

NOTE 16. CONTINGENCIES

Various parties have made claims against the State in amounts, which in the aggregate, could be material to the financial statements of the State. The State recognized \$5.7 million as General Government accrued liabilities in the General Fund for pending litigation settlements for the fiscal year ended June 30, 2003. In the opinion of the Attorney General of the State however, the remaining cases are either subject to a valid defense or are not expected to result in an impairment of the State's financial position. Management believes the settlement in aggregate of claims outstanding will not result in amounts material to the financial statements of the State.

The State receives significant financial assistance from the Federal Government in the form of grants and entitlements. The right to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the State. The State does not believe that the liabilities that may result from such audits for periods through June 30, 2003 would have a material effect on its financial position or the results of operations.

The State Lottery has discharged its primary responsibility for payment of annual installments (generally 14 to 20 years) to winners of jackpots greater than \$150,000 by purchasing annuities from private insurance companies. The Lottery remains liable for future periodic payments of deferred prize obligations (approximately \$18.9 million at June 30, 2003) in the event that the annuity issuers default on their obligations.