

**DISTRICT OF COLUMBIA LOTTERY
AND CHARITABLE GAMES
CONTROL BOARD**

Financial Statements

September 30, 1998 and 1997

(With Independent Auditors' Report Thereon)



Mitchell & Titus, LLP

Certified Public Accountants
and Consultants

**DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

September 30, 1998 and 1997

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Mitchell & Titus, LLP
Board of Trade Building
1129 20th Street, NW, Suite 800
Washington, DC 20036

Independent Auditors' Report

To the Mayor and Members of
The Council of the District of Columbia

We have audited the accompanying balance sheet of the District of Columbia Lottery and Charitable Games Control Board (the Lottery), an enterprise fund of the District of Columbia (the District), as of September 30, 1998, and the related statements of revenue, expenses and changes in retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Lottery as of September 30, 1997, were audited by other auditors whose report dated January 23, 1998, expressed an unqualified opinion on those statements.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted 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 audit provides a reasonable basis for our opinion.

Government Accounting Standards Board Technical Bulletin 98-1, Disclosures about Year 2000 Issues, requires disclosure of certain matters regarding the year 2000 issue. The Lottery has included such disclosures in Note 12. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the Lottery's disclosures with respect to the year 2000 issue made in Note 12. Further, we do not provide assurance that the Lottery is or will be year 2000 ready, the Lottery's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the Lottery does business will be year 2000 ready.

As discussed in Note 1, the financial statements present only the Lottery and are not intended to present the financial position, results of operations, and cash flows of the District of Columbia in conformity with generally accepted accounting principles.

New York City
Philadelphia
Washington, D.C.

As more fully discussed in Note 1, the District of Columbia Financial Responsibility and Management Assistance Authority (Authority) was established by Congress because of continuing, operating and cash deficits incurred by the District. The Authority was created to promote financial stability, management responsibility, and service delivery efficiency within the District government. In the Act that created the Authority, Congress defined a "Control Period." The District currently remains in the initial control period, and continues to face significant unresolved future funding issues. The outcome of these issues may result in additional changes to the District's structure and level of services, and in turn, those of the Lottery.

In our opinion, except for the effects of such adjustment, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the financial statements referred to above present fairly, in all material respects, the financial position of the District of Columbia Lottery and Charitable Games Control Board as of September 30, 1998, and the results of its operations and its cash flows for the year then ended, in conformity with generally accepted accounting principles.

Mitchell & Titus, LLP

January 11, 1999
Washington, D.C.

**DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

**Balance Sheets
As of September 30
(in thousands)**

ASSETS

	1998	1997
Current assets		
Cash and cash equivalents	\$ 13,925	\$ 15,348
Accounts receivable, net	1,643	2,247
Inventory	455	165
Prepaid expenses and other	5	166
Total current assets	16,028	17,926
Property and equipment, net	527	788
Restricted investments	93,103	79,570
Total assets	<u>\$109,658</u>	<u>\$98,284</u>

LIABILITIES AND RETAINED EARNINGS

Current liabilities		
Accounts payable	2,861	1,173
Compensation liabilities	586	442
Deferred revenue, net	131	165
Taxes withheld and payable	8	6,210
Accrued prizes	9,775	6,725
Other accrued liabilities	42	948
Total current liabilities	13,403	15,663
Obligations for unpaid prizes	93,103	79,570
Total liabilities	106,506	95,233
Retained earnings	3,152	3,051
Total liabilities and retained earnings	<u>\$109,658</u>	<u>\$98,284</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

**Statement of Revenue, Expenses and Changes in Retained Earnings
For the Fiscal Year Ended September 30
(in thousands)**

	1998	1997
Gaming revenue	\$226,429	\$202,900
Operating expenses		
Prizes	110,510	101,650
Agent commission	12,150	10,975
Contractor fees	14,496	13,386
Advertising	3,659	2,916
Administration	7,672	6,708
Amortization and depreciation	<u>321</u>	<u>400</u>
Total operating expenses	<u>148,808</u>	<u>136,035</u>
Operating income	77,621	66,865
Nonoperating revenue, principally interest	<u>3,780</u>	<u>2,469</u>
Income before operating transfers	81,401	69,334
Operating transfers to the District of Columbia general fund	<u>81,300</u>	<u>69,200</u>
Net income	101	134
Retained earnings, beginning of the year	<u>3,051</u>	<u>2,917</u>
Retained earnings, end of year	<u><u>\$ 3,152</u></u>	<u><u>\$ 3,051</u></u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

**Statements of Cash Flows
For the Fiscal Year Ended September 30
(in thousands)**

	<u>1998</u>	<u>1997</u>
Cash flow from operating activities		
Cash receipts from customers	\$226,959	\$205,500
Cash payments to vendors	(26,734)	(18,281)
Cash payments to employees	(4,388)	(4,483)
Cash payments for prizes and commissions	<u>(119,610)</u>	<u>(106,990)</u>
Net cash provided by operating activities	76,227	75,746
Cash used in capital and related financing activities		
Acquisition of fixed assets	(59)	(20)
Cash used in noncapital financing activities		
Operating transfers out	<u>(81,300)</u>	<u>(69,200)</u>
Net cash used in capital and noncapital financing activities	(81,359)	(69,220)
Cash provided by investing activities		
Receipt of interest and dividends	<u>3,709</u>	<u>2,248</u>
Increase (decrease) in cash	(1,423)	8,774
Cash and cash equivalents, beginning of year	<u>15,348</u>	<u>6,574</u>
Cash and cash equivalents, end of year	<u>\$ 13,925</u>	<u>\$ 15,348</u>

The accompanying notes are an integral part of these financial statements.

**DISTRICT OF COLUMBIA LOTTERY AND
CHARITABLE GAMES CONTROL BOARD**

**Statements of Cash Flows (Continued)
For the Fiscal Year Ended September 30
(in thousands)**

	1998	1997
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$77,621	\$66,865
Amortization and depreciation	321	400
Miscellaneous nonoperating revenue	70	221
Decrease (increase) in assets:		
Receivables	604	2,270
Inventory	(290)	183
Prepaid expenses and other	161	(157)
Increase (decrease) in liabilities:		
Accounts payable	1,688	(100)
Compensation liabilities	144	(379)
Accrued prizes	3,050	(576)
Deferred revenue	(34)	(60)
Taxes withheld and payable	(6,202)	6,210
Other accrued liabilities	<u>(906)</u>	<u>869</u>
Net cash provided by operating activities	<u>\$76,227</u>	<u>\$75,746</u>

The accompanying notes are an integral part of these financial statements.

DISTRICT OF COLUMBIA LOTTERY AND CHARITABLE GAMES CONTROL BOARD

Notes to Financial Statement September 30, 1998 and 1997

1. Organization and Summary of Significant Accounting Policies

Organization

The District of Columbia Lottery and Charitable Games Control Board (the Lottery) was established by D.C. Public Law 3-172 as an independent agency of the District of Columbia government (District). By law, the Lottery must remit its monthly gaming income less operating expenses and prizes to the District's General Fund. The Lottery's financial transactions are accounted for as an enterprise fund in the District's financial statements.

The District provides certain services to the Lottery, covering legal, central accounting, and other matters. The costs and revenue associated with these services are not reflected in these financial statements.

Control Period

The District of Columbia entered a control period and the Financial Responsibility and Management Assistance Authority (the Authority) was created April 17, 1995 by Public Law 104-8 Sec. 210(c). A control period commences upon the occurrence of a borrowing from the U.S. Treasury pursuant to DC Code 47-3401, a cash deficit estimated to last beyond the current fiscal year or the first half of the subsequent fiscal year, or failure to pay debt service, payroll, employee benefits, or interstate compact payments. A control year is a fiscal year which commences during a control period. Accordingly, fiscal year 1998 was a control year.

The five members of the Authority are appointed by the President of the United States (the President). The Authority has broad powers during a control year. All acts passed by the District's City Council in a control year, along with a fiscal impact statement, must be submitted to the Authority. The Authority has seven business days after submission within which to review such legislation, a period which can be extended for an additional seven business days. The Authority may disapprove a City Council act if it determines that the act is significantly inconsistent with its financial plan and budget. The District may not borrow funds during a control year without the prior consent of the Authority. The proceeds of the annual federal appropriation, borrowings by the District, and borrowings by the Authority for the use of the District are deposited into an escrow

account held by the Authority and allocated to the District in such amounts and at such times as the Authority considers to be consistent with its financial plan and budget.

The Authority may at any time submit recommendations to the District, President or Congress to ensure compliance with a financial plan and budget or otherwise promote the financial stability, management responsibility, and service delivery of the District. In addition, the Authority may at any time issue such orders, rules or regulations as it considers appropriate to carry out the purposes of Public Law 104-8 and the amendments made thereto, to the extent that the issuance of such an order, rule, or regulation is within the authority of the Mayor or the head of any department or agency of the District government. Any such order, rule or regulation is legally binding to the same extent as if issued by the Mayor or the head of any such department or agency, and the Authority's decision to issue such an order, rule or regulation is final and not subject to judicial review.

Abolishment of Lottery's Board of Directors

In September 1996, the Authority abolished the Lottery's Board of Directors and transferred oversight of the Lottery's operations to the Chief Financial Officer of the District of Columbia.

Basis for Reporting

The accompanying financial statements are those only of the Lottery and are not intended to present the financial position, results of operations, and cash flows of the District of Columbia as a whole, in conformity with generally accepted accounting principles.

The accompanying financial statements are prepared on the accrual basis of accounting, whereby revenues and expenses are reported as earned and or incurred, respectively, rather than when cash is received or paid. Revenue from the sale of tickets, net of related agent commission expenses, are deferred until the drawings are held.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting*, the Lottery applies all applicable GASB pronouncements, and has elected to apply only those Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins, issued on or before November 30, 1989, that do not conflict with or contradict GASB Pronouncements.

Cash and Cash Equivalents

Cash that is not needed for immediate disbursements is pooled with that of the District and used to purchase current investments. Pooled cash may be invested directly in, or through repurchase agreements collateralized by, obligations of the United States or its

agencies, which are fully guaranteed by the federal government, and in certificates of deposit, which are issued by federally insured banks. Unrestricted investments may not be held for more than 91 days. As such, for the purpose of cash flows, such investments are considered to be cash equivalents. The market value of securities collateralizing deposits or underlying repurchase agreements is at least equal to the amount of cash deposited or invested. All securities are held by the District or by its agent in the District's name. Interest income from the investment of pooled cash is allocated to the Lottery based on the amount of money the Lottery invests in the pool.

The District controls the availability of the Lottery's cash and investments and determines when to pay the Lottery's current and future bills. The District has projected that sufficient cash flows will not be available in fiscal year 1999 to pay planned costs without the use of its pooled cash and investments. The Lottery's ability to pay vendors is dependent on the District's ability and intent regarding such payments.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Inventory

Inventory, consisting of instant lottery tickets, is valued at cost.

Property and Equipment

Property and equipment are stated at cost. Amortization and depreciation expense are calculated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Estimated Life</u>
Furniture and fixtures	5-8 years
Equipment	5-8 years
Leasehold improvements	5-15 years

When assets are retired or sold, the cost and related accumulated depreciation are removed from the appropriate property and equipment accounts, and resulting gains or losses are included in current income. The cost of major remodeling, betterments, and improvements that are greater than \$5,000 are capitalized. Repairs and maintenance are expensed as incurred.

Accrued Prizes

Accrued prizes represent the Lottery's liability for its share of annuities payable to certain winners for ticket winnings that have not been claimed as of the balance sheet date.

2. **Accounts Receivable**

The components of accounts receivable at September 30 are as follows:

	<u>1998</u>	<u>1997</u>
	(in thousands)	
Due from agents:		
On-Line Games	\$ 836	\$ 892
Instant Games	<u>1,026</u>	<u>1,230</u>
Total due from agents	1,862	2,122
Other	<u>237</u>	<u>691</u>
Total	2,099	2,813
Less allowance for doubtful accounts	<u>(456)</u>	<u>(566)</u>
	<u>\$1,643</u>	<u>\$2,247</u>

3. **Property and Equipment**

A summary of property and equipment at September 30 is as follows:

	<u>1998</u>	<u>1997</u>
	(in thousands)	
Machinery and equipment	\$ 2,186	\$ 2,127
Office furniture and fixtures	301	301
Leasehold improvements	<u>560</u>	<u>560</u>
Total	3,047	2,988
Less accumulated amortization and depreciation	<u>(2,520)</u>	<u>(2,200)</u>
	<u>\$ 527</u>	<u>\$ 788</u>

Depreciation and amortization expenses for 1998 and 1997 were \$321,000 and \$400,000 respectively.

4. Contractual Services

The operations of the Lottery's on-line terminals for the following programs are provided by Lottery Technologies, Enterprises (LTE):

Lucky Numbers
DC Four
Quick Cash
Powerball
Instant Lottery
Daily Millions
Cash 4 Life

During 1998 and 1997, the Lottery incurred fees of \$11,815,000 and \$10,255,000 respectively, under its contract with LTE. The current contract expires in December 1999.

5. Multi-State Lottery Association

The Lottery is a member of the Multi-State Lottery Association (MUSL). MUSL, consisting of the Lottery and 21 other state lotteries, has the responsibility of administering a multi-state lottery game. Powerball, the current game, was initiated on April 20, 1992 and is a semiweekly pari-mutuel drawing with a minimum grand prize of \$2,000,000. MUSL previously administered the Lotto-America game which was terminated on April 18, 1992.

MUSL Investments and Obligations for Unpaid Prizes

Lotto-America and Powerball prizes of \$250,000 or greater are payable to the winner in annual installments over 25 years, with the first payment being made by the Lottery at the time of the drawing. U.S. government securities, backed by the full faith and credit of the United States or its agencies, provide payments corresponding to the Lottery's obligations to these prize winners and are purchased by MUSL in the name of the Lottery. MUSL holds these securities, cashes the securities when due and wires the money to the Lottery's account on or before the anniversary date of the winning.

As of September 30, 1998 and 1997, MUSL had purchased, for the Lottery, U.S. government securities to fund future installment payments aggregating \$131,949,288 and \$130,544,000 respectively. The market value of these securities, included under restricted investments in the financial statements, was \$93,107,725 and \$82,930,330 at September 30, 1998 and 1997, respectively. Disbursements for these prizes are charged against the Obligations for Unpaid Prizes Liability.

The Lottery's restricted investments are categorized to give an indication of the level of risk assumed by the Lottery at year-end. Category I includes investments that are insured and registered or for which the securities are held by the Lottery or its agent in the Lottery's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Lottery's name. Category 3 includes uninsured and unregistered investments, with securities held by the counterparty, or by its trust department or agent but not in the Lottery's name.

All restricted investments at September 30, 1998 and 1997 are Category 3 investments. The reported cost and fair value of the investments at September 30, 1998 are \$82,661,726 and \$93,107,725, respectively and at September 30, 1997 are \$79,570,194 and \$82,930,330, respectively.

	1998		1997	
	Cost	Market	Cost	Market
Cash and cash equivalents	4,601	4,601	1,051,398	1,051,398
Investments	<u>82,657,124</u>	<u>93,103,124</u>	<u>78,518,796</u>	<u>81,878,932</u>
Total	<u>82,661,725</u>	<u>93,107,725</u>	<u>79,570,194</u>	<u>82,930,330</u>

MUSL Prize Reserves

Each MUSL participant sells Powerball tickets through its agents. The prize pool for Powerball consists of 50 percent of each drawing period's sales, including tax. Two percent of that prize pool is placed in a prize reserve and set prize reserve fund. These prize reserve funds serve as a contingency reserve to protect MUSL from unforeseen liabilities; the money in the reserve funds is to be used at the discretion of MUSL's Board of Directors.

The prize reserve and set prize reserve fund monies are refundable to MUSL members if MUSL disbands or if a member leaves. Members leaving, MUSL must wait one year before receiving their refund. At September 30, 1998 and 1997, the total MUSL prize reserve fund had a balance of \$51,851,941 and \$48,366,034, respectively, of which the Lottery's portion was \$1,887,204 and \$1,794,078, respectively. In addition, the total MUSL set prize reserve fund had a balance at September 30, 1998 and 1997, of \$24,901,413 and \$29,284,521, respectively, of which the Lottery's portion was \$839,445 and \$1,030,430, respectively. The Lottery's portion of reserve funds is not recorded in the accompanying financial statements.

In 1998 MUSL established a prize reserve fund for the Cash for Life Jackpot introduced in March 1998. At September 30, 1998 the Cash For Life reserve fund had a balance of \$5,299,544 of which the Lottery's portion was \$398,244.

6. Taxes Withheld and Payable

Taxes withheld and payable of \$6,210,000 at September 30, 1997 represents federal income taxes withheld from a lump sum prize payout of approximately \$45 million to a Powerball winner during the last quarter of fiscal year 1997.

7. Retirement Plans

The majority of the Lottery's employees are covered by a cost-sharing multiple employer pension plan (the Plan) in the Federal Civil Service Retirement System (5 U.S.C. 833 1).

Employees contribute 7 percent of their salaries to the Plan. The Lottery contributes an additional 7 percent, which amounted to approximately \$186,944 and \$138,100 in 1998 and 1997, respectively. These amounts are paid to the U.S. Civil Service Commission, which is responsible for administering this system and disbursing the benefits hereunder.

In 1998 and 1997 the number of employees covered was 50 and 44, respectively.

All full-time employees hired after September 30, 1987 are covered by the District-sponsored defined contribution plan. The Lottery contributes 5 percent of an employee's base salary (7 percent in 1996), which amounted to approximately \$92,584 and \$40,500 in 1998 and 1997, respectively. Employees do not contribute to this plan and are eligible to participate after one year of service. Contributions and earnings vest fully after 4 years of servicing. following a one-year waiting period. Contributions are reduced if separation occurs before 5 years of credited service. Contributions are not assets of the District which has no further liability to this plan.

Lottery employees are eligible to participate in the District-sponsored deferred compensation plan (D.C. Code 47-3601) which is administered by independent contractors under Internal Revenue Code Section 457 and is accounted for as a separate Deferred Compensation Agency Fund of the District. Employees may defer up to 25 percent of the first \$30,000 of their annual compensation. Compensation deferred and income earned are taxable when paid or made available to the participant or beneficiary upon retirement, death, termination, or unforeseeable emergency.

8. Obligation to Transfer Funds to District of Columbia Government

The District of Columbia Budget Act (PL 4-162) (the Act) for 1983 requires the Lottery to transfer the excess of revenues over expenses, net of a reserve not to exceed 2 percent of projected annual prize payments, to the District's General Fund. The Mayor may approve a change in the reserve limit, as necessary, upon the request of the Lottery.

During 1998 and 1997, the Lottery made net transfers of \$81,300,000 and \$69,200,000, respectively, to the District's General Fund. At September 30, 1998 and 1997, the Lottery was in compliance with the Act.

9. Game Information

Game information for the fiscal year ended September 30 is as follows:

1998
(in thousands)

	Lucky Numbers	DC Four	Powerball	Quick Cash	Daily Millions	Cash 4 Life	Instant Games and Other	Total
Gaming revenue	\$76,090	\$59,255	\$58,379	\$6,144	\$2,080	\$2,106	\$22,375	\$226,429
Prizes	(35,185)	(28,824)	(28,456)	(2,125)	(732)	(1,056)	(14,132)	(110,510)
Agent commissions	<u>(4,099)</u>	<u>(2,993)</u>	<u>(3,130)</u>	<u>(277)</u>	<u>(94)</u>	<u>(110)</u>	<u>(1,447)</u>	<u>(12,150)</u>
	<u>\$36,806</u>	<u>\$27,438</u>	<u>\$26,793</u>	<u>\$3,742</u>	<u>\$1,254</u>	<u>\$ 940</u>	<u>\$ 6,796</u>	<u>\$103,769</u>

1997
(in thousands)

	Lucky Numbers	DC Four	Powerball	Quick Cash	Daily Millions	Instant Games and Other	Total
Gaming revenue	\$80,675	\$56,807	\$29,051	\$7,238	\$5,254	\$23,875	\$202,900
Prizes	(40,743)	(27,381)	(13,278)	(3,160)	(2,647)	(14,441)	(101,650)
Agent commissions	<u>(4,579)</u>	<u>(2,806)</u>	<u>(1,255)</u>	<u>(463)</u>	<u>(354)</u>	<u>(1,518)</u>	<u>(10,975)</u>
	<u>\$35,353</u>	<u>\$26,620</u>	<u>\$14,518</u>	<u>\$3,615</u>	<u>\$2,253</u>	<u>\$ 7,916</u>	<u>\$ 90,275</u>

10. Commitments

Operating Leases

The Lottery is currently leasing facilities under long-term, noncancellable, operating leases.

Total future minimum rental commitments are as follows:

Year ending September 30	
1999	\$ 1,246,103
2000	1,222,677
2001	1,192,852
2002	1,240,566
2003	1,240,566
Thereafter	<u>4,962,264</u>
Total	<u>\$11,105,028</u>

Rent expense for the fiscal year ended September 30 was as follows:

	<u>1998</u>	<u>1997</u>
Gross rental	\$ 1,305,140	\$ 1,281,693
Less subleases	<u>(170,334)</u>	<u>(170,334)</u>
Net rent expense	\$ <u>1,134,806</u>	\$ <u>1,111,359</u>

11. Contingencies

Annuity Contracts

Prizes awarded for the Lucky Lotto game, which was curtailed effective May 1, 1989, are payable to the winners in annual installments over 10 or 20 years, with the first payment being made by the Lottery at the time of the drawing. The Lottery has entered into agreements with insurance companies under which the Lottery purchased annuities under contracts that provide payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance companies make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the related future payments is reflected in the accompanying financial statements. The Lottery would be liable for such future payments if the insurance companies were to default on their payments.

At September 30, 1998 and 1997, future installment payments due to Lucky Lotto winners were approximately \$15,383,000 and \$17,326,000, respectively.

During 1991, the Executive Life Insurance Company (ELIC), with whom the Lottery holds two annuities, was placed into conservancy with the Los Angeles, California Superior Court (Superior Court). The total remaining payments as of September 30, 1998 and 1997 for

annuities purchased from ELIC was \$2,133,534 and \$2,462,610 respectively. During 1993, the Superior Court approved the terms of a rehabilitation plan and purchase of ELIC by the Aurora National Life Insurance Company. As a result, the Lottery is required to fund a percentage of the annual payments for these annuities. The Lottery's liability for accrued prizes at September 30, 1998 and 1997 includes \$634,971 and \$758,353, respectively, for future obligations for these payments.

12. Year 2000 Issue

The Year 2000 issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the lottery's operations as early as fiscal year 1999.

The Lottery has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 issue and that are necessary to conducting the Lottery's operations. Based on this inventory, the Lottery is in the remediation stage and the bid specifications have been drawn up to purchase, from outside vendors, hardware and software believed to be Year 2000 compliant for the financial reporting systems; contracts totaling approximately \$1,000,000 have been entered into as of January 11, 1999. Testing and validation of the systems will need to be completed after the hardware and software are installed.

Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation effort will not be fully determinable until the Year 2000 and thereafter. Management cannot assure that the Lottery will be Year 2000 ready, that the lottery's remediation efforts will be successful in whole or in part, or that parties with whom the lottery does business will be Year 2000 ready.

