



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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October 31, 2014

The Honorable Jay Inslee, 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 ended June 30, 2014. 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 unmodified (“clean”) opinion on the Washington state financial statements for the fiscal year ended June 30, 2014. 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 financial statements, individual fund schedules, 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 7.0 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 global leader in the computer software industry, makes its home in Redmond. Major internet retailer, Amazon.com, and worldwide renowned coffee company, Starbucks, are both headquartered in Seattle. 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 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. Thirty-nine agency heads are appointed by, and report to, the Governor. Seventy-eight agency heads report to boards 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, environment and natural resource protection, and social and health services.

The accompanying report includes all funds and subsidiary accounts of the primary government, Washington state as legally defined, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable or ones that have relationships with the state such that exclusion would cause the state's financial statements to be misleading or incomplete. The determination of "financial accountability" is based on criteria established in Governmental Accounting Standards Board Statements No. 14 and No. 61. Note 1.A to the financial statements explains more fully component units which 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

From the time the nation's recession began, in December 2007, to its lowest point in February 2010, Washington State lost almost 206,000 jobs, or about 6.9 percent of total nonfarm payroll employment. While the state lagged the nation into this slowdown, local losses accelerated in late 2008 and, for the most part, began to match 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 below-average hiring trends in the remainder of the economy. Employment growth turned positive in the last quarter of 2010 and has remained on a positive track since though at a growth rate less than half the historic norm. Job growth advanced at a 2.5 percent annual pace in 2014, a marked improvement on the 1.4 percent rate in 2012 and 2.1 percent pace in 2013. Mid fiscal year 2014 marked an economic milestone as nonfarm employment, after a duration of 69 months, finally exceeded its pre-recession peak. Because of Washington's export-dependent economy, and the cautiously optimistic Asian outlook, Washington is still expected to outpace the nation over the next several years in terms of job and income growth.

It is expected that Washington's economic expansion will build upon the diversity of the state's industrial and environmental foundations, whose elements include a vital export base; the presence of knowledge-based industries such as information services, professional and business services, health services, and financial services; and attractive natural attributes. All these elements should continue to support population growth.

Washington's nonfarm payroll employment grew by 2.5 percent in fiscal year 2014, 2.1 percent in fiscal year 2013, 1.4 percent in fiscal year 2012, 0.6 percent in fiscal year 2011, and -3.9 percent in fiscal year 2010. Throughout this span the aerospace industry was able to perform better than average despite weakness in the global airline industry, thanks primarily to a long backlog of orders. Adding workers to address the production difficulties with the 787, and increasing the delivery pace for the large backlog of orders in fiscal year 2013 helped keep employment on the upswing. Total manufacturing employment grew 3.7 percent in fiscal year 2013 as production schedules ramped up and a favorable dollar gave Washington products an advantage in the international markets. With 787 production difficulties solved in late fiscal year 2013, and the realignment of production and engineering operations across the country, the ramping down of aerospace employment in fiscal year 2014 and further easing of payrolls are projected for the future.

Washington's unemployment rate fell by 1 percentage point in fiscal year 2014, as a growing national economy, rebounding housing markets, and moderating energy costs helped support the labor markets. As the 2014 annual unemployment rate eased down to 6.5 percent from 7.5 percent in fiscal year 2013, Washington's jobless rate consistently tracked below the national average throughout this period.

Personal income grew 4 percent in fiscal year 2014, despite the below-average pace of hiring. Real personal income – after factoring out inflation – grew by 2.7 percent in fiscal year 2014 after gaining 2.6 percent in fiscal year 2013 and 2.7 percent in fiscal year 2012. In comparison, real personal income fell 3.1 percent in fiscal year 2010.

Washington's outlook for fiscal year 2015 is for moderate gains in economic growth. Nonfarm payroll employment in Washington is forecasted to increase by 2.3 percent in fiscal year 2015. Personal income in fiscal year 2015 is predicted to grow by 4.6 percent in current terms, and by 3.2 percent in real terms.

General Fund-State revenues are forecasted to grow at an 8.2 percent rate in the 2015-17 biennium compared to the 8.7 percent gain in the 2013-15 biennium. The expanding economy, moderate gains in hiring, and recovering housing markets have had a positive effect on revenue growth though at a pace below overall income growth. Further economic growth and a continued rebound in the housing market will keep revenues growing at a moderate pace.

ECONOMIC CONDITION IN FISCAL YEAR 2014

Washington's nonfarm payroll employment grew by 2.5 percent in fiscal year 2014, compared to the 1.7 percent growth in U.S. nonfarm payroll employment. The absolute increase in Washington's nonfarm payroll employment was 73,900 during fiscal year 2014. Personal income in Washington grew 4 percent, leading the U.S. gain of 2.7 percent. Because Washington's personal income had not fallen to the same degree as the nation during the great recession, the rebound effect in Washington was somewhat lessened during the subsequent recovery and expansion (i.e., the state did not have near as deep a hole from which to extract itself). Real per capita income grew by 1.6 percent in Washington during fiscal year 2014, again leading the nation which experienced a 0.7 percent gain.

Aerospace employment has long been an anchor for Washington's manufacturing sector, so changes in aerospace have an outsized impact. Even though aerospace employment did ratchet down a modest amount in fiscal year 2010, employment growth from that point through the middle of fiscal year 2013 totaled 17,000 workers, or 21.2 percent. This was accomplished by ramping up of production schedules and adding an additional assembly line to help boost aircraft deliveries. With more complete resolution to the 787 production difficulties in late fiscal year 2013 aerospace employment fell 1.5 percent in fiscal year 2014.

Manufacturing employment, other than aerospace grew by 2 percent in fiscal year 2014. Durable manufacturing industries, which had experienced pullbacks in employment in fiscal year 2010, turned up in fiscal year 2011 as the national economy and export market began to strengthen, and carried that momentum into 2014 growing at a 2.2 percent annual clip. Nondurable manufacturing employment, which had declined 4.6 percent in fiscal year 2010, eased upward by 0.9 percent in fiscal year 2011, and also carried momentum as demand for processed food and paper products solidified. Durable goods employment continued to grow in fiscal year 2014 at a moderate 1.7 percent pace.

In comparative terms, employment in durable manufacturing in Washington grew by 0.5 percent in fiscal year 2014, while employment in durable manufacturing nationwide increased by a very similar 0.6 percent. Manufacturing was formerly one of the few bright spots in the nation's labor market. Employment in most durable manufacturing industries, outside of aerospace, posted gains in Washington during fiscal year 2014. Even employment in lumber and wood products, which had been very hard hit by the recession and housing bust, posted solid gains thanks to the ongoing rebound in the housing markets.

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 rebound in home building resulted in a 3.2 percent gain in wood products employment in fiscal year 2014.

Employment in transportation equipment other than aerospace fell by 3.8 percent as demand for heavy trucks, ships and boats softened. As aerospace employment eased, employment in primary and fabricated metal products –major suppliers to aerospace – continued to grow by 1.3 percent in fiscal year 2014, despite the more intense use of composite materials in newer aircraft. Machinery manufacturing employment also increased 6.5 percent in fiscal year 2014 thanks to steady domestic and international demand. Computers and electronic products jobs fell by 0.3 percent, while employment in other durable manufacturing was up by 3.1 percent.

Nondurable manufacturing employment in Washington increased by 1.6 percent in fiscal year 2014, a gain of about 1,200 jobs. Nationally, nondurable manufacturing employment was unchanged over the same period. In Washington, employment in food manufacturing grew 1.1 percent in fiscal year 2014 as a result of continued growing demand in the export markets. Printing and paper products employment was essentially unchanged in fiscal year 2014 as a result of soft national demand for magazines and newspapers and the growing use of on-line information sources.

Washington's non-manufacturing employment advanced 2.7 percent in fiscal year 2014. All major nonfarm services sectors, including government, posted payroll gains for fiscal year 2014 with construction employment outpacing the field with a growth of 6.9 percent.

The construction industry's healthy gain in fiscal year 2014 was a result of continued strengthening in the housing market as median house prices rose throughout most of the year and as the number of building permits eased upwards. The housing market was bolstered by continued low mortgage interest rates which were likely a major factor that helped spur demand for housing. The excess inventory of homes from the housing bubble had been whittled down which helped return new home sales to a more historical norm while existing home sales continued to post moderate gains.

For many years, employment growth in the information sector has relied almost exclusively on the strength of software publishing. However in fiscal year 2010, after a run of 27 years, software employment fell 2.6 percent because of restructuring at Microsoft. The sector's employment stabilized in the last half of fiscal year 2010 and began a slow up-turn in fiscal year 2011, growing 0.8 percent. Job gains in subsequent fiscal years were 1.7 percent, 1.6 percent, and 4 percent in fiscal year 2014.

Wholesale trade grew by 3 percent in fiscal year 2014, and retail trade employment increased by 3.5 percent, a characteristic job gain for this point in the economic recovery. There is a concern that this economic expansion is creating an inordinate share of low paid and part-time work—retail trade being the center of that concern.

Professional and business service jobs advanced by 2.5 percent in fiscal year 2014, as the great majority of activities within the sector gained strength over the year. The only weak element in this sector was legal services where many firms have reduced employment in operations and support functions in order to improve efficiency.

Education and health services reported an increase of 2.7 percent during fiscal year 2014. There still remains some uncertainty surrounding the Affordable Care Act which has likely cause some caution in this sector. Leisure and hospitality services recorded a 4 percent increase as demand for food and beverage services strengthened and as hotels and motels experienced higher occupancy rates. Even the public sector posted a 0.6 percent gain thanks primarily to growth in education payrolls.

ECONOMIC OUTLOOK

The forecast for Washington state for fiscal year 2015 reflects the continuation of slow but steady employment growth at both the state and national levels. According to the September 18, 2014, forecast by the state Economic and Revenue Forecast Council, Washington's nonfarm payroll employment is predicted to increase by 2.3 percent in fiscal year 2015, four-tenths of a point quicker 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 also kept hiring at bay. With the end of the productivity surge in early 2011, employers began to expand their payrolls to increase output in 2012. This pattern held through fiscal year 2014 and should do so again in fiscal year 2015.

Manufacturing employment in Washington is projected to continue its upward course in fiscal year 2015 though at a slow pace. The aerospace industry, which began paring jobs in 2014, is expected to continue doing so in 2015. Even though the output of the 737 production lines has been accelerated, the realignment and relocation of engineering and support activities has resulted in overall declining payrolls. An average of 2,000 fewer workers are expected to be employed in aerospace in fiscal year 2015. Durable manufacturing, aside from the aerospace sector, is expected to grow by 4,000 jobs as business investment and exports boost demand. As a result, primary and fabricated metals, and machinery and electrical equipment, are expected to solidify their employment bases.

The wood products industry was hard hit by both the housing bubble and the slowdown in international trade. But after five years of downward trending employment, the wood products sector began to hold its own in fiscal year 2012 and expand through fiscal year 2014 as the nation's multi-family market and increased residential remodeling helped shore up demand for wood products. With the continued rebound in the housing market, payroll gains of 4.9 percent are expected in fiscal year 2015 as demand for new apartments and single-family homes strengthens. This will also carry into the construction sector.

Nondurable manufacturing gains should be modest in fiscal year 2015. Employment in food manufacturing is expected to ease down by 2 percent. Employment in paper and paper products manufacturing is expected to remain unchanged, while other nondurable manufacturing should increase by 3.9 percent.

In the other non-manufacturing sectors, the strongest employment growth in fiscal year 2015 is predicted in professional and business services which is expected to expand 4.1 percent as business-to-business related activity increases, particularly computer systems design and employment services. Wholesale trade and retail trade jobs are expected to grow 2.8 percent and 2.4 percent respectively. The leisure and hospitality sector should add 2.5 percent more jobs. Transportation, warehousing, and utilities jobs should gain 2.1 percent thanks to the continued strength of international trade through Washington's ports. Software publishing should increase a modest 0.4 percent.

Education and health service jobs should also post a moderate 2.5 percent gain in fiscal year 2015. Health care services have proven to be much less susceptible to economic downturns than other sectors of the economy, although in this recovery employment gains have been below average. The coverage provided by public and private insurers provides the economic buffer for this sector. The impact of the Affordable Care Act is still an uncertainty in regards to employment trends.

Leisure and hospitality jobs are projected to grow 2.5 percent in fiscal year 2015. Travel and dining-out activities were put on hold during the recession. Recent gains have been modest because of the slow growth in overall employment and incomes. Because both overall income and employment are expected to post moderate gains in 2015, so too should the leisure and hospitality sector.

Construction declined by almost 70,000 jobs between fiscal year 2008 and fiscal year 2012. After these four consecutive years of decline the construction sector finally experienced modest rebounds in fiscal years 2013 and 2014 thanks to the emerging recovery in the housing markets. Payrolls are expected to increase by 6.4 percent in fiscal year 2015 because of the growing demand for rental apartments and moderate increases in single family construction and remodeling.

Employment in financial activities will remain slow because of continued difficulties among state chartered banks; many of whom were over-exposed in commercial building loans when the market weakened. Those banks that survived the shake-out have been directed by the Federal Deposit Insurance Corporation to strengthen their balance sheets, which in some ways has been detrimental to small business lending activity. Payrolls are expected to post a 1 percent gain in fiscal year 2015.

Federal government payrolls will likely remain unchanged in fiscal year 2015. Federal employment has been mixed because of the easing of defense-related federal expenditures and budget conflicts. State and local government employment should increase by 1.3 percent, primarily in local government and state education, as the rebound in the labor markets and increases in consumer spending result in moderate gains in revenue collections.

Washington's personal income is expected to grow by 4.6 percent in fiscal year 2015, a bit quicker than the 4.4 percent growth in U.S. personal income for the same period. Employment is expected to maintain its current rate of growth in fiscal year 2015, and as a result, the wage component of personal income should grow at a 4.7 percent pace. Because of the declines in unemployment, slow though they may have been, the use of unemployment compensation, an important component of personal income, is expected to decline by over 32.1 percent in fiscal year 2015. Proprietors' income is projected to grow at a 4.2 percent clip in fiscal year 2015 as entrepreneurs capture gains as the economy grows. Dividends, interest, and rents will grow at a 3.7 percent pace as financial markets moderate from their extended recovery.

Major Initiatives

As Washington's economy continues its slow recovery from the Great Recession, state revenue collections are also rebounding. But revenue collections are growing at a much slower pace than after previous recessions — and certainly not fast enough to meet growing demands for state services, let alone a Washington Supreme Court mandate to increase funding for K-12 education.

Given these realities, the state faces significant fiscal challenges heading into its 2015–17 budget cycle. As of September 2014, the Office of Financial Management was projecting a potential budget shortfall of \$3 billion or more for the 2015–17 biennium.

Washington, with its heavy reliance on sales taxes, was particularly hard hit by the Great Recession and the toll it took on consumer confidence. And now, as the economy recovers, state revenue collections are not keeping pace with the growth of the economy. This phenomenon has become more evident in recent years and is the result of a variety of factors, such as the shift in consumer spending to untaxed services and online purchases as well as tax cuts the state has enacted.

Washington Gov. Jay Inslee and the Legislature will face a number of unique budget challenges for the 2015–17 biennium and beyond.

Under legislation approved in 2012, Washington became the only state in the nation required to pass a budget that balances spending against anticipated revenue over a four-year period. To this end, the Legislature created a State Budget Outlook Work Group to develop longer-term revenue and expenditure outlooks. The work group is composed of members from the Office of Financial Management, Legislative Evaluation and Accountability Program, Office of the State Treasurer, Economic and Revenue Forecast Council, Caseload Forecast Council, and legislative budget committees.

Meanwhile, the state continues to struggle with meeting the requirements of the state Supreme Court's 2012 McCleary ruling that for years the state has failed to meet its constitutional "paramount duty" to amply fund basic education. Under that ruling, the state will need to increase K-12 spending by more than \$3 billion over the next four years.

The state made progress in the 2013–15 budget toward meeting its basic education funding obligation, but not enough progress to satisfy the court. In September 2014, the court found the state in contempt for failing to produce a long-term basic education funding plan and threatened sanctions if such a plan is not in place by the end of the 2015 legislative session.

In the face of these fiscal challenges, Gov. Inslee has emphasized that the state's number one priority is revitalizing Washington's economy and building a 21st century workforce. "To do that," he says, "we must start with a strong commitment to education — and we must ensure that our investments get results."

In developing his recommendations for the 2015–17 budget, Gov. Inslee's priorities are to meet the requirements of the McCleary decision, protect the most vulnerable, ensure public safety and address a backlog of public employee compensation issues.

BETTER MANAGEMENT OF STATE GOVERNMENT

Washington is building on its history as a leader in adapting proven private-sector principles to state government. Gov. Inslee's Results Washington initiative, launched in 2013, is a groundbreaking, cross-agency effort to focus on key goals in education, the economy, environment, health, safety and government efficiency. By setting clear objectives and continually tracking results, the state will be better equipped to engage its employees, partners and the public in building a healthier, better-educated and more prosperous Washington.

A key tenet of this effort is transparency and accountability. Gov. Inslee meets monthly with state agency directors to discuss progress, challenges and next steps. The meetings, called [Results Reviews](#), are streamed live over the Internet and broadcast statewide on cable TV. Goals, improvement strategies and data sets are frequently updated online at <https://data.results.wa.gov>.

Underlying much of this improvement work is Lean, a management philosophy that has proven highly effective at improving efficiency and customer focus in the health care, aerospace, retail and other industry sectors. Lean is increasingly being put to use in government, from the city to federal levels. It encourages employee problem-solving. Lean efforts have already helped the state and its customers avoid millions of dollars in costs and significantly improved customer service. A few examples:

- By sharply cutting wait time for reconsideration of audit findings, the Department of Labor and Industries saved employers an estimated \$1.7 million in interest costs.
- The Department of Social and Health Services streamlined a widely used personnel form and various processes, eliminating the need for 8,000 approval signatures and saving 2,133 hours of staff time each month.
- Consolidated Technology Services automated a monthly report about service desk workload so a manual process that used to take 24 to 30 hours of staff time every month takes minutes. The saved staff time is now used on other work, including direct customer service.
- The Department of Transportation eliminated an 8.5-month backlog of collision data reports. Fully analyzed collision records — used by insurers and road engineers, and for law enforcement emphasis patrols — are now processed in five days.

Results Washington has also recruited more than 200 Lean partners, including dozens from some of the state's largest corporations and nonprofits. At no cost to taxpayers, these partners have provided valuable training, advice and guidance to thousands of state employees, helping them learn and use Lean. Results Washington has leveraged this help by pairing partners with state employees who take part in a revolving, one-year Lean fellowship program.

EDUCATION

To meet the state's obligations under McCleary, the Governor and the Legislature adopted a number of reforms in the 2013–15 budget, providing \$1 billion of new funding for the state's schools. The state's two-year budget:

- Increased funding to school districts for materials, supplies and operating costs by \$432 million.
- Put an additional \$132 million toward pupil transportation to fully fund the state's obligation.
- Added \$143 million to the state's Learning Assistance Program to increase the number of instructional hours provided from 1.5 hours to 2.4 hours per week per funded student.
- Provided \$104 million to reduce kindergarten and first-grade class sizes for high-poverty schools and \$90 million to expand full-day kindergarten in high-poverty schools.

The 2013–15 budget also provided additional funding to increase instructional hours and graduation requirements for students in grades 9 to 12, improve bilingual instruction, and extend new teacher mentoring.

In addition, the 2013–15 budget was passed with no tuition increases in the public higher education sector, bringing relief to thousands of students and families across the state. The state continued to fund a robust student financial aid program for low-income students through the State Need Grant and College Bound Scholarship programs. The state also expanded enrollments for computer science, engineering and aerospace training.

HEALTH CARE

Access to health care has increased dramatically in Washington since the 2010 passage of the federal Patient Protection and Affordable Care Act, which gave individuals and small businesses a means to choose affordable, high-quality health insurance coverage. About 150,000 people have been enrolled for private insurance through the state's health insurance exchange — Washington Healthplanfinder. Washington also opted to expand its Medicaid program under the Affordable Care Act, providing coverage to 400,000 newly eligible adults. As a result, during a six-month span the percentage of Washington residents without health insurance fell from 16 percent to 11 percent.

Besides improving access to health care, the state has undertaken a number of initiatives to drive down costs and improve people's health.

For example, the state is working to integrate mental health and substance abuse treatment in primary medical care. And, under legislation passed in 2014, the state will begin implementing an all-payer claims database that will dramatically improve the transparency of health care costs.

The Governor also launched his [Healthiest Next Generation](#) initiative, a public-private partnership that will develop strategies to reduce obesity in children through such avenues as promoting breastfeeding, supporting schools in providing more nutritious meal and drink options, and encouraging children to be more active.

The Governor's Aging Summit was convened to help the state prepare for the needs of an aging population. The summit generated numerous policy recommendations, such as the need for key investments in long-term care and nursing homes. The summit also resulted in legislation to implement the Community First Choice Option and develop an Alzheimer's state plan.

ECONOMIC DEVELOPMENT

Gov. Inslee, through his “Washington Competes” agenda, continues to revitalize the state’s economy, create jobs and ensure we have workers with the skills to fill those jobs. In pursuit of that agenda, he secured funding for the Department of Commerce to hire specialists dedicated to growing specific areas of our state’s economy, including the life sciences and global health, information and communications technology, clean technology, maritime and military sectors. The state created a new Work Start program to match education and workforce training with employer needs, a key business recruitment and retention tool. The state is also continuing work on a one-stop Web portal for businesses to simplify their interactions with state government. The Governor championed and signed legislation ensuring the next generation of airplanes will be built in Washington.

ENVIRONMENT AND ENERGY

Gov. Inslee continues to engage lawmakers in a bipartisan discussion on how to tackle the issue of carbon pollution, a cornerstone of his agenda. In April, the Governor signed Executive Order 14-04 “Washington Carbon Pollution Reduction and Clean Energy Action.”

The executive order created the Carbon Emission Reduction Taskforce to provide recommendations on the design and implementation of a carbon emission limits and market mechanisms program for Washington. It also directs:

- The Department of Transportation to develop an action plan to advance the development and use of electric vehicles; identify and implement opportunities to increase statewide investment in multimodal transportation; and develop a long-range statewide transportation plan to boost efficiency and cut both costs and greenhouse gas emissions.
- The Department of Commerce to develop recommendations for a new state program to support research institutions, utilities and businesses to develop, demonstrate and deploy new renewable energy and energy efficiency programs. In addition, the agency is to develop a new state program to improve the energy performance of public and private buildings.
- The Office of Financial Management to analyze the technical feasibility and economic impact of adopting a clean transportation fuel standard that reduces fuels carbon intensity over time.
- All state agencies to develop recommendations for improving efficiencies and reducing emissions from state government operations.

Washington is experiencing rapid changes in how crude oil is moving through rail corridors and over Washington waters, which creates new safety and environmental risks. As petroleum shipments from Alaska decline, transport of crude oil from the Bakken region via rail is increasing. The Legislature directed state agencies to assess the risk and develop recommendations to increase public safety and improve oil spill prevention and response readiness. Gov. Inslee issued a directive requiring state agencies to provide initial findings and recommendations by October 1, 2014.

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 ended June 30, 2013. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

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 past 27 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,

/s/

David Schumacher
Director