2010

Washington's nonfarm employment fell by 3.9 percent in Fiscal Year 2010, compared to the 3.0 percent decline in U.S. nonfarm employment. The absolute decrease in Washington's nonfarm employment was 113,300 during Fiscal Year 2010. Personal income in Washington also fell behind the U.S. pace: up 0.2 percent compared to a gain of 0.3 percent for the U.S. Because Washington's labor market had been losing jobs at a quicker pace than the national average, it holds that the wage income component of personal income would also lag the national average in Fiscal Year 2010. Real per capita income fell by 2.1 percent in Washington over the same period, again lagging the nation, which experienced a 1.9 percent decline.

Aerospace employment provided an anchor for Washington's manufacturing sector in Fiscal Year 2010. After reaching a cyclical low point in 2004, aerospace employment made a modest comeback in Fiscal Year 2005, increasing by 1,300 jobs. Growth accelerated in Fiscal Year 2006 with an addition of 5,600 jobs (an 8.8 percent increase). In Fiscal Year 2007, the aerospace industry added 7,300 jobs, more than in the previous two years combined, for a growth rate of 11.1 percent. In Fiscal Year 2008, the aerospace sector added another 6,400 jobs, a growth rate of 8.3 percent. This increase in aerospace jobs was not as steep as in years past because of the industry's new "global network" production model that shares design and production processes with overseas partners. While aerospace employment did ratchet down a modest amount in Fiscal Years 2009 and 2010, it would likely have been worse absent the immense backlog of orders that kept the sector busy despite the recessionary fall-off in passenger travel and related difficulties faced by airline companies.

Manufacturing employment, other than aerospace, was considerably less vibrant, declining by 9.5 percent. Durable manufacturing industries experienced pullbacks in employment as the national economy and housing markets remained weak through Fiscal Year 2010. Nondurable manufacturing employment fell 4.3 percent in Fiscal Year 2010 as demand for processed food and paper products slumped.

Employment in durable manufacturing, other than aerospace, fell by 12.8 percent in Fiscal Year 2010 (a decline of 15,200 jobs), while employment in durable manufacturing declined by 10.1 percent nationally. Employment patterns in durable manufacturing industries were down across the board in Washington during Fiscal Year 2010. Specifically, employment in lumber and wood products, primary metal, fabricated metal, computers, machinery, other transportation equipment, and other durable goods were all down, though some (ship and boat building) fared worse than others (nonmetallic mineral products).

Washington's lumber industry is dependent upon local and national home building trends. The housing market in Washington had begun to soften in Fiscal Year 2008, and the national markets had been weak since the end of Fiscal Year 2007. The fall-off in home building resulted in a 12.9 percent decline in wood products employment. Employment in other transportation equipment (other than aerospace) fell by 14.0 percent as demand for heavy trucks was impacted by declines in wholesale and other distribution activity. Even though aerospace employment held relatively steady, employment in primary and fabricated metal products – a major supplier to aerospace – fell by 12.5 percent in Fiscal Year 2010, no doubt a result of the more intense use of composite materials in newer aircraft. Machinery manufacturing employment dropped 18.0 percent in Fiscal Year 2010. Computers and electronic products were down 12.3 percent, while employment in other durable manufacturing was down by 9.4 percent.

Nondurable manufacturing employment in Washington decreased by 4.3 percent in Fiscal Year 2010, a loss of about 3,400 jobs. Nationally, nondurable manufacturing employment declined by 5.1 percent over the same period. In Washington, employment in food manufacturing fell 0.5 percent in Fiscal Year 2010 as a result of weakness in the export markets. Printing and paper products employment dropped 7.1 percent in Fiscal Year 2010 due to slumping national demand for magazines and newspapers.

Washington's non-manufacturing employment fell by 3.6 percent during Fiscal Year 2010. Aside from a gain in education and health services, employment in the non-manufacturing sectors of the economy was down across the board.

The construction industry posted an 18.2 percent loss in employment as the housing market weakened over the year. Record low mortgage interest rates, declining home prices, and the federal government's home-buyer tax credit programs could not stay the decline in construction activity. The weak labor market and steady increase in home foreclosures had a negative impact on the housing market and construction sector.

For many years, employment growth in the information sector has relied almost exclusively on the strength of software publishing. Fiscal Year 2010 was a noteworthy year for the software sector, but for negative reasons; it was the first year since 1982 that employment in the software sector declined. After a run of 27 years, software employment declined because of restructuring at Microsoft. The sector's employment stabilized in the last half of Fiscal Year 2010.

Wholesale trade employment declined by 4.9 percent, and retail trade employment declined by 3.1 percent as continued weakness in the labor markets restrained consumer spending. Professional and business service jobs retreated by 4.7 percent in Fiscal Year 2010, as the great majority of activities within the sector softened over the year. Education and health services reported an increase of 1.2 percent during Fiscal Year 2010 – the one major sector (aside from the federal government) seemingly unaffected by slumping demand. Leisure and hospitality services recorded a 3.6 percent loss as food and beverage establishments were beset with a declining customer base and as hotels and motels experienced the “staycation” effect of the slow economy. Employment grew in the public sector, but only because of the spike in demand for temporary Census 2010 workers in the last half of the year. At the same time, state and local governments were beset with revenue shortfalls resulting in payroll cuts.

ECONOMIC OUTLOOK

The forecast for Washington State for Fiscal Year 2011 reflects the resumption of employment growth at both the state and national levels. According to the September 16, 2010, forecast by the state Economic and Revenue Forecast Council, Washington's nonfarm employment is predicted to increase by 0.3 percent in Fiscal Year 2011, a bit slower than that of the nation. Up until the middle of Fiscal Year 2010, the economic recovery was characterized by an expansion of existing workers' hours rather than new hiring. In addition, an aggressive cycle of productivity gains through the early period of economic recovery had also kept hiring at bay.

Manufacturing employment in Washington is projected to begin rebounding in Fiscal Year 2011. While the aerospace industry is expected to cut 400 workers in Fiscal Year 2011, durable manufacturing, aside from the aerospace sector, is expected to grow by 3,900 jobs as business investment and exports boost demand. As a result, primary and fabricated metals, machinery and electrical equipment, computer and electronic products, and other transportation equipment are all expected to solidify their employment base.

The wood products industry had been hard hit by both the housing bubble and the slowdown in international trade. But after four years of downward trending employment, the wood products sector should begin to gain some traction in Fiscal Year 2011 as the nation's home-building market and international demand begin to recover. It is unlikely, however, that any market rebound will result in the recovery of all the jobs that were lost in the recession.

All sectors of nondurable manufacturing are expected to ease further in Fiscal Year 2011. Employment in food manufacturing is forecasted to decline by 2.2 percent, and employment in other nondurable manufacturing will fall by 0.9 percent. Employment in paper and paper products manufacturing is expected to fall by 1.9 percent in Fiscal Year 2011, a continuation of the payroll losses in 2009 and 2010.

In the non-manufacturing sectors, the strongest employment growth in Fiscal Year 2011 is predicted to occur in professional and business services (3.1 percent) as the economic recovery takes initial hold in business-to-business related activity. Information payrolls are expected to gain 1.8 percent thanks to the resumption of growth in software publishing that is expected to grow by 2.3 percent. Modest employment gains will also occur in wholesale and retail trade, leisure and hospitality, transportation and utilities, and education and health services.

Several non-manufacturing sectors are expected to experience job losses in Fiscal Year 2011. Construction declined by over 59,000 jobs between Fiscal Year 2008 and Fiscal Year 2010. Fiscal Year 2011 will also be a year of losses in this sector; with an expected drop of 3.6 percent as home-building and commercial building activities struggle with high inventories of unleased office space and foreclosed homes. Employment in financial activities will remain slow because of continued difficulties among state chartered banks; many were over-exposed in commercial building loans when the market weakened. Federal government payrolls will decline in Fiscal Year 2011 because of the large number of temporary Census workers in Fiscal Year 2010. State and local government employment will also dip as slow labor markets and retail discounting impedes revenue collections.

Washington's personal income is expected to grow by 3.7 percent in Fiscal Year 2011, identical to the growth in U.S. personal income for the same period. Because employment is expected to gain some traction in Fiscal Year 2011, the wage component of personal income should grow at a 2.8 percent pace. Despite this turnaround in the labor markets, the recovery is expected to be slow by historical standards. As a result, the use of unemployment insurance will still be an important component of personal income, and is expected to grow by 3.5 percent in Fiscal Year 2011. Proprietors' income is projected to grow at a 7.3 percent clip in Fiscal Year 2011 as entrepreneurs ride the upswing in the economy. Dividends, interest, and rents will grow at a 3.9 percent pace as financial markets extend their recovery.

Major Initiatives

As was true for virtually every other state, Washington entered Fiscal Year 2010 still struggling under the effects of the Recession. General Fund-State revenue collections continued to plummet. The majority of that decline was due to consumers buying less. When the Legislature convened in January 2010, it faced a new shortfall, this one totaling \$2.6 billion.

The budget signed into law by the Governor in the spring relied on a variety of strategies to deal with the budget shortfall. The budget assumed \$618 million from an expected extension of an enhancement of the Federal Medical Assistance Percentage (FMAP) and other federal health care programs. The budget also transferred \$643 million from various accounts to the State General Fund, including \$229 million from the Rainy Day Fund. The Legislature raised approximately \$757 million in new revenue by closing various tax breaks and loopholes; increasing the cigarette tax; extending the sales tax to candy and gum; and enacting temporary excise taxes on carbonated beverages and service businesses. Most importantly, the budget cut \$747 million in state services and programs. Combined with cuts from last year's budget, nearly \$5.1 billion was cut from the 2009–11 biennial budget, or almost 16 percent, when compared to the previous biennial budget.

GOVERNMENT EFFICIENCY

Governor Gregoire's proposals to reform Washington State government were a continuation of her comprehensive effort to revamp how programs and services are provided statewide. To inform her work, the Governor solicited ideas from citizens and state employees; engaged business and labor leaders; and asked State Auditor Brian Sonntag to examine state practices and help agencies establish a 21st century way of doing business. Her resulting strategy involves several points.

First, it reduces the size of the bureaucracy. Washington continues to consolidate similar functions and cut government's internal red tape for services needed by agencies. To this end, the Governor has promoted legislation or issued executive orders eliminating 74 boards and commissions in 2009 and 69 in 2010.

Second, the Governor's strategy streamlines government operations. Washington continues to reorganize government central-service functions, such as human resources, property management, and information technology support, so agencies can focus more on their core missions. For example, the Governor issued a directive ordering small agencies to use the Office of Financial Management's Small Agency Client Services for their accounting, payroll, and budgeting services.

Third, it delivers 21st century customer service. For years, Washington has been a national leader in using technology to serve customers. For example, nearly 40 percent of license tabs are renewed online, and all monthly state excise tax returns are required to be filed electronically. The Governor believes citizens should have the same 24/7 online convenience when they deal with government that they do for the rest of their daily business, such as online banking. To this end, the Governor promotes a single point of entry for citizens to find state government jobs, and has directed the state's natural resource agencies to follow a "one front door" policy to make it easier for the public to access environmental services scattered across multiple offices.

Fourth, it reduces the overall cost of state government while the economy recovers. The Governor proposed, and the Legislature adopted, a salary and wage freeze for state workers and K-12 teachers. State employee bonus awards and other incentive programs were also suspended. A freeze on state hiring, equipment purchasing, out-of-state travel and training, and personal service contracts was extended through June 30, 2011. Legislation also called for reducing compensation through ten days of temporary layoffs or through other workforce reduction plans. Most agencies opted for temporary layoffs, which has affected over 23,000 state workers.

EDUCATION

The 2010 supplemental budget maintained education as a key priority with more than 40 percent of the state's operating budget spent on K-12 public schools. But it was not possible during this recession for schools to be spared from budget reductions.

Nonetheless, the Governor promoted legislation, using indicators of academic attainment, to require schools with the lowest performance over time to engage in an improvement process overseen by the state. Schools will participate in an audit to identify academic-related issues; develop a plan that includes adopting one of four federal models as permitted by the state; and set expectations for significant improvement in student academic achievement within three years.

National research identifies high-quality instruction as the most important component of an effective education system. To further its development, legislation promoted by the Governor creates modern, instructional-based criteria for teacher and principal evaluations, and links student growth measures, as appropriate, to evaluation considerations.

Historically, institutions of higher education have provided routes to teacher certification that include partnerships with districts and that focus on classroom experiences. Legislation promoted by the Governor expands opportunities for those seeking teacher and principal preparation by allowing other organizations to offer such programs.

In addition, the Governor signed into law a measure to allow local school districts to request additional property tax funds from their communities to support K-12 education. At the same time, she proposed, and the enacted budget maintained, state assistance to property tax-poor school districts to ensure that all children receive an equal education.

HEALTH CARE AND HUMAN SERVICES

Health care remains a priority for Governor Gregoire, especially as costs continue to increase during these economically challenging times. In Fiscal Year 2010, the state provided health care coverage for more than 1 million people at a cost of \$1.85 billion in state funds and \$2.59 billion in federal funds. This coverage is through the Medical Assistance program and the state's Health Care Authority Basic Health Plan.

Because of federal financial assistance (of more than \$1 billion) to cover the state's portion of federal Medicaid costs, the budget preserved health care coverage for the most vulnerable populations, such as the Medicaid-eligible, aged, and disabled, and all children up to 300 percent of the federal poverty level.

Within the confines of shrinking resources, Washington's budget maintains intensive in-home behavioral support services for children with developmental disabilities at risk of out-of-home placements; grants for Individual and Family Support Program participants with developmental disabilities; and many optional Medicaid services, such as hospice care and maternity services.

The Governor also championed legislation to improve services. She led the reform of the General Assistance-Unemployable program for temporarily disabled individuals unable to work. She also led the revamping of the state's Involuntary Treatment Act and expanded childcare authorization for low-income families who participate in the Early Childhood Assistance and Education Program, Head Start, and Early Head Start.

In addition, legislation was passed to require insurance plans to cover sales tax on durable medical equipment, and to make it easier for those whose company goes out of business to obtain health insurance. Additional funding to hospitals of \$188 million was provided through a new hospital safety net assessment that also leverages federal matching funds. Assessment amounts and payment increases are phased-in through June 2013 and vary by hospital type and number of non-Medicare inpatient days.

ECONOMIC DEVELOPMENT

In Fiscal Year 2010, the Governor and the Legislature worked to assist those who have lost jobs. One strategy increased access to higher education and workforce training programs. For example, \$18.5 million was invested in the Opportunity Express Program to train workers in high-wage, high-demand career pathways in community and technical colleges, and is expected to benefit 3,700 workers. Also, \$1.75 million was provided to expand an aerospace training and research center to support the state's largest industry. In addition, the State Need Grant, the state's largest student financial aid program, was not reduced despite the deep decline in state revenue.

Several tax incentives for capital investments and jobs were extended. For example, a new sales tax exemption for servers and power equipment in new computer data centers located in rural counties will create nearly 3,000 jobs. Other Governor proposals adopted by the Legislature include renewing tax incentives for: 1) capital investments by manufacturing and research and development business located in distressed counties; 2) aerospace repair businesses; and 3) biodiesel fuel manufacturers.

With the challenges faced by homeowners during the recession, the Governor worked to strengthen oversight of state-chartered banks and credit unions to offer much-needed protections.

The Fiscal Year 2010 capital budget of \$451 million was a bright spot in an otherwise tough year. In total, the biennial capital budget makes a \$3.7 billion investment in construction projects throughout the state. It preserves key investments in education, safety, natural resources, and technology projects, adding to the state's capital infrastructure. The capital budget will create, or sustain, about 9,000 jobs above the biennial budget total at a time when jobs are needed most. In addition, the Washington Works Housing Program

boosts affordable housing stocks, creating 1,000 jobs. Also included in the capital budget is a \$50 million appropriation to improve energy efficiency in schools and college buildings.

ENVIRONMENT AND ENERGY

The state maintained core environmental protection in light of unprecedented budget shortfalls. The Fiscal Year 2010 supplemental budget maintains momentum to restore Puget Sound, a top priority of the Governor's, despite making deeper reductions in the Puget Sound Partnership's administration and outreach activities.

This year, Governor Gregoire unveiled results of a report by the state's Employment Security Department that shows Washington increased the number of private sector green jobs by nearly one-third over the past year. The 2009 survey, expanded to include government jobs as well as additional private industries, reported 99,319 green jobs, totaling 3.3 percent of all jobs in Washington. The state defines a green job as one in which workers are helping to increase energy efficiency, produce renewable energy, or prevent, reduce, or clean up pollution. In 2009, 46 percent of green jobs were involved in preventing and reducing pollution; 38.9 percent were involved in increasing energy efficiency; 11.6 percent had responsibilities for mitigating or cleaning up pollution; and 3.5 percent were involved in producing renewable energy.

The Governor also announced that Washington's electric vehicle infrastructure efforts are getting a boost with \$1.3 million in federal American Reinvestment and Recovery Act funding. Washington's Transportation and Commerce departments are teaming up to build the nation's first "electric highway," an initial network of public access electric vehicle recharging locations along Interstate 5. Once implemented, Washington will have the first border-to-border highway to offer fast charge technology.

TRANSPORTATION

The transportation budget is an historic one for our state. Not only will it greatly improve our transportation system, but the estimated 24,000 jobs it supports or creates at the peak of construction will help Washington workers and their families.

The enacted biennial budget includes the largest two-year construction budget ever for the Washington State Department of Transportation. Funding commitments included in the 2010 supplemental budget are for the Alaskan Way Viaduct, a critical link along the Seattle waterfront that contributes millions of dollars to the regional economy; a replacement for the State Route 520 Evergreen Floating Bridge over Lake Washington; and construction of high occupancy vehicle lanes on Interstate 5 in the Tacoma area. There is also \$590 million in federal stimulus funds for high-speed passenger rail along the Interstate 5 corridor, along with funding for critical safety, freight, and mobility projects to keep people and freight moving safely and efficiently through the state.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Washington State for its CAFR for the fiscal year that ended June 30, 2009. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized CAFR, with contents conforming to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. Washington State has received a Certificate of Achievement for the last twenty-three years. The Office of Financial Management considers

this report to be in conformity with the Certificate of Achievement Program requirements, and will submit it to the GFOA.

The preparation of this report could not have been accomplished without the professionalism and dedication demonstrated by the financial and management personnel of each state agency and institution of higher education and the Office of Financial Management. This CAFR reflects the Governor's commitment to the Legislature, the citizens of Washington State, and the financial community to maintain financial statements in conformance with the highest standards of financial accountability.

Sincerely,

A handwritten signature in black ink that reads "Marty Brown". The signature is written in a cursive, flowing style.

Marty Brown
Director