

Independent Auditors' Report

The Honorable Jane Dee Hull, Governor
State of Arizona

The Honorable Brenda A. Burns, President
Arizona State Senate

The Honorable Jeffrey S. Groscost, Speaker
Arizona House of Representatives

The Honorable Thomas A. Zlaket, Chief Justice
Arizona Supreme Court

We have audited the accompanying general purpose financial statements of the State of Arizona as of and for the year ended June 30, 1999, as listed in the table of contents. These general purpose financial statements are the responsibility of the State's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of certain departments and component units included in the general purpose financial statements of the State of Arizona, which account for the following percentages of the assets, general long-term debt (GLTD), and revenues and other financing sources of the fund type, account group, or discretely presented component unit affected.

Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
General	8%	14%	Arizona Health Care Cost Containment System
Special Revenue	15%	4%	Arizona Health Care Cost Containment System
	50%	78%	Department of Transportation
Capital Projects	31%	67%	Department of Transportation
Debt Service	89%	87%	Department of Transportation

Fund Type/Account Group/Component Unit	Assets/ GLTD	Revenues and Other Financing Sources	Department/Component Unit
Enterprise	1%	6%	Arizona Health Care Cost Containment System
	6%	22%	ComCare, Inc.
	2%	2%	Department of Transportation
	11%	54%	Lottery
Internal Service	29%	17%	Department of Transportation
Trust and Agency	2%	2%	Corrections Officer Retirement Plan
	1%	1%	Elected Officials' Retirement Plan
	15%	11%	Public Safety Personnel Retirement System
	62%	40%	State Retirement System
General Fixed Assets	11%	N/A	Department of Transportation
General Long-Term Debt	78%	N/A	Department of Transportation
Proprietary Fund Type Component Units	25%	8%	Arizona Power Authority
	75%	92%	University Medical Center
Fiduciary Fund Type Component Unit	100%	100%	Water Infrastructure Financing Authority
Non-GAAP Component Unit	100%	100%	State Compensation Fund

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

We conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. The financial statements of the Pension Trust Funds, included in the Trust and Agency Funds; the University Medical Center and Arizona Power Authority, included in the Proprietary Fund Type Component Units; and the State Compensation Fund Component Unit were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 1, the State Compensation Fund prepares its financial statements on a statutory basis in conformity with the accounting practices prescribed or permitted by the Arizona Department of Insurance, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, except for the financial statements of the State Compensation Fund referred to in the preceding paragraph, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the State of Arizona as of June 30, 1999, and the results of its operations, the cash flows of its proprietary funds and similar trust funds, the changes in plan net assets of its pension trust funds, the changes in pool net assets of its investment trust funds, the changes in fund balances of its university funds, and the current operating funds revenues, expenditures, and other changes of its university funds for the year then ended in conformity with generally accepted accounting principles.

Also, in our opinion, based on the report of the other auditors, the statutory basis financial statements of the State Compensation Fund present fairly, in all material respects, the admitted assets, liabilities, and policyholders' surplus of the Fund at December 31, 1998, and the results of its operations and its cash flows for the year then ended, on the basis of accounting described in Note 1.

As further discussed in Note 16, the assets and liabilities of ComCare, Inc., are presented in the accompanying financial statements at estimated net realizable values and estimated settlement amounts. Subsequent to June 30, 1999, Comcare, Inc., completed a formal plan of liquidation.

Our audit was made for the purpose of forming an opinion on the financial statements of the State of Arizona taken as a whole. Disclosure regarding the year 2000 issue on pages 88-91 is not a required part of the State of Arizona's financial statements, but it is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measuring and presenting the supplementary information; however, we did not audit the information and do not express an opinion on it. In addition, we do not provide assurance that the State of Arizona is or will become year 2000 compliant, that the State of Arizona's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Arizona does business are or will become year 2000 compliant.

In addition, the combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, based on our audit and the reports of the other auditors, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

The information included in the introductory and statistical sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants at a future date.

A handwritten signature in dark ink, appearing to read "Julie Kavenport", with a stylized flourish at the end.

Auditor General

December 10, 1999