

**State Funding Board  
Sewage Treatment Facilities Fund**

**For the Year Ended  
June 30, 1999**

***Arthur A. Hayes, Jr., CPA, JD, CFE***  
Director

***Edward Burr, CPA***  
Assistant Director

***Teresa L. Hensley, CPA***  
Audit Manager

***Rew Sloan***  
In-Charge Auditor

***Kathy Gabriel***  
***Amy Mallicote***  
***Erick Rosa***  
***Michael Wilbanks***  
Staff Auditors

***Erica V. Smith, CPA***  
Technical Analyst

***Amy Brack***  
Editor



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765

March 15, 2000

The Honorable Don Sundquist, Governor  
and  
Members of the General Assembly  
State Capitol  
Nashville, Tennessee 37243  
and

The Honorable John G. Morgan  
Comptroller of the Treasury  
Secretary of the State Funding Board  
State Capitol  
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the State Funding Board, Sewage Treatment Facilities Fund, for the year ended June 30, 1999. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ks  
00/018

State of Tennessee

# Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit  
**State Funding Board**  
**Sewage Treatment Facilities Fund**  
For the Year Ended June 30, 1999

---

## AUDIT OBJECTIVES

The objectives of the audit were to consider the fund's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, and contracts; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

## AUDIT FINDINGS

The audit report contains no findings.

## OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

---

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit  
1500 James K. Polk Building, Nashville, TN 37243-0264  
(615) 741-3697

---

**Audit Report  
State Funding Board  
Sewage Treatment Facilities Fund  
For the Year Ended June 30, 1999**

---

**TABLE OF CONTENTS**

---

	<u>Exhibit</u>	<u>Page</u>
<b>INTRODUCTION</b>		1
Post-Audit Authority		1
Legislative History		1
Organization		1
<b>AUDIT SCOPE</b>		2
<b>OBJECTIVES OF THE AUDIT</b>		2
<b>PRIOR AUDIT FINDINGS</b>		4
<b>RESULTS OF THE AUDIT</b>		4
Audit Conclusions		4
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		5
<b>FINANCIAL SECTION</b>		
Independent Auditor's Report		7
Financial Statements		
Balance Sheets	A	9
Statements of Revenues, Expenses, and Changes in Retained Earnings	B	10
Statements of Cash Flows	C	11
Notes to the Financial Statements		12
Required Supplementary Information		
Year 2000 Disclosures		15

**State Funding Board  
Sewage Treatment Facilities Fund  
For the Year Ended June 30, 1999**

---

**INTRODUCTION**

---

**POST-AUDIT AUTHORITY**

This is a report on the financial and compliance audit of the State Funding Board, Sewage Treatment Facilities Fund. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

**LEGISLATIVE HISTORY**

The Sewage Treatment Facilities Fund has operated since the early 1970’s through the Department of Health under authority of Section 68-221-202, *Tennessee Code Annotated*. Chapter 521 of the Public Acts of 1970 authorized repayments of loans to be remitted to the State Funding Board. The fund provided financial assistance to local governments and utility districts for the construction of sewage treatment, solid waste recovery, and waterworks facilities. A user’s fee was authorized to generate funds for the borrowing entities to repay the loans. General obligation bonds were sold to finance the program. Although these bonds remain full faith and credit obligations of the state, they are being retired from resources of the fund. Future financing for this program will be generated by the Tennessee Local Development Authority.

**ORGANIZATION**

The Department of Health provided engineering expertise to determine the eligibility and priority of municipal projects for financing. The State Funding Board approved contracts for financing. The State Funding Board is composed of the Governor, who serves *ex officio* as chairman; the State Treasurer; the Secretary of State; the Commissioner of Finance and Administration; and the Comptroller of the Treasury, who serves *ex officio* as secretary.

The staff of the State Funding Board is composed of certain employees of the Division of Bond Finance, Office of the Comptroller of the Treasury.

An organization chart for the State Funding Board is on the following page.

---

## AUDIT SCOPE

---

The audit was limited to the period July 1, 1998, through June 30, 1999, and was conducted in accordance with generally accepted government auditing standards. Financial statements are presented for the year ended June 30, 1999, and for comparative purposes, the year ended June 30, 1998. The State Funding Board, Sewage Treatment Facilities Fund, forms an integral part of state government and as such has been included as an enterprise fund in the *Tennessee Comprehensive Annual Financial Report*.

The audit covered allotment code 307.07 – Division of Bond Finance (Fund 33).

---

## OBJECTIVES OF THE AUDIT

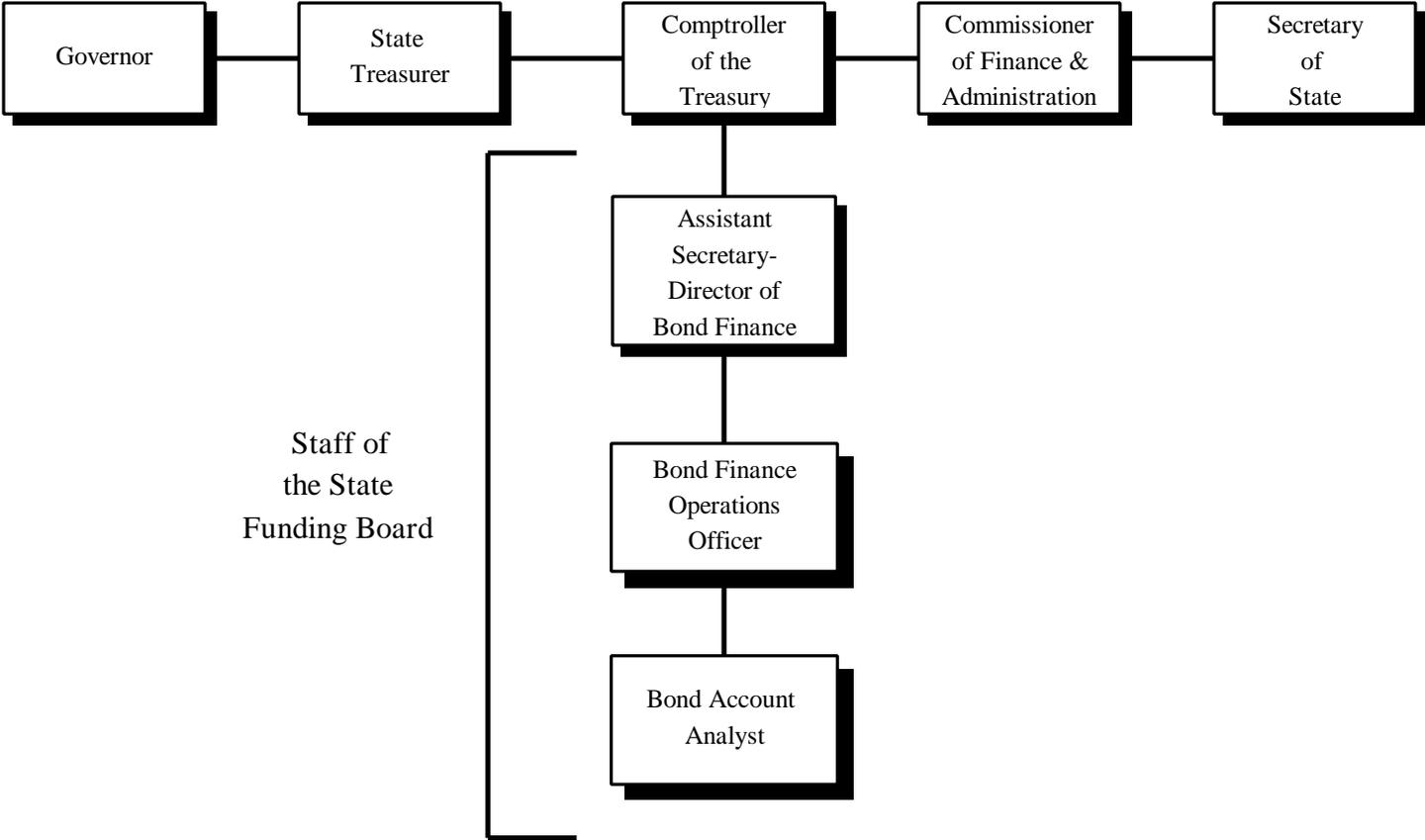
---

The objectives of the audit were

1. to consider the fund's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, and contracts;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

**Although this audit was not intended to serve as an organization-wide audit as described in the Single Audit Act, as amended by the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, it included tests of compliance with applicable federal laws and regulations and consideration of internal control. This audit is a segment of the organization-wide audit of the State of Tennessee, which is conducted in accordance with the Single Audit Act.**

# STATE FUNDING BOARD ORGANIZATION CHART



---

## **PRIOR AUDIT FINDINGS**

---

There were no findings in the prior audit report.

---

## **RESULTS OF THE AUDIT**

---

### **AUDIT CONCLUSIONS**

#### Internal Control

As part of the audit of the financial statements of the State Funding Board, Sewage Treatment Facilities Fund, for the year ended June 30, 1999, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by generally accepted government auditing standards. Consideration of internal control over financial reporting disclosed no material weaknesses.

#### Compliance

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

#### Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the State Funding Board, Sewage Treatment Facilities Fund's financial statements.



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765

**Report on Compliance and on Internal Control  
Over Financial Reporting Based on an Audit of  
Financial Statements Performed in Accordance With  
*Government Auditing Standards***

December 9, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of the State Funding Board, Sewage Treatment Facilities Fund, as of and for the year ended June 30, 1999, and have issued our report thereon dated December 9, 1999. We conducted our audit in accordance with generally accepted government auditing standards.

Compliance

As part of obtaining reasonable assurance about whether the fund's financial statements are free of material misstatement, we performed tests of the fund's compliance with certain provisions of laws, regulations, and contracts, 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 that are required to be reported under *Government Auditing Standards*.

The Honorable John G. Morgan  
December 9, 1999  
Page Two

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." in a cursive style.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ks



STATE OF TENNESSEE  
**COMPTROLLER OF THE TREASURY**  
DEPARTMENT OF AUDIT  
DIVISION OF STATE AUDIT  
SUITE 1500  
JAMES K. POLK STATE OFFICE BUILDING  
NASHVILLE, TENNESSEE 37243-0264  
PHONE (615) 741-3697  
FAX (615) 532-2765

**Independent Auditor's Report**

December 9, 1999

The Honorable John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheets of the State Funding Board, Sewage Treatment Facilities Fund, as of June 30, 1999, and June 30, 1998, and the related statements of revenues, expenses, and changes in retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the fund's management. Our responsibility is to express an opinion on these financial statements, based on our audits.

We conducted our audits in accordance with generally accepted government auditing standards. 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 audits provide a reasonable basis for our opinion.

In our report dated January 22, 1999, we qualified our opinion on the 1998 financial statements because insufficient audit evidence existed to support the fund's disclosures required by Governmental Accounting Standards Board (GASB) Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*. The fund's year 2000 disclosures are now reported as required supplementary information as permitted by GASB Technical Bulletin 99-1, *Disclosures about Year 2000 Issues—an amendment of Technical Bulletin 98-1*. Accordingly, our present opinion on the 1998 statements, as expressed herein, is different from our prior report on the 1998 financial statements.

The Honorable John G. Morgan  
December 9, 1999  
Page Two

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the State Funding Board, Sewage Treatment Facilities Fund, as of June 30, 1999, and June 30, 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

The Year 2000 Disclosures on pages 15 and 16 are not a required part of the basic financial statements but are 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 measurement and presentation of 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 fund is or will become year 2000 compliant, that the fund's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the fund does business are or will become year 2000 compliant.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 1999, on our consideration of the fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts.

Sincerely,

A handwritten signature in black ink that reads "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA, Director  
Division of State Audit

AAH/ks

STATE FUNDING BOARD  
SEWAGE TREATMENT FACILITIES FUND  
BALANCE SHEETS  
JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
<u>ASSETS</u>		
Current assets:		
Cash (Note 2)	\$ 3,801	\$ 3,761
Loans receivable	3,195	3,045
Interest receivable	<u>1</u>	<u>3</u>
Total current assets	<u>6,997</u>	<u>6,809</u>
Other assets:		
Loans receivable	21,055	24,464
Deferred charges	<u>112</u>	<u>122</u>
Total other assets	<u>21,167</u>	<u>24,586</u>
Total assets	<u>\$ 28,164</u>	<u>\$ 31,395</u>
<u>LIABILITIES AND EQUITY</u>		
Liabilities:		
Current liabilities:		
Accrued interest payable	\$ 388	\$ 438
Due to local governments (Note 3)	444	454
General obligation bonds payable, net (Note 4)	<u>3,195</u>	<u>3,045</u>
Total current liabilities	<u>4,027</u>	<u>3,937</u>
Noncurrent liabilities:		
General obligation bonds payable, net (Note 4)	<u>20,356</u>	<u>23,560</u>
Total liabilities	<u>24,383</u>	<u>27,497</u>
Equity:		
Retained earnings, unreserved	<u>3,781</u>	<u>3,898</u>
Total liabilities and equity	<u>\$ 28,164</u>	<u>\$ 31,395</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE FUNDING BOARD  
SEWAGE TREATMENT FACILITIES FUND  
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS  
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	<u>Year Ended June 30, 1999</u>	<u>Year Ended June 30, 1998</u>
<u>OPERATING REVENUES</u>		
Revenue from loans	\$ 983	\$ 1,126
Investment income	<u>216</u>	<u>230</u>
Total operating revenues	<u>1,199</u>	<u>1,356</u>
<u>OPERATING EXPENSES</u>		
Interest expense	1,257	1,403
Administrative expense	24	38
Bond issuance costs	<u>10</u>	<u>10</u>
Total operating expenses	<u>1,291</u>	<u>1,451</u>
Operating loss	<u>(92)</u>	<u>(95)</u>
Operating transfer to Tennessee Local Development Authority	<u>(25)</u>	<u>(25)</u>
Net loss	<u>(117)</u>	<u>(120)</u>
Retained earnings, July 1	<u>3,898</u>	<u>4,018</u>
Retained earnings, June 30	<u>\$ 3,781</u>	<u>\$ 3,898</u>

The Notes to the Financial Statements are an integral part of this statement.

STATE FUNDING BOARD  
SEWAGE TREATMENT FACILITIES FUND  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 1999, AND JUNE 30, 1998

(Expressed in Thousands)

	<u>Year Ended June 30, 1999</u>	<u>Year Ended June 30, 1998</u>
Cash flows from operating activities:		
Operating loss	\$ (92)	\$ (95)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Amortization	10	10
Revenue from loans	(983)	(1,126)
Investment income	(216)	(230)
Interest expense	1,257	1,403
Decrease in due to local governments	<u>(10)</u>	<u>(28)</u>
Total adjustments	<u>58</u>	<u>29</u>
Net cash used by operating activities	<u>(34)</u>	<u>(66)</u>
Cash flows from noncapital financing activities:		
Principal payments	(3,045)	(2,880)
Interest paid	(1,316)	(1,460)
Operating transfer to Tennessee Local Development Authority	<u>(25)</u>	<u>(25)</u>
Net cash used by noncapital financing activities	<u>(4,386)</u>	<u>(4,365)</u>
Cash flows from investing activities:		
Collections of loan principal	3,119	2,900
Interest received on loans	1,125	1,309
Interest received on investments	<u>216</u>	<u>230</u>
Net cash provided by investing activities	<u>4,460</u>	<u>4,439</u>
Net increase in cash	<u>40</u>	<u>8</u>
Cash, July 1	<u>3,761</u>	<u>3,753</u>
Cash, June 30	<u>\$ 3,801</u>	<u>\$ 3,761</u>

The Notes to the Financial Statements are an integral part of this statement.

**State Funding Board**  
**Sewage Treatment Facilities Fund**  
**Notes to the Financial Statements**  
**June 30, 1999, and June 30, 1998**

---

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Sewage Treatment Facilities Fund was created to provide financial assistance to local governments and utility districts through the issuance of state general obligation bonds. The Tennessee Local Development Authority has generated future financing for the program. Pursuant to the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*, Section 2100, the State Funding Board, Sewage Treatment Facilities Fund, is part of the primary government and has been included in the *Tennessee Comprehensive Annual Financial Report* as an enterprise fund (State Loan Program).

**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The State Funding Board, Sewage Treatment Facilities Fund, follows all applicable GASB pronouncements as well as applicable private-sector pronouncements issued on or before November 30, 1989.

**Measurement Focus and Basis of Accounting**

The accompanying financial statements have been prepared using the accrual basis of accounting and the flow of economic resources measurement focus. Under this basis, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

**Bond Premiums, Issuance Costs, and Refunding Costs**

Bond premiums, issuance costs, and refunding costs are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable unamortized bond premium and refunding costs. Unamortized issuance costs are reported as deferred charges.

**NOTE 2. DEPOSITS**

The fund had \$3,801,200 in the State Treasurer's pooled investment fund at June 30, 1999, and \$3,761,409 at June 30, 1998.

The pooled investment fund administered by the State Treasurer is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state

**State Funding Board**  
**Sewage Treatment Facilities Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

---

depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements, various U.S. Treasury and Agency obligations, and in obligations of the State of Tennessee pursuant to *Tennessee Code Annotated*, Section 9-4-602(b). The pooled investment fund is also authorized to enter into securities lending agreements in which U.S. government securities may be loaned to brokers for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities. The pool's custodial credit risk is presented in the *Tennessee Comprehensive Annual Financial Report*.

**NOTE 3. DUE TO LOCAL GOVERNMENTS**

This account represents loan principal overpayments and interest earnings that will be refunded to local governments.

**NOTE 4. BONDS PAYABLE**

Bonds payable at June 30, 1999, and June 30, 1998, are as follows (expressed in thousands):

	<u>June 30, 1999</u>	<u>June 30, 1998</u>
General obligation bonds, 5.0%, issued March 1, 1977, due in generally decreasing amounts of principal and interest ranging from \$2.5 million in 2000 to \$0.7 million in 2006	\$11,980	\$13,825
Refunding general obligation bonds, 4.6% to 5.0%, issued February 15, 1996, due in various amounts of principal and interest from \$1.8 million in 2000 to \$1.0 million in 2010 (net of unamortized premium of \$309 and deferred amount on refunding of \$213 at June 30, 1999, and net of unamortized premium of \$338 and deferred amount on refunding of \$233 at June 30, 1998)	<u>11,571</u>	<u>12,780</u>
Total bonds payable	<u>\$23,551</u>	<u>\$26,605</u>

**State Funding Board**  
**Sewage Treatment Facilities Fund**  
**Notes to the Financial Statements (Cont.)**  
**June 30, 1999, and June 30, 1998**

---

Debt service requirements to maturity for all bonds payable at June 30, 1999, are as follows (expressed in thousands):

<u>For the Year(s)</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 3,195	\$ 1,164	\$ 4,359
2001	3,125	1,004	4,129
2002	3,280	848	4,128
2003	2,845	684	3,529
2004	2,990	542	3,532
2005-2010	<u>8,020</u>	<u>1,077</u>	<u>9,097</u>
Total	<u>\$23,455</u>	<u>\$ 5,319</u>	<u>\$28,774</u>

**State Funding Board**  
**Sewage Treatment Facilities Fund**  
**Required Supplementary Information**  
**Year 2000 Disclosures**

---

The “Year 2000 Issue” (“Y2K”) arises because most computer software programs allocate two digits to the data field for “year” on the assumption that the first two digits will be “19.” Such programs will thus interpret the year 2000 as the year 1900, the year 2001 as 1901, etc. Absent reprogramming, Y2K affects both computer hardware (i.e., the embedded logic of computer chips) and computer software, and could impact both the ability to enter data into the computer programs and the ability of such programs to correctly process data. Y2K affects the computer applications and other equipment of the Board and its vendors, investment providers, and bond trustees.

The state has assessed the impact of Y2K on its computer applications. The state has completed its assessment and has determined that certain computer applications are mission-critical, certain are critical, and certain are supportive. Mission-critical computer applications are those for which there are no reliable manual alternatives, and for which failure to be in Y2K compliance would prevent the state from fulfilling its mission. Critical computer applications are those for which there are manual alternatives, but the state would unlikely be able to fully or efficiently perform the functions manually, because of the volume of manual activity that would be required. Supportive computer applications are those for which there are manual alternatives and the state expects to be able to perform such functions manually, if necessary.

The Board has identified two mission-critical applications. The board relies principally upon the State of Tennessee Accounting and Reporting System (STARS) administered by the state’s Department of Finance and Administration and upon the Cash Management System administered by Treasury. The Board’s Y2K initiatives had not resulted in the commitment of significant financial resources as of the end of the Board’s reporting period.

As of June 30, 1999, STARS and the Treasury Cash Management System had completed the validation and testing stage. In this context, validation and testing refers to the development of test data and test scripts, the running of test scripts, the review of test results, and the correction of any anomalies detected.

The state is continuing testing of its computer applications and expects the cost to be \$15.5 million. The state’s mainframe system provides the supporting computer system infrastructure upon which the state’s application systems reside and are processed. The state’s mainframe and all systems’ software have completed the validation and testing stage. The state is in the process of assessing and remediating the Y2K effect on other equipment.

The state is not presently aware of any noncompliance by its yet untested mission-critical and critical computer applications and other equipment or of any costs to achieve Y2K

**State Funding Board**  
**Sewage Treatment Facilities Fund**  
**Required Supplementary Information (Cont.)**  
**Year 2000 Disclosures**

---

compliance that will have a material negative impact on the state's operations or financial status; however, the state can give no assurance that circumstances will not change. The state has developed contingency plans for all mission-critical and critical functions.

The state's efforts to ensure Y2K compliance of its computer applications, mainframe and systems' software, desktop applications, and other equipment are not a guarantee that systems and equipment will be Y2K compliant.

The state is soliciting information from other organizations whose Y2K compliance could affect the state regarding the status of their assessment, testing, and remediation of their computer applications and other equipment. Of the organizations that have responded to date, all expect to achieve compliance in a manner that will not have a material negative effect on the state's operations or financial status, although no assurances can be given that circumstances will not change. The state does not have full and complete information, however, from these other organizations regarding the status of implementing Y2K compliance. Any failure by some or all of these organizations to be in Y2K compliance may have a material negative impact on the state's operations or financial status.