



Washington State Auditor Brian Sonntag

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

November 30, 2010

The Honorable Christine Gregoire
Governor, State of Washington

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate discretely presented component units and remaining fund information of the State of Washington, as of and for the year ended June 30, 2010, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Department of Retirement Systems, Washington's Lottery, Local Government Investment Pool, University of Washington, Western Washington University, and the funds managed by the State Investment Board. Those financial statements represent part or all of the total assets, net assets, and revenues or additions of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component units and remaining fund information as follows:

<u>Opinion Unit</u>	<u>Percent of Total Assets</u>	<u>Percent of Net Assets</u>	<u>Percent of Total Revenues/ Additions</u>
Governmental Activities	11.8%	21.2%	12.8%
Business-Type Activities	78.3%	100%	17.4%
Higher Education Special Revenue Fund	39.2%	30.7%	48.9%
Higher Education Endowment Fund	91.2%	96.7%	90.4%
Higher Education Student Services Fund	73.3%	82.5%	80.2%
Workers' Compensation Fund	99.0%	100%	44.8%
Aggregate Discretely Presented Component Units and Remaining Fund Information	90.2%	95.5%	83.7%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the above mentioned entities and funds are based solely on the reports of other auditors.

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

In our opinion, based on our audit and the reports of other auditors, 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 discretely presented component units and remaining fund information of the State of Washington, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1.D.1, the financial statements include pension trust fund investments valued at \$21.7 billion which comprise 25.4% of total assets and 30.5% of net assets of the aggregate discretely presented component units and remaining fund information. The fair values of these investments have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or, in the case of investments in partnerships, the general partners.

As described in Note 2, during the year ended June 30, 2010, the State implemented Governmental Accounting Standards Board Statement No. 51 - Accounting and Financial Reporting for Intangible Assets and Statement No. 53 - Accounting and Financial Reporting for Derivative Instruments.

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

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the State of Washington's basic financial statements. The information listed in the table of contents as combining and individual fund financial statements and schedules is presented for purposes of additional analysis and is not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The information identified in the table of contents as the introductory and statistical sections is not a required part of the basic financial statements but is supplementary information presented for purposes of additional analysis. Such information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on it.

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

BRIAN SONNTAG, CGFM
STATE AUDITOR