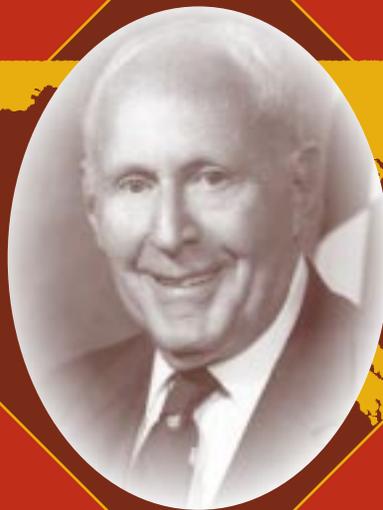


**STATE OF MARYLAND**

*Comprehensive  
Annual Financial Report*

for the year ended June 30, 1998



*In memoriam  
Louis L. Goldstein  
1913–1998*

**ROBERT L. SWANN  
STATE COMPTROLLER  
ANNAPOLIS, MARYLAND**



# Louis L. Goldstein In Memoriam

When Maryland State Comptroller Louis L. Goldstein died on July 3, 1998,



Louis L. Goldstein 1913-1998

Marylanders lost a political legend, and the government financial community lost a pioneer.

During a career in public service that spanned 60 years and 11 governors, Louis Goldstein kept Maryland in the forefront of financial and technological innovation while never losing the

popular touch that made him the longest serving state official in Maryland history.

The divider pages in this report offer a tribute to a unique man and his six decades of achievement, especially in the field of government finance.

STATE OF MARYLAND

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COMPREHENSIVE ANNUAL FINANCIAL REPORT  
for the fiscal year ended June 30, 1998  
PREPARED  
by the State Comptroller's Office  
Robert L. Swann  
Comptroller of the Treasury of Maryland



# Heading for Annapolis

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The first and only pause in Goldstein's government career came shortly after Pearl Harbor, when the 29-year-old legislator enlisted in the United States Marine Corps

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Louis L. Goldstein served as President of the Maryland Senate from 1955-1959. Photo by M.E. Warren

The Louis Goldstein political legend started in 1938, when the 25-year-old law school graduate ignored Democratic party officials who told him he was too young to run for office and launched a grass roots campaign for a Maryland House of Delegates seat representing his native Calvert County in rural southern Maryland. He sowed the seeds of victory by knocking on virtually every door in the county. When the votes were counted, Louis Lazarus Goldstein was headed for Annapolis.

The first - and only - pause in Goldstein's state government career came shortly after the attack on Pearl Harbor, when the 29-year-old legislator enlisted in the United States Marine Corps. His service in the Pacific Theater included a stint on General Douglas MacArthur's staff investigating Japanese war crimes in the Philippine Islands after the war ended. Louis Goldstein resumed his political career with a victory in the 1946 state Senate election, the start of a 12-year career which included four years as

majority floor leader and four years as senate president.

But it was as comptroller, a job with statewide visibility and unique responsibilities, that Goldstein found his calling - and his job for life. Most state comptrollers handle accounting and payroll functions, but the Maryland comptroller does that and more, serving as state revenue commissioner, managing state government's largest data processing center that serves most state agencies, and regulating the sensitive alcoholic beverage, cigarette, and motor fuel industries. Maryland's comptroller also serves with the governor and state treasurer on the Board of Public Works, Maryland's highest administrative body, and as chair of the Board of Revenue Estimates, overseeing revenue tracking and forecasting. It's a huge job, one that Louis Goldstein tackled with what Marylanders would soon come to know as his trademark energy and enthusiasm. He won the first of ten elections to the post in 1958.

**STATE OF MARYLAND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
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**INTRODUCTORY SECTION**

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# Entering the Computer Age

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Maryland was  
the first state  
to take  
advantage of  
computerized  
data sharing  
with the  
Internal  
Revenue  
Service

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Louis Goldstein often told the story of his first day on the job as state comptroller when he asked his new staff where the computers were. The answer of "what computers?" was the impetus for 40 years of modernization and innovation in accounting, revenue collection, and customer service.

The new comptroller quickly made Maryland the first state in the nation to automate income tax processing and the first to take advantage of computerized data sharing with the Internal Revenue Service, saving taxpayer dollars and improving revenue collections.

Under Louis Goldstein's leadership, Maryland became one of the first states to implement a central computerized statewide accounting and reporting system, the STARS system, in 1976.

STARS provided the data base for significant accomplishments, including converting the state's

financial reports to generally accepted accounting principles, conversion to generally accepted auditing standards, and issuing comprehensive financial reports including the opinion of an independent auditor - one of the major national accounting firms.

Comptroller Goldstein continued to provide stellar data services to other state government agencies and to the public. A study by the Progress and Freedom Foundation, in conjunction with IBM's Institute for Electronic Government, ranked Maryland number one in the nation in using digital technology to provide taxpayer service and to process, store, and retrieve tax information. Enhancements such as PC filing, electronic funds transfer and a highly interactive website continue to make more high-tech services available to Maryland citizens. And the Comptroller's Office has been recognized for being well on schedule to having its extensive computer network ready for the Year 2000.



**Comptroller Goldstein administered state government's largest data processing operation, serving many state agencies in addition to the Comptroller's Office.**  
*Photo by Mike Walsh*

**STATE OF MARYLAND**  
**SELECTED STATE OFFICIALS**

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**EXECUTIVE**

Parris N. Glendening

*Governor*

Kathleen Kennedy Townsend

*Lieutenant Governor*

Robert L. Swann

*Comptroller*

J. Joseph Curran, Jr.

*Attorney General*

Richard N. Dixon

*Treasurer*

**JUDICIAL**

Robert M. Bell

*Chief Judge*

*Court of Appeals of Maryland*

**LEGISLATIVE**

Thomas V.M. Miller, Jr.

*President of the Senate*

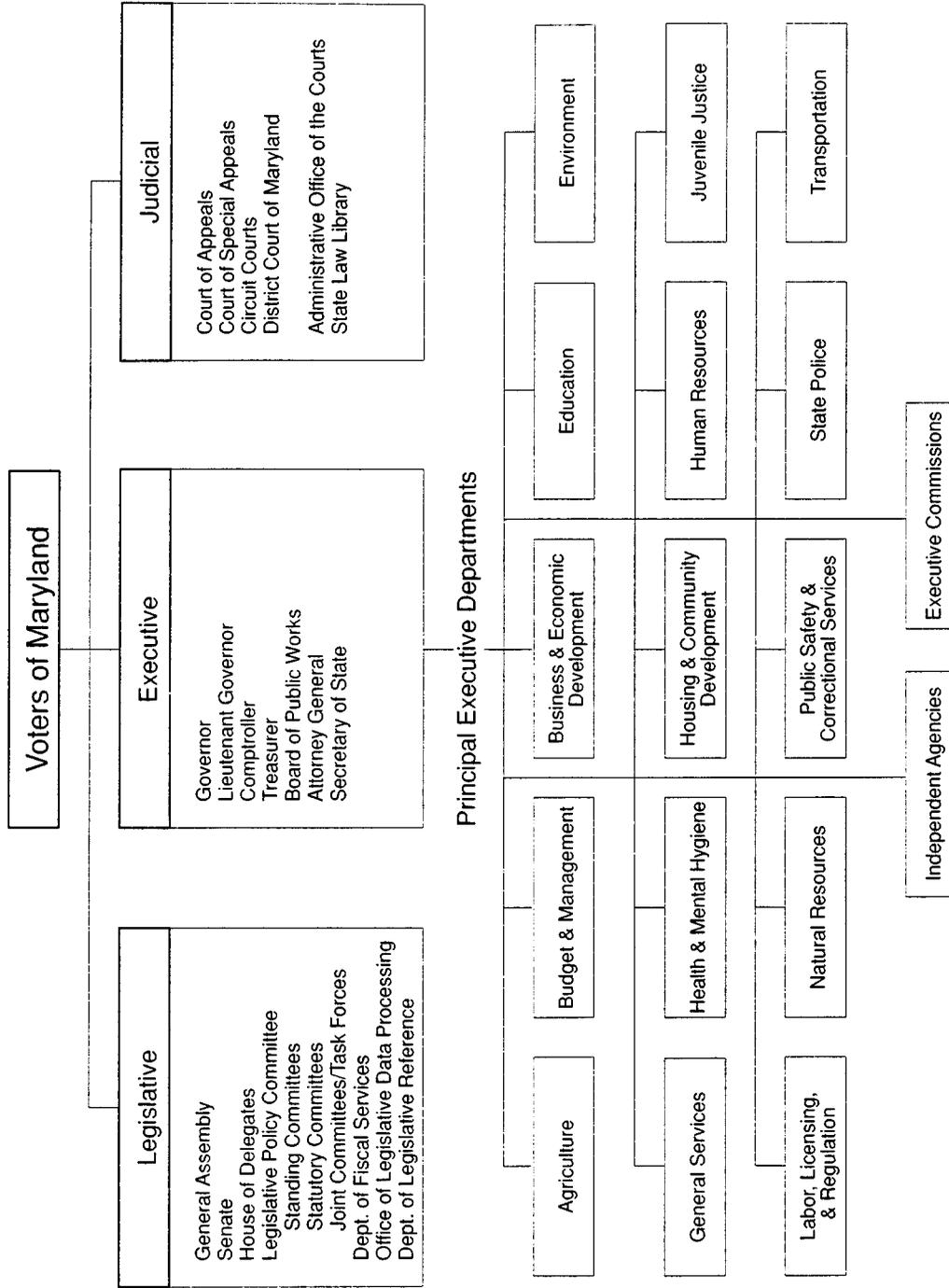
*(47 Senators)*

Casper R. Taylor, Jr.

*Speaker of the House of Delegates*

*(141 Delegates)*

# OVERVIEW OF MARYLAND STATE GOVERNMENT



# Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of  
Maryland

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended  
June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



*Douglas R. Ellaworth*  
President

*Jeffrey L. Esler*  
Executive Director



Robert L. Swann  
Maryland State Comptroller



# Robert L. Swann

## Comptroller of the Treasury

---

Louis L. Goldstein Treasury Building, P. O. Box 466  
Annapolis, Maryland 21404-0466  
E-Mail: rswann@comp.state.md.us

Honorable Members of the General  
Assembly and the Governor,  
State of Maryland:

November 7, 1998

### INTRODUCTION

The Comprehensive Annual Financial Report of the State of Maryland, for the fiscal year ended June 30, 1998, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller. I believe that the data, as presented, are accurate in all material respects; that they are presented in a manner designed to fairly set forth the financial position and results of operations of the State as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the State's financial affairs have been included.

This Report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes the general purpose financial statements and the combining and individual fund and account group financial statements and schedules, as well as the report of independent public accountants on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

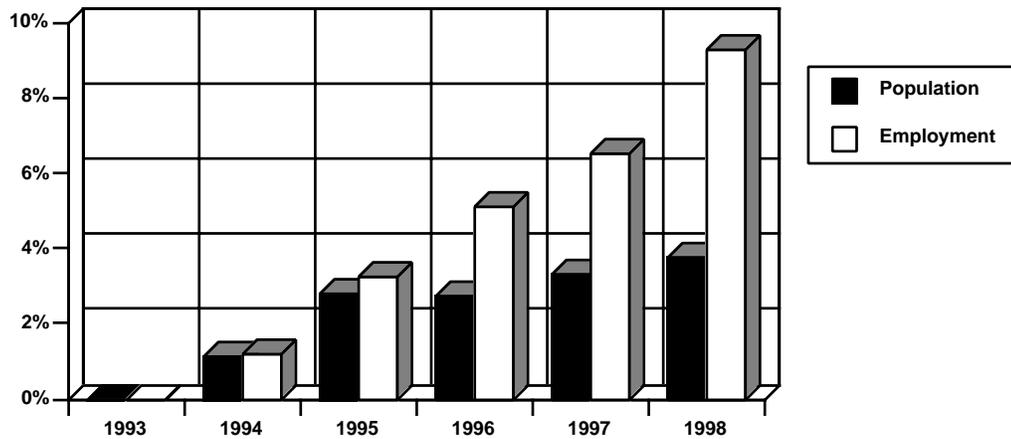
The accompanying financial statements include all funds and account groups of the State of Maryland (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. Accordingly, the various colleges and universities, the Maryland Industrial Development Financing Authority, the Maryland Stadium Authority, the Maryland Food Center Authority and Maryland Environmental Service are reported as discretely presented component units.

### ECONOMIC CONDITION AND OUTLOOK

Maryland's economy grew strongly in calendar year 1997, adding 60,000 jobs. Since late 1994, more than 176,000 new jobs have been created. The strongest areas of growth were business services, construction, mortgage banks, and brokerages. Banks, utilities, several manufacturing sectors and the State and federal government experienced declines in employment. Total non-agricultural employment in the State increased by 2.6%.

## Cumulative Growth in Population and Employment



Source: U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis.

In addition to being the largest sector by number of employees, the service sector has been the fastest growing sector of the State's economy with an annual growth rate of 4.2% over the past four years. It is expected to continue as the leading growth sector, increasing by 3.8% in 1998 and 2.6% in 1999. All components of this sector have shown strong growth since 1994 except for legal services. Business services have added 52,900 jobs over the last four years, nearly 30% of the State's total increase in jobs. Growth in business services has been driven by personnel supply services and computer and data processing services.

Personnel who supply services account for one-quarter of business services, but have provided more than one-half of the new jobs in this sector as the types of temporary employees offered have broadened from clerical workers to accounting, legal, and other professional services. In addition, businesses have increasingly used temporary employees to screen new permanent employees. The continuing move towards software solutions for holding down costs, improving service and data delivery, and managing caseloads and record keeping will ensure growth in the computer services area, as will the Year 2000 problem.

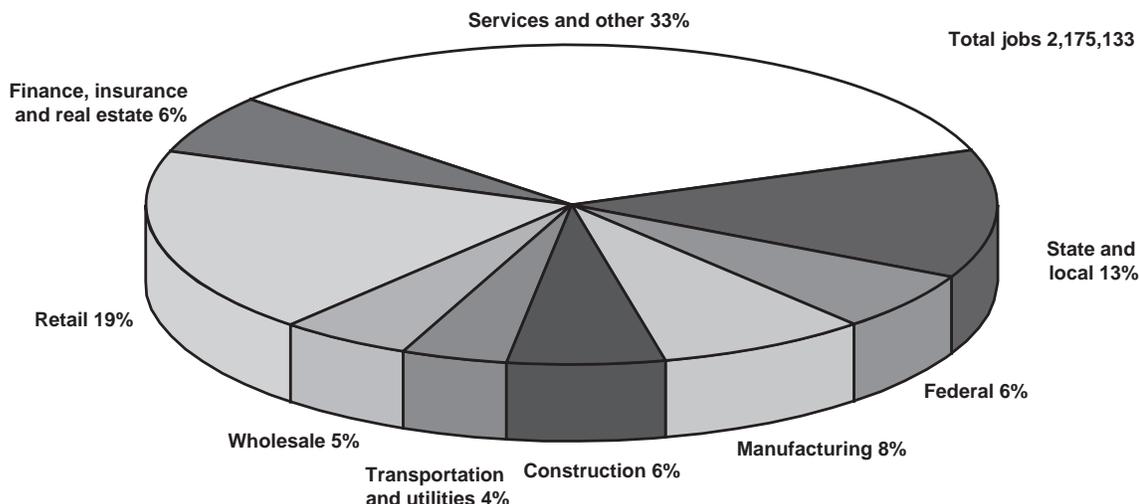
Growth in health services slowed to 1.9% in 1997, down from 5.9% in 1994. Cost containment pressures have cut hospital stays, redirecting patients to outpatient clinics. In turn, hospital patient days have dropped by 25% over the past five years, resulting in flat hospital employment over the last three years. These same pressures have led to an increase in employment in the home health care industry, which has doubled in size over the last seven years.

Construction has been the second-fastest growing sector in the State since 1994. A strong residential market, fueled in part by generally declining interest rates and increased affordability, as well as a boom in office and industrial construction have resulted in a labor shortage for this sector. Despite this labor shortage, and a possible reduction in credit available to commercial developers, construction employment is expected to grow by 3.2% in 1998 and 1.3% in 1999.

The region around the Baltimore Washington International Airport (BWI) continues to grow. The arrival of Southwest Airlines in 1993 transformed BWI into the area's premier low-cost airport, and the establishment of a crew base and expected expansion adding ten more gates will support continued growth at the airport. Growth in the area is evidenced by the eight hotels currently operating, with occupancy rates averaging over 80%, as well as by the speculative office space construction resulting from office vacancy rates around 5%. It is anticipated that the economic base of the area will be broadened by the planned development of Arundel Mills, a 1.4 million square foot shopping mall with another 1 million square feet of retail space on its periphery.

Trucking, warehousing and wholesale trade have become important contributors to the State's economy. Induced by Maryland's strong transportation network, central location and access to reasonably-priced land, a long list of firms have established warehouses here. Although employment in these industries has fluctuated over the last three years, it has resumed its upward trend recently and should expand steadily.

## Employment by Sector 1998



*Source:* Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, December 31, 1997.

Maryland has long been in the forefront of telecommunication deregulation. Additionally, the size of the Baltimore-Washington market, combined with the proximity to the largest telecommunications customer in the nation, the federal government, makes the region extremely attractive to new providers. Millions of dollars of investment have surged into the region. Growth has also been spurred by the rapid development of wireless technology. Employment in telecommunications will continue to experience healthy gains, estimated at 2.2% in 1998 and 1.5% in 1999.

While utilities have traditionally been among the State's largest and most stable employers, imminent deregulation has resulted in declining employment levels as they move to cut costs to prepare for competition. With further consolidation and cost-cutting on the horizon, employment is expected to decline by 1.4% in 1998 and 1.0% in 1999.

The retail sector has grown steadily since 1992. The strong performance of the stock market and record levels of consumer confidence have resulted in steady increases in consumer spending. Employment has not grown as rapidly as spending; however, due to a labor shortage and the influx of "big box" retailers, which tend to be very large and require fewer employees than traditional retailers. Growth will continue, however, with the advent of Arundel Mills, the planned conversion of the old Capital Center to an upscale retail and entertainment center, and the expansion of Prime Retail's Prime Outlets at Hagerstown. Employment in the retail sector is estimated to grow by 1.2% in 1998 and 0.8% in 1999.

Growth in the finance sector has been relatively modest, but the overall growth figures mask the continually changing composition of this dynamic sector. Employment in mortgage banks increased by 11.1% in 1997 and is expected to finish 1998 with double-digit growth, and brokerages increased employment by 9.3% in 1997 and are estimated to increase it by 6.6% in 1998. The recent economic turmoil, including the Asian economic crisis and the volatility of the stock market, has increased uncertainty at brokerages and investment banks. BT Alex. Brown has shed some positions in Baltimore, and its parent company Bankers Trust had announced plans to eliminate between 900 and 1,800 jobs nationwide, some of which could be from Alex. Brown. The recent merger of Bankers Trust and Deutsche Bank may result in additional job losses for BT Alex. Brown, which currently employs about 1,500 individuals in Baltimore. Banks, meanwhile, continued a steady decline of 3% to 4% annually. Growth for this sector is estimated at 1.5% in 1998, before a decline of 0.7% in 1999.

The government sector, third largest in the State, is expected to show relatively robust growth of 2.2% in 1998 and 1.4% in 1999. Federal government employment will increase for the first time in the 1990's in 1998, and State government employment will increase in 1998 after two years of decline attributable to tight budgets and an early retirement program. Local government employment is expected to be one of the strongest areas of growth, primarily because of increasing numbers of teachers, at 3.2% in 1998 and 2.1% in 1999.

Overall, non-agricultural employment in the State is expected to grow by 2.4% in 1998, 1.2% in 1999 and 1.4% in 2000. Supported by strong wage growth, personal income is estimated to increase by 5.3% in 1998, 4.9% in 1999, and 5.2% in 2000.

## MAJOR INITIATIVES

New laws enacted by the 1998 General Assembly and signed by Governor Parris N. Glendening provided for an acceleration of the income tax reduction enacted last year, the creation of a Children's Health Program and increased funding for K-12 and higher education.

During the upcoming General Assembly Session, the Glendening Administration plans to introduce legislation to improve patients' rights, provide additional scholarship assistance for Maryland students and reduce class size. The Governor also plans to continue to increase funding for education and school construction.

## FINANCIAL INFORMATION

The State has issued guidelines to its agencies for establishing an effective system of internal control. Internal control is the overall plan of organization and all the coordinate methods used to safeguard assets, ensure the reliability of the accounting data, promote efficient operations and ensure compliance with established governmental policies, laws, regulations and contracts. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met.

As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines. Additionally, the State is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act and U.S. Office of Management and Budget Circular A-133 "Audits of States, Local Governments, and Non-Profit Organizations". Detail information related to these single audits is included in separate reports.

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations.

Maryland maintains its accounts to conform with generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system.

## GENERAL GOVERNMENTAL FUNCTIONS

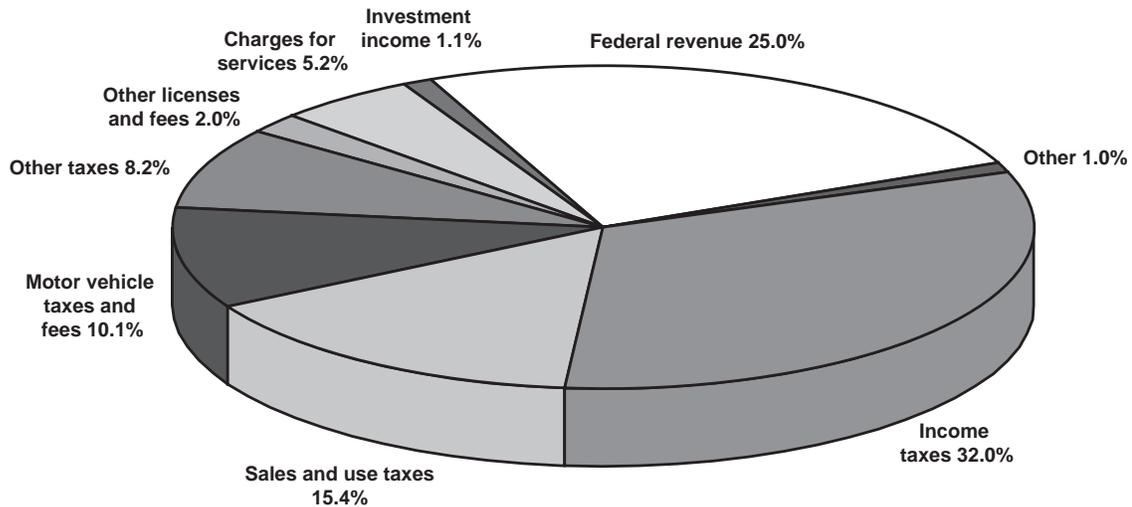
Revenues of the general governmental functions (excluding capital projects) totaled \$14,050,131,000 for the fiscal year ended June 30, 1998. This represents an increase of 3.9% over revenues for the fiscal year 1997. Income tax, the largest source of revenue, produced 32.0% of general governmental revenues compared to 30.2% last year. The revenues from various sources and the changes from last year are shown in the following tabulation (amounts expressed in thousands):

<u>Revenue Source</u>	<u>Amount</u>	<u>Increase (Decrease) Over 1997 Actual</u>	
		<u>Amount</u>	<u>Percent</u>
Income taxes.....	\$ 4,491,384	\$ 407,237	10.0%
Sales and use taxes .....	2,161,158	67,282	3.2
Motor vehicle taxes and fees.....	1,426,340	53,338	3.9
Other taxes.....	1,149,092	91,500	8.7
Other licenses and fees.....	289,414	6,921*	2.4
Charges for services .....	737,099	78,516	11.9
Interest and other investment income .....	151,296	13,701	10.0
Federal revenue.....	3,509,817	(17,065)*	(0.5)
Other.....	134,531	(172,434)*	(56.2)
Total.....	<u>\$14,050,131</u>	<u>\$ 528,976</u>	<u>3.9%</u>

\* After the reclassification of certain prior year revenue amounts.

Individual and corporate income tax totaled \$4,139,808,000 and \$351,576,000, respectively, representing an increase of \$403,712,000 and \$3,525,000, compared to the prior year. The individual income taxes increased 10.8% due to continued gains in personal income and capital gains.

## General Government Revenues by Source



Source: Revenue Reports by General Accounting Division of Maryland State Comptroller's Office, June 30, 1998.

Other taxes increased from the previous year primarily due to an increase in revenues from recordation taxes on real property transfers and estate taxes.

Charges for services increased from the previous year primarily due to increased recoveries from hospitals, nursing homes, and patients. Additionally, transportation revenues increased for port activities and Transportation Authority tolls.

Interest on investments increased from the previous year, due to greater investable balances.

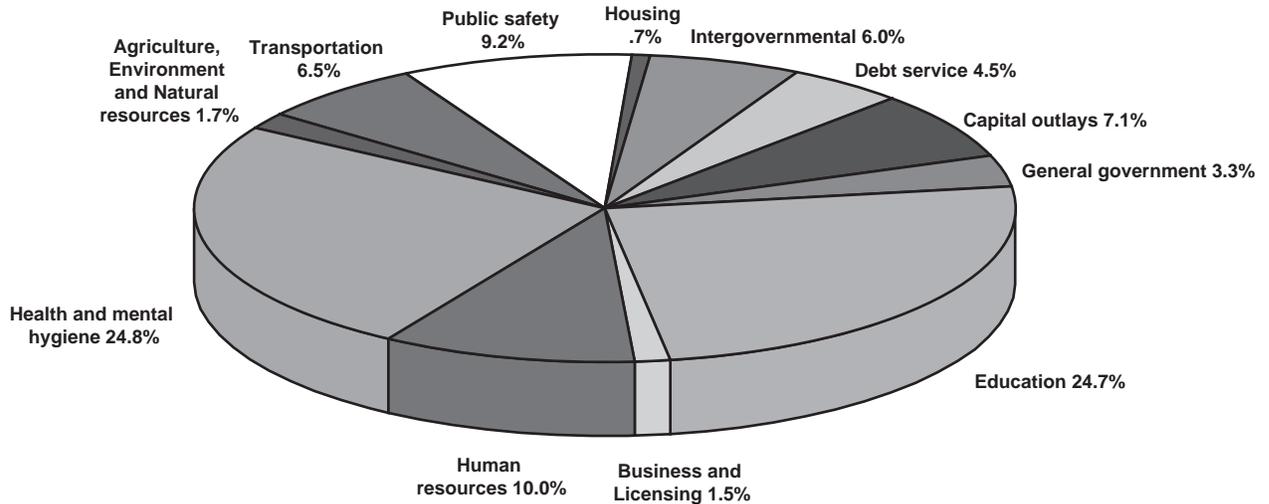
Federal revenues after the reclassifications decreased over the previous year primarily because of a reduction in medical programs cost and a reduction in federally funded transportation spending. As a result of the reclassification of certain revenues in 1997 from Federal revenues to other revenues to conform the 1997 presentation to 1998's presentation, other revenues decreased by \$172,434,000.

Changes in levels of general governmental expenditures for major functions from the previous year (excluding capital projects) are shown in the following tabulation (amounts expressed in thousands):

Function	Amount	Increase (Decrease) Over 1997 Actual	
		Amount	Percent
<b>Current:</b>			
General government .....	\$ 427,482	\$ (14,148)*	(3.2)%
Education .....	3,239,233	213,697	7.1
Business and economic development.....	45,083	4,057	9.9
Labor, licensing and regulation .....	148,980	7,457	5.3
Human resources .....	1,317,365	12,885	1.0
Health and mental hygiene.....	3,255,961	(67,478)	(2.0)
Environment.....	60,973	(3,749)	(5.8)
Transportation.....	859,460	(1,526)	(0.2)
Public safety and judicial .....	1,202,632	23,066*	2.0
Housing and community development.....	97,661	3,271*	3.5
Natural resources and recreation.....	122,113	(3,156)	(2.5)
Agriculture.....	42,202	4,064	10.7
Intergovernmental.....	785,544	32,593	4.3
Debt service .....	593,302	7,713	1.3
Capital outlays for transportation.....	933,055	(8,396)	(0.9)
<b>Total.....</b>	<b>\$13,131,046</b>	<b>\$210,350</b>	<b>1.6%</b>

\* After the reclassification of certain prior year expenditure amounts.

## Expenditures by Function



*Source:* Expenditure Reports by General Accounting Division of Maryland State Comptroller's Office, June 30, 1998.

Education expenditures increased from the previous year due to increases in aid to local school and library systems.

Business and economic development expenditures increased from over the previous year primarily due to increased funding for the Division of Tourism, Film and the Arts.

Expenditures for agriculture increased primarily for agricultural land preservation.

Operating transfers in, to the general fund, from capital projects, enterprise funds (State Lottery Agency, Economic Development-Insurance Programs, and Economic Development-Loan Programs) and component units (Maryland Industrial Development Financing Authority and higher education) totaled \$408,239,000. This represents an increase of \$7,356,000 over the previous year due primarily to increases in lottery transfers. Operating transfers out, from the general fund, to capital projects, enterprise funds, and higher education and proprietary component units totaled \$828,507,000. This represents an increase of \$60,469,000 over the previous year due primarily to increased funding for higher education, pay-as-you-go capital projects and economic development — loan programs.

The fund balance for the general fund as of June 30, 1998, was \$1,595,192,000 representing an increase of \$536,129,000 over the previous year's balance. The fund balance for the general fund has shown a pattern of continuous and substantial increase during the last five years.

Management of financial resources is exercised through the legally mandated budgetary system of the State. The budgetary general fund balance as of June 30, 1998, reflected a total fund balance and undesignated balance in the amounts of \$1,264,430,000 and \$117,097,000 respectively. For information on differences between GAAP and the budgetary system, see footnote 3 to the general purpose financial statements.

The special revenue unreserved fund balance of \$315,546,000, as of June 30, 1998, increased \$60,757,000, from the preceding year. The debt service unreserved fund balance of \$114,529,000 increased \$18,191,000 from the previous year.

### CAPITAL PROJECTS FUND

Proceeds of general obligation bond issues are accounted for in the capital projects fund. Completed projects and uncompleted construction in progress at year end, which are assets of the State, are capitalized in the general fixed assets account group, the appropriate enterprise fund for self-supporting projects or the component units fund types. During fiscal year 1998, State projects costing \$482,444,000 were completed. State grants for capital projects of local governments and other public organizations amounted to \$324,211,000 in the fiscal year, an increase of \$41,068,000 over 1997.

Authorized but unissued general obligation bonds as of June 30, 1998 totaled \$622,512,000.

## GENERAL FIXED ASSETS

The general fixed assets of the State are those used in the performance of general governmental functions and exclude the fixed assets of the proprietary fund type and the component units. As of June 30, 1998, the general fixed assets of the State amounted to \$10,136,467,000. This amount represents the actual or estimated cost of the assets. Depreciation of general fixed assets is not recognized in the State's accounting system. Infrastructure assets (excluding Maryland Transportation Authority), consisting principally of highways, roads, and bridges, are not recorded in general fixed assets.

## ENTERPRISE, FIDUCIARY AND COMPONENT UNIT FUNDS

The retained earnings for enterprise funds increased during 1998 by \$98,405,000, compared to an increase of \$70,386,000 in fiscal year 1997. The Economic Development Insurance Programs reported a decrease of \$3,865,000 in retained earnings. The retained earnings for the Economic Development-Loan Programs increased by \$103,218,000. This increase was primarily due to increased earnings on cash and investments and operating transfers in from the general fund. Although the State Lottery Agency reported \$398,337,000 income before transfers, the operating transfers out of \$400,126,000 accounts for a decrease of \$1,789,000 in its retained earnings.

Fiduciary fund types include the expendable trust fund, pension trust funds and agency funds. Agency funds are custodial in nature and do not report fund balances. All other fiduciary fund types reported fund balances of \$30,095,577,000 as of June 30, 1998, compared to \$25,388,805,000 as of June 30, 1997. The increase was due to increased net assets in pension funds and accounting for the deferred compensation plans as an expendable trust fund instead of an agency fund.

The State Retirement and Pension System of Maryland was established to provide pension benefits for State employees and employees of 127 participating political subdivisions and 98 participating municipal corporations within the State. The Mass Transit Administration Pension Plan was established to provide pension benefits for all Mass Transit Administration employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. The annual actuarial valuation continues to reflect a positive trend in funding the pension plans.

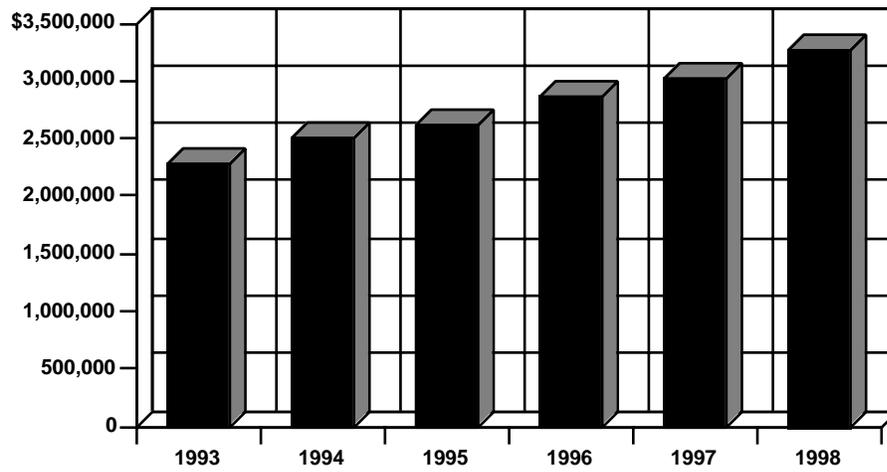
The total fund balance for the higher education component units was \$3,128,314,000 as of June 30, 1998, compared to \$2,877,398,000, as of June 30, 1997. Retained earnings for the proprietary component units totaled \$229,656,000, for June 30, 1998. This represents an increase in retained earnings of \$41,411,000 for the Maryland Stadium Authority, \$166,000 for the Maryland Food Center Authority and \$4,133,000 for the Maryland Industrial Development Financing Authority, and a \$823,000 decrease for the Maryland Environmental Service.

## DEBT ADMINISTRATION

The ratios of net bonded debt to assessed property value, debt to present market value and bonded debt per capita are considered to be useful indicators of the State's debt position to State management, citizens and investors. Data for fiscal years 1993 to 1998 are shown as follows:

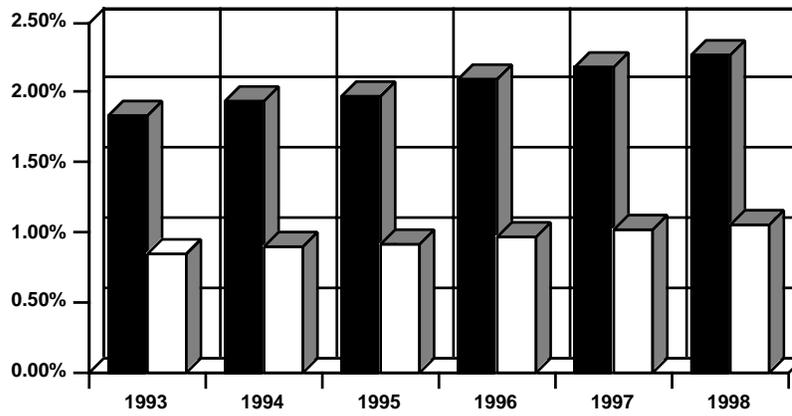
	<u>Amount</u> (expressed in thousands)	<u>Ratio of Net</u> <u>Bonded Debt</u> <u>to Assessed</u> <u>Value (46.7% of</u> <u>Present Market)</u>	<u>Ratio of</u> <u>Debt to</u> <u>Estimated</u> <u>Market</u> <u>Value</u>	<u>Bonded</u> <u>Debt Per</u> <u>Capita</u>
General obligation bonds:				
1998	\$3,270,525	2.3%	1.06	\$642.03
1997	3,025,394	2.2	1.01	596.49
1996	2,859,939	2.1	.97	567.17
1995	2,619,069	2.0	.91	519.04
1994	2,504,004	1.9	.89	504.33
1993	2,279,390	1.8	.85	464.42

### General Obligation Bonds Principal Outstanding

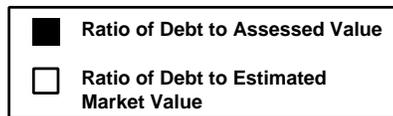


Source: Office of Administration and Finance, Maryland State Comptrollers Office, 1998.

### Ratio of Bonded Debt to Value of Taxable Property



Source: The Forty-ninth through Fifty-fourth Report of the State Department of Assessments and Taxation.



Additionally, outstanding limited obligation bonds of the Department of Transportation and the Maryland Transportation Authority amounted to \$850,145,000 and \$374,944,000, respectively, as of June 30, 1998. The State is also ultimately responsible to pay for certain debt of two of its component units via capital leases with these component units. As of June 30, 1998, the outstanding capital lease balance was \$312,895,000. Debt service on the Department of Transportation bonds is provided principally by excise taxes levied by statute. Debt service on the Maryland Transportation Authority is payable from revenues of Authority projects. Self-supporting revenue bonds outstanding as of June 30, 1998, amounted to \$3,468,989,000. As of June 30, 1998, long-term obligations for accrued annual leave of \$152,788,000, represent the value of accumulated earned but unused annual leave for general government employees and the accrual for unpaid self-insurance claims was \$127,920,000.

The following tabulation shows the general obligation bonds issued during the past three fiscal years:

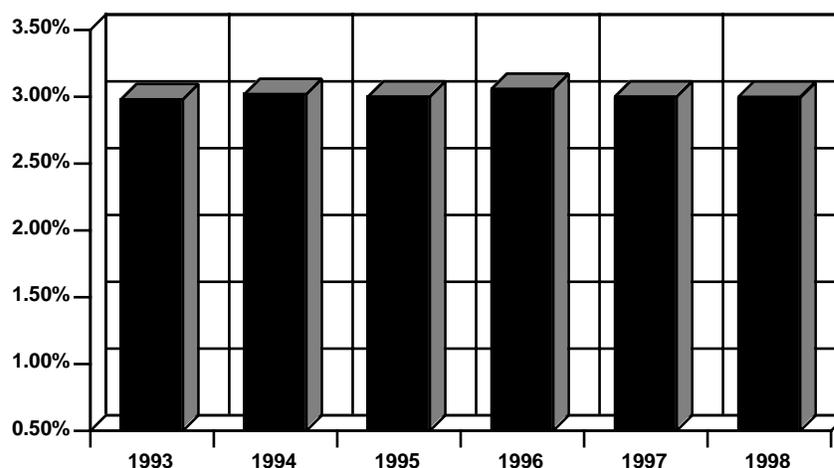
State of Maryland—General Obligation Bonds

<u>Date of Issue</u>	<u>Amount</u>	<u>Average Life in Years</u>	<u>Effective Interest Rate</u>	<u>Interest Cost Per Borrowed Dollar</u>
March 5, 1998	\$250,000,000	9.7	4.9 %	47.0¢
August 14, 1997	250,000,000	9.7	5.0	48.1
March 13, 1997	240,000,000	9.7	5.0	48.4
October 24, 1996	170,000,000	9.7	5.0	48.5
June 20, 1996	150,000,000	9.7	5.2	50.7
February 29, 1996	170,000,000	9.6	4.5	43.2
October 26, 1995	150,000,000	9.6	4.9	47.3

Maryland's general obligation bonds have been rated Aaa by Moody's Investors Service and AAA by Standard and Poor's and Fitch Investors, Inc., for a number of years.

In 1978, the Capital Debt Affordability Committee was created to study the State's debt structure and to recommend maximum limitations on annual debt authorizations. Although the recommendations of the Committee are not binding on the State's General Assembly, the amounts of annual general obligation bond authorizations effective for 1998 were within the limits established by the Committee. Maryland tax supported debt outstanding as a percent of personal income remains below the Capital Debt Affordability Committee Criteria Standard of 3.2% of personal income. For the fiscal year 1998, State tax supported debt outstanding amounted to \$4,614,822 which is, according to its Capital Debt Affordability Committee, 3.0% of Maryland's total projected 1998 personal income.

**State Tax Supported Debt Outstanding  
as a Percentage of Personal Income**

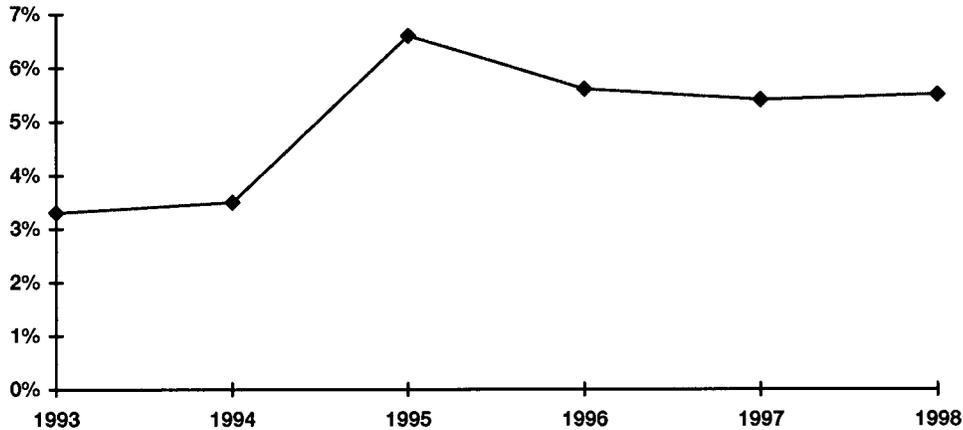


Source: Report of the Maryland Capital Debt Affordability Committee, 1998.

## CASH MANAGEMENT

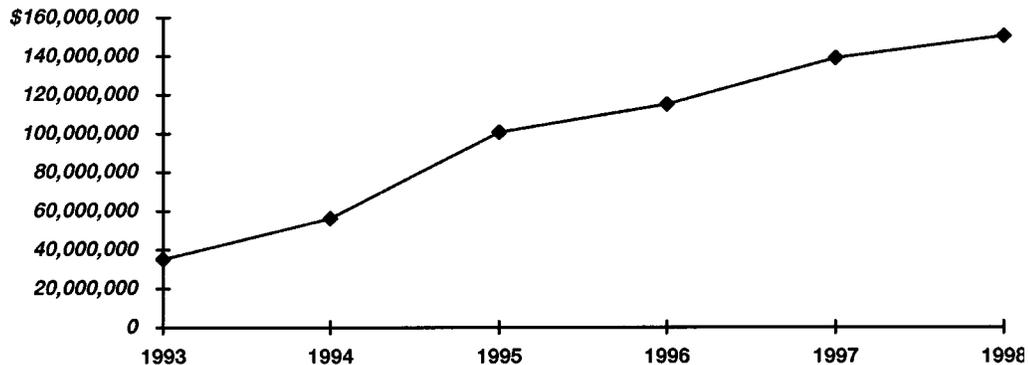
During the year, temporary surpluses of cash in the governmental fund were invested in repurchase agreements, U.S. Treasury and agency obligations, and money market mutual fund accounts with maturities ranging from 1 to 365 days. As of June 30, 1998, the State's cash resources for these funds were invested as follows: in repurchase agreements, 89.2%; in U.S. Treasury and agency obligations, 2.6%; and in money market mutual fund accounts and other, 8.2%. The average yield on maturing cash and investments during the year was 5.5%, as compared to 5.4% in the prior year, and the amount of interest earned was \$151,443,000 which was \$12,550,000 more than the previous year.

**The Average Yield on Maturing Investments  
1993-1998**



Source: Investments Report, State Treasurer's Office, 1998.

**Interest Received on Maturing Investments of  
General Governmental Funds**



Source: Investments Report, State Treasurer's Office, 1998.

## RISK MANAGEMENT

The State is involved in legal proceedings, which normally occur in government operations. Such proceedings, in the opinion of the Attorney General, are not likely to have a material adverse impact on the financial position of the State's funds.

The State self-insures toward most claims of risk of loss, including general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies and authorities of the State participate in the self-insurance programs. As of June 30, 1998, the State and its component units have recorded \$190,902,000 in liabilities associated with its self-insurance programs.

Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks.

#### YEAR 2000 COMPLIANCE

Certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing the date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures in miscalculations, and is generally referred to as the "Year 2000" problem. The State has commenced a process to assure Year 2000 compliance of all hardware, software, and ancillary equipment that is date dependent. In August 1997, the State established the Year 2000 Program Management Office to manage the State's year 2000 processes and oversee the activities underway at the agencies. The State's Year 2000 process involves four phases, awareness, assessment, remediation and validation / testing. A critical part of the State's Year 2000 plan is the development of contingency plans to assure continued operation in the event of critical automated systems failure or unforeseen supply chain interruptions.

While the State has allocated significant resources to the Year 2000 issue and expects to resolve all of its Year 2000 problems prior to December 31, 1999, there can be no assurance that all systems will be ready or that failure of systems not identified as critical could have significant negative effect on the State's operation. Also minor problems will undoubtedly remain after December 31, 1999. The State does not expect Year 2000 problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. However, the State has no control over the Year 2000 remediation efforts of external third parties and to the extent that the third parties have not resolved its Year 2000 problems, they may negatively impact the State.

The footnotes to the financial statements contain more detailed information. However, since this information is not auditable, and the effects and success of related remediation efforts will not be fully determinable until the year 2000 and thereafter, the AICPA has issued guidance for accounting firms to qualify their opinions with respect to this issue, and the opinion letter submitted by Arthur Andersen LLP includes the suggested qualification.

#### OTHER INFORMATION

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of the Treasury's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's general purpose financial statements by a firm of independent public accountants selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Arthur Andersen LLP has been included in the financial section of this report. In addition, Arthur Andersen LLP performs audits to meet the requirements of the federal Single Audit Act and the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; such information being contained in other reports.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its comprehensive annual financial report for the fiscal year ended June 30, 1997. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such Comprehensive Annual Financial Report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 18 consecutive years (fiscal years ended 1980-1997). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Cordially yours,

A handwritten signature in black ink, reading "Robert L. Swann". The signature is written in a cursive style with a large, prominent initial "R".

Robert L. Swann  
Comptroller of the Treasury  
of Maryland

**FINANCIAL SECTION**

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# Watching the Marketplace

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Maintaining  
the Triple A  
General  
Obligation  
bond rating  
was a  
Goldstein  
hallmark

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Most Marylanders probably can't explain exactly what a Triple A bond rating is, but they know it's important because Louis Goldstein said so and because he made it a cornerstone of Maryland's financial management.

Thanks to Comptroller Goldstein, Maryland became the first state to issue comprehensive bond disclosure statements before its General Obligation bond sales, long before such statements became a requirement of the marketplace. Louis Goldstein also made it a point to visit the financial wizards of Wall Street and to invite them to Maryland for a look at what stood behind Maryland's reputation for fiscal excellence.

Maryland remains one of only eight states in the nation to retain the

coveted Triple A General Obligation bond rating from all of the major independent bond rating agencies. From 1971 through mid-1998, the Triple A rating saved the taxpayers of Maryland more than \$147 million in interest costs, compared to the next highest Double A rating.

Louis Goldstein also applied his financial acumen to his role as the chairman of the Board of Trustees of the Maryland State Retirement System. Just weeks before the 500-point stock market correction of October 19, 1987, he engineered the system's now-famous "stock for bond" swap - selling \$2.3 billion worth of common stocks and later purchasing investment grade bonds.



Comptroller Goldstein served on the Maryland Board of Public Works, the state's highest administrative body - which sells Maryland's General Obligation Bonds - with seven governors and six state treasurers. In 1981, Governor Harry Hughes (center) and Treasurer William S. James (left) agreed with Mr. Goldstein that high interest rates warranted issuing 10-year bonds instead of the usual 15-year term. *Photo by Mike Walsh*

# ARTHUR ANDERSEN LLP

November 7, 1998

## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

The Honorable Robert L. Swann,  
Comptroller of the Treasury of Maryland:

We have audited the accompanying general purpose financial statements of the State of Maryland as of June 30, 1998, and for the year then ended, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maryland'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 (1) Maryland State Lottery Agency; (2) Maryland Water Quality Financing Administration; (3) State Use Industries; (4) State Retirement and Pension System of Maryland; (5) Maryland Local Government Investment Pool; (6) Maryland Stadium Authority; (7) Maryland Food Center Authority; and the (8) Maryland Environmental Service, which represent the percentages of the total assets, operating revenues or additions, and expenditures, expenses or deductions of the fund types listed below.

<u>Agency</u>	<u>Percentage of Total Fund Type</u>		
	<u>Total Assets</u>	<u>Operating Revenues or Additions</u>	<u>Expenditures Expenses or Deductions</u>
Enterprise Fund	22.4%	81.6%	75.0%
— One Loan Program			
— Maryland State Lottery Agency			
— State Use Industries			
Pension Trust Fund	99.8	99.5	99.1
— State Retirement and Pension System of Maryland			
Agency Fund	37.3	N/A	N/A
— Maryland Local Government Investment Pool			
Component Unit Propriety Fund	95.1	99.8	98.6
— Maryland Stadium Authority			
— Maryland Food Center Authority			
— Maryland Environmental Service			

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 agencies and component units, is based solely on the reports of other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *Government Auditing Standards* (1994 Revision), 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. 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 other auditors provide a reasonable basis for our opinion.

Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State of Maryland has included such disclosures in Note 20. 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 State of Maryland's disclosures with respect to the year 2000 issue made in Note 20. Further, we do not provide assurance that the State of Maryland is or will be year 2000 ready, that the State of Maryland's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State of Maryland does business will be year 2000 ready.

In our opinion, based on our audit and the reports of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the State of Maryland as of June 30, 1998, and the results of its operations and the cash flows of its Enterprise Funds and Component Unit Proprietary Funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated November 7, 1998, on our consideration of the State of Maryland's internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements and schedules listed in the table of contents, which are also the responsibility of the State of Maryland's management, are presented for purposes of additional analysis and to meet legal reporting requirements and are not a required part of the general purpose financial statements. The information, except for the Schedules of Estimated Revenues- Budgetary Basis and General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations-Budgetary Basis for the year ending June 30, 1999 (pages 98 and 99) has been subjected to the auditing procedures applied in our audit of the general purpose financial statements and the reports of other auditors referred to above, and in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The other data included in this Comprehensive Annual Financial Report have not been audited by us and, accordingly, we express no opinion on such data.

Arthur Anderson LLP



# Financial Management

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The  
National  
Association  
of State  
Comptrollers  
recognized  
Goldstein's  
financial  
management  
skills by  
naming its  
Leadership  
Award in  
his honor

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Maryland won the Certificate of Excellence in Financial Reporting for 18 consecutive years under Goldstein's leadership. *Photo by Mike Walsh*

Under Louis Goldstein's leadership, the Comptroller's Office continued to be a trend setter in the field of governmental accounting and reporting. Comptroller Goldstein's strong support of the single audit of federal grants was a factor in the eventual passage of the Federal Single Audit Act and one of many factors that led the Joint Financial Management Improvement Program of the U.S. government to present him with the prestigious Donald L. Scantlebury Award in 1989.

In 1997, the pioneering STARS system was replaced by R\*STARS, a component of Maryland's cutting

edge Financial Management Information System, which added many enhancements, including greatly expanded vendor offset capabilities to withhold vendor payments to delinquent taxpayers.

The Government Finance Officers Association of the United States and Canada (GFOA) recognized Comptroller Goldstein's leadership in financial reporting by making the state one of the first to win the Certificate of Excellence in Financial Reporting for the state's Comprehensive Annual Financial Report.



# Harnessing Technology for Taxpayers

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Although  
he was  
born before  
World War I,  
Goldstein  
embraced  
high technology  
as an enduring  
tool to serve  
taxpayers

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**Comptroller Goldstein helps Dorothy Harried demonstrate Maryland's first-in-the-nation, intelligent data imaging system to process income tax returns.**  
*Photo by Mike Walsh*

Marylanders knew Louis Goldstein as the man who delivered Maryland income tax refunds to them in record time. His reputation for prompt, efficient, and personal service was captured by a local newspaper cartoon - showing a taxpayer mailing a return while the comptroller appears almost simultaneously with a refund check.

The technology for this service included a pioneering process for imaging tax forms, a consolidated tax administration system, electronic tax filing, and nationally recognized online services.

Maryland became the first state in the nation to allow new businesses to register online and one of the first to let taxpayers check the status of their state refund checks online. Expanded direct deposit of tax refunds will ensure the Comptroller's Office maintains its reputation for getting taxpayers' money back in their hands as quickly as possible.

The comptroller also made sure electronic funds transfer would work to the state's advantage. More than half of the revenue the agency collects now comes in through EFT, in paperless filings from businesses.

**GENERAL PURPOSE FINANCIAL STATEMENTS**

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**STATE OF MARYLAND**  
**Combined Balance Sheet**  
**All Fund Types, Account Groups**  
**and Discretely Presented Component Units**  
**June 30, 1998**  
(Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types Enterprise	Fiduciary Fund Types	Account Groups		Total Primary Government (Memorandum Only)	Component Units		Total Reporting Entity (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		Trust and Agency	General Fixed Assets	General Long-Term Debt		Higher Education	Proprietary Fund Types	
<b>Assets and Other Debits:</b>												
<b>Assets:</b>												
Cash and cash equivalents .....	\$1,263,420	\$ 69,789	\$ 85,821	\$ 282,984	\$ 191,732	\$ 1,697,341			\$ 3,591,087	\$ 204,642	\$ 33,940	\$ 3,829,669
Investments .....	1,344,638	154,998	12,684	335	1,296,935	28,611,289			31,420,879	192,968	16,138	31,629,985
Amount on deposit with U.S. Treasury .....						756,239			756,239			756,239
Taxes receivable, net .....	477,158	32,445	5,996			237,103			752,702			752,702
Intergovernmental receivables .....	524,319	105,375							629,694	102		629,796
Other accounts receivable .....	83,173	67,906	638	850	64,385	329,040			545,992	125,081	20,325	691,398
Due from other funds .....	49,840	245,430			242,790	835,792			1,373,852			1,373,852
Due from primary government .....										230,035	9,733	239,768
Due from component units .....	6,817								6,817			6,817
Collateral for loaned securities .....						2,419,590			2,419,590			2,419,590
Inventories .....					4,998				4,998	12,840		17,838
Loans and notes receivable, net .....	1,559	15,624	25,723	14,724	2,487,504				2,545,134	59,921	6,566	2,611,621
Investment in direct financing leases .....											312,895	312,895
Loans to component units .....			6,372						6,372			6,372
Property, plant and equipment, net .....					7,098		\$10,136,467		10,143,565	3,240,818	29,362	13,413,745
Restricted assets .....											588	588
Other assets .....	179,813	31,064	14,734		66,862				292,473	52,056	240,066	584,595
<b>Other Debits:</b>												
Amounts available in debt service fund for retirement of —												
General obligation bonds .....									28,765	28,765		28,765
Transportation bonds .....									5,865	5,865		5,865
Maryland Transportation Authority bonds .....									79,899	79,899		79,899
Amounts to be provided for retirement of —												
General obligation bonds .....									3,241,760	3,241,760		3,241,760
Transportation bonds .....									844,280	844,280		844,280
Maryland Transportation Authority bonds .....									295,045	295,045		295,045
Accrued self-insurance costs .....									127,920	127,920		127,920
Accrued annual leave .....									152,788	152,788		152,788
Obligations under capital leases .....									79,353	79,353		79,353
Obligations under capital leases with component units .....									312,895	312,895		312,895
<b>Total assets and other debits .....</b>	<b>\$3,930,737</b>	<b>\$722,631</b>	<b>\$151,968</b>	<b>\$ 298,893</b>	<b>\$4,362,304</b>	<b>\$34,886,394</b>	<b>\$10,136,467</b>	<b>\$5,168,570</b>	<b>\$59,657,964</b>	<b>\$4,118,463</b>	<b>\$ 669,613</b>	<b>\$64,446,040</b>

## Liabilities, Equity and Other Credits:

## Liabilities:

Accounts payable and accrued liabilities .....	\$ 618,577	\$189,200		\$ 56,746	\$ 53,339	\$ 805,225		\$ 1,723,087	\$ 194,128	\$ 31,803	\$ 1,949,018	
Due to other funds.....	1,286,873	26,760			37,836	22,383		1,373,852			1,373,852	
Due to component units .....	239,768							239,768			239,768	
Accounts payable to political subdivisions .....	85,476	58,011				953,267		1,096,754			1,096,754	
Lottery prizes .....					478,626			478,626			478,626	
Collateral obligation for loaned securities .....						2,419,590		2,419,590			2,419,590	
Accrued insurance on loan losses .....					36,612			36,612		6,667	43,279	
Other liabilities .....					59,119			59,119		3,849	62,968	
Net assets held by local government investment pool.....						590,352		590,352			590,352	
Deferred revenue.....	60,767	3,192			6,766			70,725	47,046	18,856	136,627	
Due to primary government.....										6,817	6,817	
Loans from primary government.....										6,372	6,372	
Notes payable .....					2,630			2,630			2,630	
Mature bonds and interest coupons payable.....			\$ 5,344					5,344			5,344	
Revenue bonds and other notes payable.....					2,536,505			2,536,505	655,154	336,740	3,528,399	
General obligation bonds payable.....							\$3,270,525	3,270,525			3,270,525	
Transportation bonds payable .....							850,145	850,145			850,145	
Maryland Transportation Authority bonds payable.....							374,944	374,944			374,944	
Accrued self-insurance costs .....	44,084				526		127,920	172,530	17,645	727	190,902	
Accrued annual leave .....					788		152,788	153,576	69,478	1,273	224,327	
Obligations under capital leases.....							79,353	79,353	6,698		86,051	
Obligations under capital leases with component units.....												
<b>Total liabilities .....</b>	<b>2,335,545</b>	<b>277,163</b>	<b>5,344</b>	<b>56,746</b>	<b>3,212,747</b>	<b>4,790,817</b>	<b>5,168,570</b>	<b>15,846,932</b>	<b>990,149</b>	<b>413,104</b>	<b>17,250,185</b>	
Commitments and contingencies (Notes 17, 18, 19 and 20)												
Equity and Other Credits:												
Investment in fixed assets.....							\$10,136,467	10,136,467	2,567,471		12,703,938	
Capital:												
Contributed capital .....					659,722			659,722		26,853	686,575	
Retained earnings —												
Reserved .....										4,729	4,729	
Unreserved .....					489,835			489,835		224,927	714,762	
Fund balances (deficit) —												
Reserved .....	1,062,223	129,922	32,095	322,995		30,095,577		31,642,812	476,371		32,119,183	
Unreserved —												
Designated.....	302,737		114,529					417,266			417,266	
Undesignated (deficit).....	230,232	315,546		(80,848)				464,930	84,472		549,402	
<b>Total equity and other credits.....</b>	<b>1,595,192</b>	<b>445,468</b>	<b>146,624</b>	<b>242,147</b>	<b>1,149,557</b>	<b>30,095,577</b>	<b>10,136,467</b>	<b>43,811,032</b>	<b>3,128,314</b>	<b>256,509</b>	<b>47,195,855</b>	
<b>Total liabilities, equity and other credits ...</b>	<b>\$3,930,737</b>	<b>\$722,631</b>	<b>\$151,968</b>	<b>\$ 298,893</b>	<b>\$4,362,304</b>	<b>\$34,886,394</b>	<b>\$10,136,467</b>	<b>\$5,168,570</b>	<b>\$59,657,964</b>	<b>\$4,118,463</b>	<b>\$ 669,613</b>	<b>\$64,446,040</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Revenues, Expenditures, Other Sources  
and Uses of Financial Resources and Changes in Fund Balances**

**All Governmental Fund Types and Expendable Trust Funds**

**for the year ended June 30, 1998**

(Expressed in Thousands)

	Governmental Fund Types				Fiduciary	Total
	General	Special Revenue	Debt Service	Capital Projects	Fund Types Expendable Trust	Primary Government (Memorandum Only)
<b>Revenues:</b>						
Income taxes.....	\$ 4,491,384					\$ 4,491,384
Sales and use taxes .....	2,161,158					2,161,158
Motor vehicle taxes and fees.....		\$1,426,340				1,426,340
Other taxes.....	906,664		\$ 242,428		\$ 360,572	1,509,664
Other licenses and fees.....	289,414					289,414
Charges for services.....	302,846	434,253				737,099
Interest and other investment income .....	123,654	23,714	3,928	\$ 147	102,505	253,948
Federal revenue.....	3,046,668	463,149			3,989	3,513,806
Employee contributions.....					242,784	242,784
Other.....	125,645	7,932	954	298	72	134,901
<b>Total revenues .....</b>	<b>11,447,433</b>	<b>2,355,388</b>	<b>247,310</b>	<b>445</b>	<b>709,922</b>	<b>14,760,498</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government .....	427,482				27,004	454,486
Education.....	3,239,233					3,239,233
Business and economic development.....	45,083				347,741	392,824
Labor, licensing and regulation .....	148,980					148,980
Human resources .....	1,317,365					1,317,365
Health and mental hygiene.....	3,255,961					3,255,961
Environment.....	60,973					60,973
Transportation.....		859,460				859,460
Public safety and judicial .....	1,202,632					1,202,632
Housing and community development.....	97,661					97,661
Natural resources and recreation.....	122,113					122,113
Agriculture.....	42,202					42,202
Intergovernmental.....	326,016	459,528		324,211		1,109,755
<b>Debt service:</b>						
Principal retirement.....			364,154			364,154
Interest.....			229,148			229,148
Capital outlays.....		933,055		111,132		1,044,187
<b>Total expenditures .....</b>	<b>10,285,701</b>	<b>2,252,043</b>	<b>593,302</b>	<b>435,343</b>	<b>374,745</b>	<b>13,941,134</b>
<b>Excess (deficiency) of revenues over expenditures .....</b>	<b>1,161,732</b>	<b>103,345</b>	<b>(345,992)</b>	<b>(434,898)</b>	<b>335,177</b>	<b>819,364</b>
<b>Other sources (uses) of financial resources:</b>						
Capital leases.....	9,794	57,188		50,252		117,234
Proceeds from bonds .....				514,190		514,190
Proceeds from refunding bonds .....			113,340			113,340
Payment to escrow agent .....			(113,661)			(113,661)
Operating transfers in .....	468,471	103,946	364,737	83,634		1,020,788
Operating transfers in from component units .....	593					593
Operating transfers out.....	(414,633)	(239,178)		(16,340)		(670,151)
Operating transfers out to component units.....	(689,828)			(83,800)		(773,628)
<b>Net other (uses) sources of financial resources .....</b>	<b>(625,603)</b>	<b>(78,044)</b>	<b>364,416</b>	<b>547,936</b>		<b>208,705</b>
<b>Excess of revenues over expenditures and net other sources (uses) of financial resources.....</b>	<b>536,129</b>	<b>25,301</b>	<b>18,424</b>	<b>113,038</b>	<b>335,177</b>	<b>1,028,069</b>
Fund balances, July 1, 1997 .....	1,059,063	420,167	128,200	129,109	800,507	2,537,046
Cumulative effect of accounting change.....					841,820	841,820
<b>Fund balances, June 30, 1998 .....</b>	<b>\$ 1,595,192</b>	<b>\$ 445,468</b>	<b>\$ 146,624</b>	<b>\$ 242,147</b>	<b>\$1,977,504</b>	<b>\$ 4,406,935</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Revenues, Expenses and  
Changes in Retained Earnings  
Enterprise Funds and Component Unit Proprietary Funds  
for the year ended June 30, 1998  
(Expressed in Thousands)**

	Primary Government Enterprise Funds	Component Unit Proprietary Funds	Total Reporting Entity (Memorandum Only)
<b>Operating revenues:</b>			
Lottery ticket sales .....	\$1,072,632		\$1,072,632
Charges for services and sales .....	42,226	\$ 88,604	130,830
Interest and other investment income .....	252,500		252,500
Other.....	8,307	944	9,251
<b>Total operating revenues .....</b>	<b>1,375,665</b>	<b>89,548</b>	<b>1,465,213</b>
<b>Operating expenses:</b>			
Prizes and claims .....	571,137		571,137
Commissions .....	60,198		60,198
Cost of sales and services .....	24,501		24,501
Operation and maintenance of facilities .....	11,586	57,716	69,302
General and administrative .....	76,974	12,116	89,090
Interest .....	166,089		166,089
Depreciation and amortization .....	2,857	8,937	11,794
Provision for insurance on loan losses, net .....	15,760	(98)	15,662
Other.....	23,245	617	23,862
<b>Total operating expenses .....</b>	<b>952,347</b>	<b>79,288</b>	<b>1,031,635</b>
<b>Operating income .....</b>	<b>423,318</b>	<b>10,260</b>	<b>433,578</b>
<b>Non-operating revenues (expenses):</b>			
Investment income.....	1,722	8,346	10,068
Interest expense .....	(206)	(16,956)	(17,162)
Other.....	23,956	21,093	45,049
<b>Operating income before transfers .....</b>	<b>448,790</b>	<b>22,743</b>	<b>471,533</b>
Operating transfers in .....	55,045		55,045
Operating transfers in from primary government .....		21,371	21,371
Operating transfers out .....	(405,682)		(405,682)
Operating transfers out to primary government.....		(167)	(167)
<b>Net income .....</b>	<b>98,153</b>	<b>43,947</b>	<b>142,100</b>
Add: Depreciation of assets acquired from contributed capital .....	252	940	1,192
<b>Increase in retained earnings.....</b>	<b>98,405</b>	<b>44,887</b>	<b>143,292</b>
Retained earnings, July 1, 1997 .....	391,430	184,769	576,199
Retained earnings, June 30, 1998 .....	\$ 489,835	\$ 229,656	\$ 719,491

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Changes in Plan Net Assets**

**Pension Trust Funds**

**for the year ended June 30, 1998**

(Expressed in Thousands)

	Total
<b>Additions:</b>	
<b>Contributions:</b>	
Employers.....	\$ 276,306
Members.....	78,609
Sponsors.....	473,384
<b>Total Contributions.....</b>	<b>828,299</b>
<b>Investment income:</b>	
Net appreciation in fair value of investment.....	3,055,897
Interest.....	644,554
Dividends.....	266,305
Real estate operating net income.....	13,507
<b>Total investment income.....</b>	<b>3,980,263</b>
Less: investment expense.....	191,113
<b>Net investment income.....</b>	<b>3,789,150</b>
<b>Total additions.....</b>	<b>4,617,449</b>
<b>Deductions:</b>	
Benefit payments.....	1,057,152
Refunds.....	20,007
Administrative expenses.....	10,515
<b>Total deductions.....</b>	<b>1,087,674</b>
<b>Net increase in plan assets.....</b>	<b>3,529,775</b>
<b>Net assets held in trust for pension benefits:</b>	
July 1, 1997.....	24,588,298
<b>June 30, 1998.....</b>	<b>\$28,118,073</b>

The accompanying notes to the general purpose financial statement are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Cash Flows**

**Enterprise Funds and Component Unit Proprietary Funds**

**for the year ended June 30, 1998**

(Expressed in Thousands)

	Primary Government Enterprise Funds	Component Unit Proprietary Funds	Total Reporting Entity (Memorandum Only)
<b>Cash flows from operating activities:</b>			
Operating income.....	\$ 423,318	\$ 10,260	\$ 433,578
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization.....	2,857	8,937	11,794
Loss on disposal of property, plant and equipment.....	60	1,856	1,916
Effect of changes in assets and liabilities:			
Other accounts receivable.....	2,723	(2,660)	63
Due from other funds/primary government.....	(19,386)	48,968	29,582
Inventories.....	(470)		(470)
Loans and notes receivable.....	82,215		82,215
Other assets.....	10,998	1,647	12,645
Accounts payable and accrued liabilities.....	4,462	(1,984)	2,478
Due to other funds.....	2,234	6,817	9,051
Accrued insurance on loan losses.....	2,275	(2,322)	(47)
Other liabilities.....	7,277	574	7,851
Deferred revenue.....	(1,213)	3,201	1,988
Accrued self insurance costs.....	194	(8)	186
Accrued annual leave.....	24	148	172
Lottery installment payments.....	(62,976)		(62,976)
Future lottery prize installments.....	62,013		62,013
Net cash provided by operating activities.....	516,605	75,434	592,039
<b>Cash flows from noncapital financing activities:</b>			
Third party contributions.....		21,000	21,000
Proceeds from sale of revenue bonds.....	435,085		435,085
Payment on revenue bonds.....	(355,219)		(355,219)
Revolving loan agreement.....		(750)	(750)
Operating transfers in.....	55,045		55,045
Operating transfers in from primary government.....		21,371	21,371
Operating transfers out.....	(405,682)		(405,682)
Operating transfers out to primary government.....		(167)	(167)
Contributed capital.....	15,709		15,709
Grant recoveries.....	2,008		2,008
Net cash (used) provided by noncapital financing activities.....	(253,054)	41,454	(211,600)
<b>Cash flows from capital and related financing activities:</b>			
Investment in direct financing leases.....		(45,972)	(45,972)
Increase in interest in direct financing lease.....		(101,389)	(101,389)
Proceeds from notes payable and revenue bonds.....		5,999	5,999
Principal paid on notes payable and revenue bonds.....	(3,873)	(7,516)	(11,389)
Interest payments.....	(206)	(16,956)	(17,162)
Acquisition and construction of property, plant and equipment.....	(4,471)	(6,914)	(11,385)
Decrease in revenue bond debt service account.....		64	64
Proceeds from property, plant and equipment sales.....		86	86
Net cash used by capital and related financing activities.....	(8,550)	(172,598)	(181,148)
<b>Cash flows from investing activities:</b>			
Proceeds from maturity and sale of investments.....	492,694	60,287	552,981
Purchase of investments.....	(743,323)	(9,540)	(752,863)
Interest and gains on investments.....	23,657	8,383	32,040
Proceeds from loans and notes receivable.....		321	321
Lease principal interest payments received.....		789	789
Net cash (used) provided by investing activities.....	(226,972)	60,240	(166,732)
Net increase in cash and cash equivalents.....	28,029	4,530	32,559
Cash and cash equivalents balance, July 1, 1997.....	163,703	29,410	193,113
Cash and cash equivalents balance, June 30, 1998.....	\$ 191,732	\$ 33,940	\$ 225,672

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combined Statement of Revenues, Expenditures and Encumbrances,  
Other Sources and Uses of Financial Resources,  
and Changes in Fund Balances — Budget and Actual —  
Budgetary General, Special and Federal Funds (Note 3)  
for the year ended June 30, 1998**

(Expressed in Thousands)

	General Fund			Special Fund			Federal Fund			Totals (Memorandum Only)		
	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)	Final Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>												
Income taxes.....	\$4,309,275	\$4,424,771	\$115,496	\$ 75,129	\$ 84,104	\$ 8,975				\$ 4,384,404	\$ 4,508,875	\$ 124,471
Sales and use taxes .....	2,167,031	2,161,150	(5,881)							2,167,031	2,161,150	(5,881)
Other taxes.....	645,364	635,863	(9,501)	1,474,767	1,525,136	50,369				2,120,131	2,160,999	40,868
Licenses and fees .....	96,442	129,231	32,789	262,683	288,328	25,645				359,125	417,559	58,434
Charges for services .....	243,126	187,719	(55,407)	548,601	501,110	(47,491)				791,727	688,829	(102,898)
Interest and other investment income .....	72,209	113,947	41,738	8,825	25,674	16,849				81,034	139,621	58,587
Other .....	409,157	543,709	134,552	606,011	253,290	(352,721)				1,015,168	796,999	(218,169)
Federal revenue.....	3,600	10,008	6,408	11,194	45,959	34,765	\$3,797,358	\$3,298,193	\$(499,165)	3,812,152	3,354,160	(457,992)
<b>Total revenues .....</b>	<b>7,946,204</b>	<b>8,206,398</b>	<b>260,194</b>	<b>2,987,210</b>	<b>2,723,601</b>	<b>(263,609)</b>	<b>3,797,358</b>	<b>3,298,193</b>	<b>(499,165)</b>	<b>14,730,772</b>	<b>14,228,192</b>	<b>(502,580)</b>
<b>Expenditures and encumbrances by major function:</b>												
Payments of revenue to civil divisions of the State .....	64,424	64,409	15	1,344	1,332	12				65,768	65,741	27
Public debt .....	89,715	89,618	97	246,192	245,892	300				335,907	335,510	397
Legislative.....	41,607	41,607		100	78	22				41,707	41,685	22
Judicial review and legal .....	245,956	243,023	2,933	7,027	5,684	1,343	3,232	2,760	472	256,215	251,467	4,748
Executive and administrative control .....	129,979	128,611	1,368	52,534	50,507	2,027	83,149	67,721	15,428	265,662	246,839	18,823
Financial and revenue administration .....	150,495	150,107	388	57,750	56,580	1,170	30		30	208,275	206,687	1,588
Budget and management .....	64,282	64,275	7	12,782	10,621	2,161				77,064	74,896	2,168
Retirement and pension .....				17,486	17,272	214				17,486	17,272	214
General services.....	35,540	35,540		3,183	2,527	656				38,723	38,067	656
Transportation and highways.....				1,855,797	1,743,966	111,831	594,699	441,242	153,457	2,450,496	2,185,208	265,288
Natural resources and recreation.....	45,416	45,399	17	116,463	109,646	6,817	21,273	17,850	3,423	183,152	172,895	10,257
Agriculture.....	18,203	18,057	146	35,468	34,753	715	3,280	2,763	517	56,951	55,573	1,378
Health, hospitals and mental hygiene.....	1,888,820	1,877,476	11,344	141,618	120,578	21,040	1,390,981	1,381,120	9,861	3,421,419	3,379,174	42,245
Human resources .....	426,796	426,795	1	59,686	36,509	23,177	923,874	841,007	82,867	1,410,356	1,304,311	106,045
Labor, licensing and regulation .....	18,348	18,348		10,638	10,529	109	133,914	126,734	7,180	162,900	155,611	7,289
Restricted appropriation.....	28		28	1,038		1,038	696		696	1,762		1,762
Public safety and correctional services .....	585,482	585,481	1	93,863	87,804	6,059	19,165	15,976	3,189	698,510	689,261	9,249
Public education.....	3,506,234	3,504,293	1,941	36,863	33,207	3,656	519,592	462,130	57,462	4,062,689	3,999,630	63,059
Housing and community development .....	21,689	21,688	1	41,951	37,763	4,188	60,795	55,422	5,373	124,435	114,873	9,562
Business and economic development .....	53,889	53,889		53,175	45,670	7,505	3,565	2,414	1,151	110,629	101,973	8,656
Environment.....	38,708	38,708		100,278	94,228	6,050	22,759	18,294	4,465	161,745	151,230	10,515
Juvenile services .....	110,578	110,560	18	306	192	114	12,757	12,135	622	123,641	122,887	754
State police.....	186,431	186,266	165	41,668	40,522	1,146	3,597	2,346	1,251	231,696	229,134	2,562
State reserve fund.....	154,919	154,919								154,919	154,919	

Reversions:												
Current year reversions .....	(41,382)		(41,382)							(41,382)		(41,382)
Prior year reversions .....		(42,861)	42,861		(11,535)	11,535		(40,849)	40,849		(95,245)	95,245
Total expenditures and encumbrances.....	7,836,157	7,816,208	19,949	2,987,210	2,774,325	212,885	3,797,358	3,409,065	388,293	14,620,725	13,999,598	621,127
Changes in encumbrances during fiscal year 1998 .....		(46,804)	46,804		(100,296)	100,296		(9,303)	9,303		(156,403)	156,403
Total expenditures .....	7,836,157	7,769,404	66,753	2,987,210	2,674,029	313,181	3,797,358	3,399,762	397,596	14,620,725	13,843,195	777,530
Excess of revenues over (under) expenditures.....	110,047	436,994	326,947		49,572	49,572		(101,569)	(101,569)	110,047	384,997	274,950
Other sources (uses) of financial resources:												
Operating transfers in (out) .....		(10,342)	(10,342)		28,987	28,987		101,569	101,569		120,214	120,214
Excess of revenues over expenditures and other sources (uses) of financial resources.....	110,047	426,652	316,605		78,559	78,559				110,047	505,211	395,164
Fund balances, July 1, 1997 .....	837,778	837,778		637,944	637,944					1,475,722	1,475,722	
Fund balances, June 30, 1998 .....	\$ 947,825	\$1,264,430	\$316,605	\$ 637,944	\$ 716,503	\$ 78,559	\$ —	\$ —	\$ —	\$ 1,585,769	\$ 1,980,933	\$ 395,164

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Component Unit Proprietary Funds**  
**June 30, 1998**  
(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
<b>Assets:</b>					
Cash and cash equivalents .....			\$ 2,462	\$31,478	\$ 33,940
Investments .....	\$ 1,194		13,748	1,196	16,138
Other accounts receivable .....	9,725	\$ 51	10,549		20,325
Due from primary government .....	4,178	5,555			9,733
Loans and notes receivable, net .....	6,566				6,566
Property, plant and equipment, net .....	304	17,102	11,956		29,362
Investments in direct financing leases .....	304,059		8,836		312,895
Restricted assets .....		588			588
Other assets .....	232,191		7,875		240,066
<b>Total assets</b> .....	<b>\$558,217</b>	<b>\$23,296</b>	<b>\$55,426</b>	<b>\$32,674</b>	<b>\$669,613</b>
<b>Liabilities:</b>					
Accounts payable and accrued liabilities .....	\$ 19,892	\$ 101	\$11,731	\$ 79	\$ 31,803
Accrued insurance on loan losses .....				6,667	6,667
Other liabilities .....		215	3,634		3,849
Deferred revenue .....	18,726	54		76	18,856
Due to primary government .....	6,817				6,817
Loans from primary government .....		6,372			6,372
Revenue bonds and notes payable .....	305,325	599	30,816		336,740
Accrued self-insurance costs .....	22	44	661		727
Accrued annual leave .....	329	95	849		1,273
<b>Total liabilities</b> .....	<b>351,111</b>	<b>7,480</b>	<b>47,691</b>	<b>6,822</b>	<b>413,104</b>
<b>Capital:</b>					
Contributed capital .....		400	2,703	23,750	26,853
Retained earnings:					
Reserved .....		319	4,410		4,729
Unreserved .....	207,106	15,097	622	2,102	224,927
<b>Total capital</b> .....	<b>207,106</b>	<b>15,816</b>	<b>7,735</b>	<b>25,852</b>	<b>256,509</b>
<b>Total liabilities and capital</b> .....	<b>\$558,217</b>	<b>\$23,296</b>	<b>\$55,426</b>	<b>\$32,674</b>	<b>\$669,613</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Revenues, Expenses  
and Changes in Retained Earnings  
Component Unit Proprietary Funds  
for the year ended June 30, 1998**

(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
<b>Operating revenues:</b>					
Charges for services and sales .....	\$ 33,965	\$ 2,726	\$51,725	\$ 188	\$ 88,604
Other.....	934	9		1	944
Total operating revenues .....	34,899	2,735	51,725	189	89,548
<b>Operating expenses:</b>					
Operation and maintenance of facilities .....	14,366		43,350		57,716
General and administrative .....	3,105	2,209	5,610	1,192	12,116
Depreciation and amortization .....	5,386	488	3,063		8,937
Provision for insurance on loan losses .....				(98)	(98)
Other.....		185	432		617
Total operating expenses.....	22,857	2,882	52,455	1,094	79,288
Operating income (loss) .....	12,042	(147)	(730)	(905)	10,260
<b>Non-operating revenues (expenses):</b>					
Investment income.....	5,030	312	799	2,205	8,346
Interest expense .....	(15,032)	(48)	(1,876)		(16,956)
Other.....	21,000	37	56		21,093
Income (loss) before transfers .....	23,040	154	(1,751)	1,300	22,743
Operating transfers in from primary government .....	18,371			3,000	21,371
Operating transfers out to primary government.....				(167)	(167)
Net income (loss).....	41,411	154	(1,751)	4,133	43,947
Add: Depreciation of assets acquired from contributed capital.....		12	928		940
Increase (decrease) in retained earnings.....	41,411	166	(823)	4,133	44,887
Retained earnings (deficit), July 1, 1997.....	165,695	15,250	5,855	(2,031)	184,769
Retained earnings, June 30, 1998 .....	\$ 207,106	\$15,416	\$ 5,032	\$ 2,102	\$229,656

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Combining Statement of Cash Flows**

**Component Unit Proprietary Funds**

**for the year ended June 30, 1998**

(Expressed in Thousands)

	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
<b>Cash flows from operating activities:</b>					
Operating income (loss) .....	\$ 12,042	\$ (147)	\$ (730)	\$ (905)	\$ 10,260
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization .....	5,386	488	3,063		8,937
Loss on disposal of property, plant and equipment .....			1,856		1,856
Effect of changes in assets and liabilities:					
Decrease (increase) in assets:					
Other accounts receivable .....	(2,297)		(450)		(2,660)
Due from primary government .....	49,399	(431)			48,968
Other assets .....			1,647		1,647
Increase (decrease) in liabilities:					
Accounts payable and accrued liabilities .....	1,653	(91)	(3,510)	(36)	(1,984)
Due to primary government .....	6,817				6,817
Other liabilities .....			574		574
Deferred revenue .....	3,204	22		(25)	3,201
Accrued insurance on loan losses .....				(2,322)	(2,322)
Accrued self insurance costs .....			(8)		(8)
Accrued annual leave .....	73	17	58		148
Net cash provided (used) by operating activities .....	76,277	(55)	2,500	(3,288)	75,434
<b>Cash flows from non-capital financing activities:</b>					
Third party contributions .....	21,000				21,000
Revolving loan agreement .....			(750)		(750)
Operating transfers in from primary government .....	18,371			3,000	21,371
Operating transfers out to primary government .....				(167)	(167)
Net cash provided (used) by noncapital financing activities .....	39,371	—	(750)	2,833	41,454
<b>Cash flows from capital and related financing activities:</b>					
Investment in direct financing leases .....	(45,972)				(45,972)
Increase in interest in direct financing lease .....	(101,389)				(101,389)
Proceeds from notes payable and revenue bonds .....	4,640		1,359		5,999
Principal paid on notes payable and revenue bonds .....	(4,273)	(97)	(3,146)		(7,516)
Interest payments .....	(15,032)	(48)	(1,876)		(16,956)
Acquisition and construction of property, plant and equipment .....	(5,318)	(150)	(1,446)		(6,914)
Decrease in revenue bond debt service account .....		64			64
Proceeds from property, plant and equipment sales .....			86		86
Net cash used by capital and related financing activities .....	(167,344)	(231)	(5,023)	—	(172,598)
<b>Cash flows from investing activities:</b>					
Proceeds from sale of investments .....	46,345		10,942	3,000	60,287
Purchase of investments .....		(63)	(9,477)		(9,540)
Interest and gains on investments .....	5,030	349	799	2,205	8,383
Proceeds from loans and notes receivable .....	321				321
Lease principal interest payments received .....			789		789
Net cash provided by investing activities .....	51,696	286	3,053	5,205	60,240
Net (decrease) increase in cash and cash equivalents .....			(220)	4,750	4,530
Cash and cash equivalents balance, July 1, 1997 .....			2,682	26,728	29,410
Cash and cash equivalents balance, June 30, 1998 .....	\$ —	\$ —	\$ 2,462	\$31,478	\$ 33,940

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Statement of Current Fund Revenues,  
Expenditures, and Other Changes  
Component Unit Higher Education Funds  
for the year ended June 30, 1998  
(Expressed in Thousands)**

	Current Funds		Current Funds Total
	Unrestricted	Restricted	
<b>Revenues:</b>			
Student tuition and fees.....	\$ 529,933		\$ 529,933
Government grants and contracts.....	74,602	\$459,314	533,916
Sales and services.....	368,814	1,770	370,584
Investment income —			
Endowment income.....	1,608	3,739	5,347
Other interest and dividend income.....	20,348		20,348
Other.....	11,029	7	11,036
<b>Total revenues</b> .....	<b>1,006,334</b>	<b>464,830</b>	<b>1,471,164</b>
<b>Expenditures and mandatory transfers:</b>			
Instruction.....	580,937	29,696	610,633
Research.....	101,208	264,844	366,052
Public service.....	28,327	66,820	95,147
Academic support.....	131,940	3,061	135,001
Student services.....	76,472	2,814	79,286
Institutional support.....	174,287	2,543	176,830
Operation and maintenance of plant.....	134,206	16	134,222
Scholarships and fellowships.....	71,075	62,809	133,884
Hospital.....	4,018	30,403	34,421
Auxiliary enterprises.....	215,295	1,520	216,815
<b>Total expenditures</b> .....	<b>1,517,765</b>	<b>464,526</b>	<b>1,982,291</b>
Mandatory transfers out.....	50,133	195	50,328
<b>Total expenditures and mandatory transfers</b> .....	<b>1,567,898</b>	<b>464,721</b>	<b>2,032,619</b>
<b>Other transfers and additions (deductions):</b>			
Non-mandatory transfers.....	(75,799)	(2,180)	(77,979)
Operating transfer from primary government, net.....	668,031		668,031
Excess of transfers to revenue over restricted receipts.....		2,307	2,307
<b>Total transfers and other additions</b> .....	<b>592,232</b>	<b>127</b>	<b>592,359</b>
<b>Net increase in fund balances</b> .....	<b>\$ 30,668</b>	<b>\$ 236</b>	<b>\$ 30,904</b>

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**

**Statement of Changes in Fund Balances  
Component Unit Higher Education Funds  
for the year ended June 30, 1998  
(Expressed in Thousands)**

	Current Funds		Loan Funds	Endowment Funds	Plant Funds	Total
	Unrestricted	Restricted				
<b>Revenues and other additions:</b>						
Education and general revenues .....	\$ 717,343			\$ 67	\$ 801	\$ 718,211
Auxiliary enterprise revenues .....	288,991					288,991
Government grants and contracts-restricted .....		\$427,676	\$ 1,603			429,279
Private gifts, grants and contracts .....		99,391	4	1,451	4,142	104,988
Endowment income .....				32		32
Investment income .....		4,492	34	38,267	3,705	46,498
Gain on disposal of plant assets .....					17	17
Interest on loans receivable .....			1,713			1,713
Retirement of indebtedness .....					29,830	29,830
Expended for plant facilities (including \$42,568 charged to current funds expenditures) .....					237,630	237,630
Other .....		1,804	336		45,628	47,768
<b>Total revenues and other additions .....</b>	<b>1,006,334</b>	<b>533,363</b>	<b>3,690</b>	<b>39,817</b>	<b>321,753</b>	<b>1,904,957</b>
<b>Expenditures and other deductions:</b>						
Educational and general expenditures .....	1,302,470	463,006		24		1,765,500
Auxiliary enterprise expenditures .....	215,295	1,520				216,815
Indirect costs recovered .....		66,226				66,226
Loan cancellations, write-offs and refunds, net of recoveries .....			1,005			1,005
Retirement of indebtedness .....					29,830	29,830
Interest on indebtedness .....					31,895	31,895
Payment to refunding bond trustee .....					45,190	45,190
Expended for plant facilities (including non-capitalized expenditures of \$20,742) .....					215,804	215,804
Disposal of property, plant and equipment .....					31,605	31,605
Other .....			928	825	248	2,001
<b>Total expenditures and other deductions .....</b>	<b>1,517,765</b>	<b>530,752</b>	<b>1,933</b>	<b>849</b>	<b>354,572</b>	<b>2,405,871</b>
<b>Net (decrease) increase in fund balance before transfers .....</b>	<b>(511,431)</b>	<b>2,611</b>	<b>1,757</b>	<b>38,968</b>	<b>(32,819)</b>	<b>(500,914)</b>
<b>Transfers among funds-additions (deductions):</b>						
<b>Mandatory:</b>						
Debt service .....	(49,623)	(195)			49,818	
Loan fund matching grant .....	(510)		510			
<b>Non-mandatory:</b>						
Remodeling, renewals and replacements .....	(56,239)	(1,688)		965	59,127	2,165
Other .....	(19,560)	(492)	8	549	17,329	(2,166)
<b>Total transfers among funds .....</b>	<b>(125,932)</b>	<b>(2,375)</b>	<b>518</b>	<b>1,514</b>	<b>126,274</b>	<b>(1)</b>
Operating transfers from primary government .....	668,457				83,800	752,257
Operating transfers to primary government .....	(426)					(426)
<b>Net increase in fund balances .....</b>	<b>30,668</b>	<b>236</b>	<b>2,275</b>	<b>40,482</b>	<b>177,255</b>	<b>250,916</b>
Fund balances, July 1, 1997 .....	76,464	34,087	58,979	150,308	2,557,560	2,877,398
Fund balances, June 30, 1998 .....	\$ 107,132	\$ 34,323	\$61,254	\$190,790	\$2,734,815	\$3,128,314

The accompanying notes to the general purpose financial statements are an integral part of these financial statements.

**STATE OF MARYLAND**  
**Notes to General Purpose Financial Statements**  
**for the year ended June 30, 1998**

**1. Financial Reporting Entity and Description of Funds and Account Groups:**

*A. Reporting Entity:*

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by generally accepted accounting principles, these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

*DISCRETE COMPONENT UNITS*

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The two Component Units columns of the combined financial statements include the financial data of these entities.

Colleges and Universities (Higher Education Fund) — Colleges and universities consist of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The colleges and universities are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the colleges and universities are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Amounts for foundations affiliated with the universities and colleges which the College and Universities do not control in accordance with AICPA Statement of Position 94-3, have not been included in these financial statements because the colleges and universities do not control a majority of their Boards.

Maryland Stadium Authority (Proprietary Fund Type) — The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

Maryland Food Center Authority (Proprietary Fund Type) — The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

Maryland Environmental Service (Proprietary Fund Type) — The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

Maryland Industrial Development Financing Authority (Proprietary Fund Type) — The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of

Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

Complete financial statements of the individual component units and the Local Government Investment Pool may be requested from the Comptroller of the Treasury of the State of Maryland LLG Treasury Building, Annapolis, Maryland 21404.

### *B. Fund Accounting:*

The State uses funds, account groups and component units to report its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. Funds are separate accounting entities, each with a self-balancing set of accounts which represent the fund's assets, liabilities, equity (deficit), revenues and expenditures or expenses. There are three categories of "fund types" : governmental, proprietary and fiduciary.

#### *GOVERNMENTAL FUND TYPES*

Transactions related to the acquisition and use of the government's expendable financial resources received and used for those services traditionally provided by governments are accounted for in governmental funds. The governmental fund measurement focus is the flow of current financial resources and financial position (sources, uses and balances). Governmental funds include the following:

##### *General Fund:*

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, public safety and judicial, health and mental hygiene, human resources and education (other than higher education institutions). Resources obtained from federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

##### *Special Revenue Funds:*

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue funds. The special revenue funds account for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation and the Maryland Transportation Authority, including construction or improvement of transportation facilities and mass transit operations.

##### *Debt Service Funds:*

Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations, transportation debt and Maryland Transportation Authority debt are accounted for in the debt service funds.

##### *Capital Projects Fund:*

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations, are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the State's general fund.

The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances. Since the fund's resources are received, in many cases, after long-term contracts are executed and recorded as encumbrances, the undesignated fund balance of the capital projects fund reflects a deficit. This deficit will be funded by future bond proceeds and capital appropriations from the general fund.

## *PROPRIETARY FUND TYPE*

### *Enterprise Funds:*

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The proprietary fund types differ from governmental fund types in that the focus is on the flow of economic resources which, together with the maintenance of equity, is an important financial indicator. The enterprise funds include:

1. Economic Development, which consists of direct loan and loan insurance programs of the Maryland Departments of Housing and Community Development and Business and Economic Development.
2. Maryland State Lottery Agency, which operates the State Lottery.
3. State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

## *FIDUCIARY FUND TYPES*

Transactions related to assets held by the State in a trustee or agency capacity are accounted for in fiduciary fund types. Fiduciary fund types include the following:

1. The expendable trust fund, which reflects the transactions, assets, liabilities and fund equity of the Unemployment Insurance Program and the Deferred Compensation Plan and is accounted for on a flow of current financial resources measurement focus. The Unemployment Insurance Program is used to account for the unemployment taxes collected from employers, federal revenue received and remittance of benefits to the unemployed. The Deferred Compensation Plan accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), and 401(k). Amounts deferred are invested through an independent agent and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency. During fiscal year 1998, all assets of the fund were no longer property of the State, but held in trust for the exclusive benefit of the participants and their beneficiaries. Effective July 1, 1997, the State adopted GASB Statement No. 32 "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans," and the fund has been reclassified from an agency to an expendable trust fund in accordance with this Statement.
2. The State Retirement and Pension System of Maryland and the Mass Transit Administration Pension Plan, which reflect the transactions, assets, liabilities and fund equities of the retirement and pension plans administered by the State and the Mass Transit Administration and are accounted for using the flow of economic resources measurement focus.
3. The agency funds, which are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, the amounts the State invests for political subdivisions on a pooled basis, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

## *ACCOUNT GROUPS*

Account groups are used to establish accounting control and accountability for the State's general fixed assets and the unmatured principal of its general long-term debt and other long-term obligations of governmental fund types. General fixed assets do not represent financial resources available for appropriation and expenditure, nor does the unmatured principal of general long-term obligations require current appropriation and expenditure of governmental fund financial resources.

### *General Fixed Assets Account Group:*

General fixed assets acquired, leased under capital lease agreements or constructed for use by the State in the conduct of its activities, other than activities accounted for in enterprise funds and the discretely presented component units (proprietary funds and higher education), are reflected in the general fixed assets account group when acquired. These fixed assets are stated at cost or estimated historical cost. Donated fixed assets are recorded at their fair value at the time donated. Depreciation is not provided for general fixed assets, and interest incurred

during construction is not capitalized. Infrastructure assets, consisting principally of highways, roads and bridges, are not recorded in the general fixed assets account group.

*General Long-Term Debt Account Group:*

General obligation, transportation and Maryland Transportation Authority bonds payable, capital lease obligations, accrued self-insurance costs and accrued annual leave related to general governmental activities are reflected in the general long-term debt account group.

**2. Summary of Significant Accounting Policies:**

*A. All Funds:*

*Investments:*

Investments are recorded at fair value in the combined balance sheet and changes in fair value are recognized as revenue in the combined statement of revenues, expenditures, other sources and uses of financial resources and changes in fund balances.

*Retirement Costs:*

Substantially all State employees participate in one of several State retirement systems. (See Note 15.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement expenditures for governmental fund types represent amounts contributed by the State for the fiscal year. Retirement costs have been provided on the accrual basis, based upon actuarial valuations.

*Accrued Self-Insurance Costs:*

The accrued self-insurance costs represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. The State records self-insurance expenses in the proprietary and discretely presented component unit fund types on an accrual basis and the modified accrual basis for the governmental fund types. The long-term accrued self-insurance costs of the governmental fund types which are not expected to be funded with current resources are reported in the general long-term debt account group.

*Annual Leave Costs:*

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the general long-term debt account group. Liabilities for accumulated earned but unused annual leave applicable to enterprise funds and the proprietary and higher education component units are reported in the respective funds.

*"Total Memorandum Only" Columns:*

The "Total Memorandum Only" columns represent an aggregation of the individual combined financial statements for the primary government and the reporting entity, and do not represent consolidated financial information.

*Use of Estimates:*

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from amounts provided in the accompanying general purpose financial statements.

*B. Governmental Fund Types, Expendable Trust and Agency Funds:*

*Basis of Accounting:*

The accounts of the general, special revenue, debt service, capital projects, expendable trust and agency funds are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of

accounting, revenues susceptible to accrual are recognized in the financial statements when they are both measurable and available to finance operations during the fiscal year or liquidate liabilities existing at the end of the fiscal year. Material revenues susceptible to accrual include: federal grants, personal income taxes, sales and use taxes, and motor vehicle fuel and excise taxes. Expenditures are recognized when obligations are incurred as a result of receipt of goods and services. Encumbrances represented by executed and unperformed purchase orders and contracts, which are approved by the Department of Budget and Management, are recorded as reservations of fund balance as of the end of the fiscal year. Modifications to the accrual basis of accounting to reflect the modified accrual basis include the following:

- Interest on long-term obligations reflected in the general long-term debt account group is recognized in the debt service fund when it becomes payable.
- Inventories of materials and supplies are recorded as expenditures when purchased. Such inventories are not material.
- Expenditures for retirement costs, and employees' vested annual leave and sick leave are recorded as expenditures when paid.

*Grants:*

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

*Income Taxes:*

The State accrues the net income tax receivable or records a deferred revenue due based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

*Sales and Use Taxes:*

The State accrues June sales taxes that are unremitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

*Property Taxes:*

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real and personal property subject to taxation, due and payable each July 1 (lien date), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at various rates of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate since 1982 has been maintained at 21¢ per \$100 of assessed value. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Current collections are 98.7% of the total tax levy for the fiscal year. Property taxes are accrued to the extent they are collected within 60 days of year end.

*Escheat Property:*

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

*Intergovernmental Expenditures:*

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

*Capital Outlays:*

Principally all capital expenditures for the acquisition or construction of State general fixed assets are reported as capital outlays in the capital projects fund.

*C. Enterprise Funds, Pension Trust Funds and Component Units — Proprietary Funds:*

*Basis of Accounting:*

The accounts of the enterprise funds, pension trust funds and component units — proprietary funds are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For the enterprise funds and proprietary fund component units the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

*Grants:*

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.

*Property, Plant and Equipment:*

Significant property, plant and equipment of enterprise funds are stated at cost. Depreciation of the cost of property, plant and equipment of the enterprise funds is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to 10 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

*Debt Refinancing:*

The gain or loss associated with enterprise fund debt refinanced is deferred and amortized to interest expense over the life of the debt.

*Lottery Revenues, Prizes and Operating Transfers:*

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

*Provisions for Insurance and Loan Losses:*

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

*Inventories:*

Inventories of the enterprise funds are stated at the lower of cost or market, using the first-in, first-out method.

*D. Component Units — Higher Education Fund:*

*Basis of Accounting:*

The financial statements of the Higher Education Component Unit have been prepared in accordance with Governmental Accounting Standards which allow colleges and universities to follow the American Institute of Certified Public Accountants' reporting model.

The accounts of the higher education institutions are maintained and reported on the accrual basis of accounting except for tuition and fees revenue and depreciation expense as explained in the following paragraphs.

#### *Fund Accounting:*

The financial activities of the higher education institutions are recorded in funds which classify the various transactions by specified activities or objectives. Fund balances of current restricted, loan and endowment funds are reported as reserved for higher education programs and higher education general endowment funds.

Unrestricted revenue is accounted for in the current unrestricted fund. Restricted gifts, grants, endowment income and other restricted resources are accounted for in the current restricted fund, loan funds, endowment and plant funds. Revenue and expenditures are reported in the current restricted fund when financial resources are used for the current operating purposes for which they have been provided. Transactions related to the various student loan programs are accounted for in loan funds. Resources dedicated to the acquisition of and investment in property, plant and equipment are accounted for in the plant funds. To the extent current funds are used to finance plant assets, these amounts provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt repayment and interest, and equipment renewals and replacements; and (3) transfers of a nonmandatory nature in all other cases. General endowment resources are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized.

#### *Grant Revenues:*

Revenues from Federal reimbursement type grants are recorded when the related expenditures are incurred in the restricted and unrestricted current funds. A portion of the fund balance of the restricted current fund represents cash received in excess of grant expenditures and is subject to refund to the Federal government if not expended for its intended purpose.

#### *Student Revenues:*

Student tuition and fees are fully recognized as revenues in the fiscal year in which the related courses or activities are principally conducted. Student tuition and fees applicable to future courses and activities, collected as of the end of the fiscal year, are recorded as deferred revenue.

#### *Accounts and Notes Receivable:*

An allowance for doubtful receivables is provided for estimated losses expected to be incurred in collection. The estimated losses are based on historical collection experience and a review of the status of year-end receivables.

#### *Inventories:*

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

#### *Property, Plant and Equipment:*

Property, plant and equipment are stated principally at cost as of the date of acquisition or fair value as of the date of donation in the case of gifts. Consistent with generally accepted accounting principles for governmental colleges and universities, depreciation expense related to property, plant and equipment is not recorded.

#### *Operating Transfers from the State:*

A substantial portion of the higher education fund's current unrestricted and plant fund expenditures are funded through appropriations from the State's general fund and capital projects fund, respectively.

### **3. Budgeting and Budgetary Control:**

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the following five budgetary funds.

#### *General Fund:*

The General Fund includes all transactions of the State, unless otherwise directed to be included in another fund.

*Special Fund:*

The Special Fund includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue funds include only the operations (other than debt service and pension activities) of the Maryland Department of Transportation and Maryland Transportation Authority.

*Federal Fund:*

The Federal Fund accounts for substantially all grants from the Federal government.

*Higher Education Fund:*

The Higher Education Fund includes the Current Unrestricted Fund which accounts for unrestricted revenue used or available for use in carrying out the current operations and the Current Restricted Fund of the State's colleges and universities which accounts for restricted gifts, grants and other restricted resources.

*Budgetary Fund Equities and Other Accounts:*

In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund. Because capital projects fund authorizations are not part of the annual budget, capital projects fund activities are not presented in the Combined Statement of Revenues, Expenditures and Encumbrances, Other Sources and Uses of Financial Resources, and Changes in Fund Balances — Budget and Actual — for the year ended June 30, 1998.

All State budgetary expenditures for the general, special, federal, current unrestricted and current restricted funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by major function within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 1998, the General Assembly approved a net increase in General Fund appropriations of \$75,458,000. Appropriations for programs funded in whole or in part from the special, federal, current unrestricted or current restricted funds may permit expenditures in excess of original special, federal, current unrestricted or current restricted funds appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor or, in the case of the University System of Maryland, the Board of Public Works. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent encumbrances are approved by the Department of Budget and Management, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special, federal, current unrestricted and current restricted funds may be carried over to the extent of (a) available resources, and (b) encumbrances approved by the Department of Budget and Management.

The amended budget adopted by the General Assembly for the general, special and federal funds is presented in the Combined Statement of Revenues, Expenditures and Encumbrances, Other Sources and Uses of Financial Resources, and Changes in Fund Balances — Budget and Actual — for the year ended June 30, 1998. The State's budgetary fund structure and the basis of accounting used for budgetary purposes, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures.

A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 1998, follows (amounts expressed in thousands).

	Total Budgetary Fund Equities and Other Accounts June 30, 1998	Financial Statement Funds						Component Units	
		General	Special Revenue	Debt Service	Capital Projects	Enterprise	Trust and Agency	Higher Education	Proprietary Funds
Classification of budgetary fund equities and other accounts into GAAP fund structure:									
General.....	\$ 1,264,430	\$1,264,430							
Special.....	716,503	222,858	\$214,500	\$ 60,860	\$ 14,724	\$ 210,981			\$ (7,420)
Current unrestricted.....	230,225							\$ 230,225	
Current restricted.....	3,182							3,182	
Other accounts (a):									
Non-budgeted.....	83,576	72,506	11,083		41	490		2	(546)
Transportation Authority.....	305,248		225,349	79,899					
Debt service transportation bonds.....	5,865			5,865					
Capital projects.....	327,231				227,382	99,849			
Enterprise.....	847,408	990				838,237			8,181
Expendable trust.....	1,977,504						\$ 1,977,504		
Pension trust.....	28,118,073						28,118,073		
Component units:									
Higher education.....	2,894,905							2,894,905	
Proprietary funds.....	256,294								256,294
Budgetary fund equities and other accounts classified into GAAP fund structure:									
	<u>\$37,030,444</u>	1,560,784	450,932	146,624	242,147	1,149,557	30,095,577	3,128,314	256,509
Accounting principle differences:									
Assets recognized in the GAAP financial statements not recognized for budgetary purposes:									
Cash.....		8,888							
Investments.....		8,394							
Other accounts receivable.....		18,562	(5,464)						
Other assets.....		38,675							
Liabilities recognized in GAAP financial statements not recognized for budgetary purposes:									
Accounts payable and accrued liabilities.....		(36,186)							
Deferred revenue.....		(3,925)							
GAAP financial statement fund equities, June 30, 1998.....									
		\$1,595,192	\$445,468	\$146,624	\$242,147	\$1,149,557	\$30,095,577	\$3,128,314	\$256,509

(a) The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. In addition to the accounting system maintained by the Comptroller, certain individual agencies, which are not subject to the State's budget, maintain accounting systems which are required to be included to properly present the State's financial reporting in accordance with generally accepted accounting principles.

#### 4. Cash and Cash Equivalents and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain fiduciary, enterprise and component unit funds are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis, primarily in repurchase agreements, U.S. government agencies obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Banker's acceptances.
- Money Market Mutual funds.
- Commercial Paper.
- Maryland Local Government Investment Pool.

A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must exceed the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping. Investments maturing within 90 days of purchase are reported at amortized cost in the financial statements as cash and cash equivalents.

Investments are classified as to credit risk by the three categories described below.

Category 1 Insured or registered, with securities held by the State or its agent in the State's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the State's name.

All of the State's investments held at year-end are subject to classification of credit risk except for those investments where the State owns units of a whole rather than specific securities and real estate, which by their nature are not subject to risk categorization. Included in the State's investments are the Deferred Compensation Plan, the Maryland Local Government Investment Pool, annuity and guaranteed investment contracts, mutual funds and mortgages.

*A. Primary Government — Governmental Fund Types, Expendable Trust and Agency Funds:*

The bank deposits of the governmental fund types, expendable trust and agency funds of the Primary Government as of June 30, 1998, were insured or collateralized by securities held by the State or its agent in the State's name.

As of June 30, 1998, cash in the amount of \$5,343,000 was maintained with fiscal agents and represents resources transmitted to bond paying agents for which coupons have not been presented. This cash was invested in mutual funds that invest only in U.S. Treasury and agency obligations.

Reported as cash and cash equivalents are repurchase agreements aggregating \$1,745,801,000 (fair value of collateral of \$1,776,231,000) and a FHLMC Discount Note totaling \$52,000 (fair value of \$52,000). The collateral for the repurchase agreements is held by the State's agent in the State's name. Reported as cash and cash equivalents are money market mutual fund accounts totaling \$158,202,000.

Investments are stated at fair value which is based on quoted market prices. The investments as of June 30, 1998, for the governmental fund types, expendable trust and agency funds of the Primary Government are categorized as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations .....	\$1,507,139			\$1,507,139
Bonds .....	835			835
Other .....	5,841			5,841
	<u>\$1,513,815</u>			<u>1,513,815</u>
Deferred compensation plan .....				1,150,658
Maryland local government investment pool .....				587,967
Total .....				<u>\$3,252,440</u>

*B. Primary Government — Enterprise and Pension Trust Funds:*

The bank deposits of the enterprise funds of the Primary Government as of June 30, 1998, were entirely insured or collateralized with securities held by the funds or their agents in the funds' names.

Cash and cash equivalents of the Enterprise Funds as of June 30, 1998, was \$191,732,000 which represented \$1,210,000 in cash deposits insured by Federal depository and \$12,068,000 in cash collateralized by securities held in trustee bank accounts in the funds' name and \$178,454,000 which was pooled by the State. Investments of the enterprise funds are stated at fair value which is based on quoted market prices, adjusted for amortization of premiums and accretion of discounts. The investment policies for all enterprise funds, with the exception of the Community Development Administration, are the same as those of the State Treasurer. The Community Development Administration, an agency of the Department of Housing and Community Development, is authorized to invest in obligations of the U. S. Treasury, U. S. Government agencies and corporations, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities and certificates of deposit with

foreign or domestic banks. The U. S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

As of June 30, 1998, cash and cash equivalents of the Pension Trust Funds' totaled \$1,681,093,000, which represented \$64,363,000, cash deposits and \$1,616,730,000, cash equivalents. These cash equivalents, which are investments with original maturities of less than 90 days, consisted of \$836,741,000, of commercial paper, \$9,031,000, of repurchase agreements and \$770,958,000, in global pooled short-term funds, which are carried at market. All of the cash equivalents are categorized as category 1 for investment purposes. Of the \$64,363,000, carrying value of deposits as of June 30, 1998, the amount of \$14,058,000, was pooled by the State and the bank balance of \$50,305,000, was uninsured and uncollateralized.

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland. The law further provides that not more than 25% of the assets that are invested in common stocks may be invested in non-dividend paying common stocks. The Funds' investments are commingled in four combined investment accounts. Two investment accounts consist principally of bonds and other fixed income investments, another consists of pooled real estate funds, real estate investment trusts and directly owned real estate, and the fourth investment account consists principally of common stocks. Investments of the Funds are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1998, for the enterprise and pension trust funds of the Primary Government are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations .....	\$ 929,196			\$ 929,196
Repurchase agreements .....	298,350			298,350
Bonds .....	7,941,824			7,941,824
Corporate equity securities .....	16,363,232			16,363,232
	<u>\$25,532,602</u>			<u>25,532,602</u>
Annuities and guaranteed investment contracts .....				35,409
Mutual funds .....				2,125,459
Real estate .....				474,969
Total .....				<u>\$28,168,439</u>

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. government securities of the Lottery to broker-dealers and other entities (borrowers). The State's custodial bank manages the securities lending program and receives U.S. government and agency securities as collateral. The bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State. The collateral will be returned for the same securities in the future. The collateral securities cannot be pledged or sold by the State unless the borrower defaults. Collateral securities are initially pledged at greater than the market value of the securities lent and additional collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent. Securities on loan at year-end are classified in the preceding schedule of custodial risk according to the category for the collateral received on the securities lent. As of year end, the State held collateral in excess of the fair value of the loaned securities.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 1998. As of June 30, 1998, the fair value of loaned securities and related collateral were as follows (amounts expressed in thousands):

Securities Lent	Fair Value		Percent Collateralized
	Loaned Securities	Collateral Received	
U.S. government and agency securities .....	\$51,747	\$53,058	102.5%

The Funds participate in a securities lending program as permitted by its investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers, in return for collateral of greater value. All loaned securities are reported as assets on the combined balance sheet and are included in the preceding categorization of custodial credit risk.

Borrowing brokers must transfer collateral in the form of cash, other securities or letters of credit valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked-to-market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the loaned securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. Further, as of year end the Funds held collateral in excess of the fair-value of the loaned securities. As of June 30, 1998, the fair value of loaned securities and the related collateral were as follows (amounts expressed in thousands).

	Fair Value		Percent Collateralized
	Loaned Securities	Collateral Received	
Securities			
International equity.....	\$ 844,273	\$ 889,246	105.3%
Domestic and international fixed.....	1,790,158	1,834,653	102.5%
Total.....	\$2,634,431	\$2,723,899	

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement Pension System of Maryland. Compliance with these guidelines is monitored by the Fund's staff. At times, the Funds invest in foreign currency forward contracts, options, futures, collateralized mortgage obligations, mortgage-backed securities, interest-only securities and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives held by the Funds result from the same considerations as other counterparty risk assumed by the Funds, which is the risk that the counterparty will be unable to meet its obligations.

The Funds invest in foreign currency forward contracts to hedge the currency risk in its international and global portfolios. The following summary shows the foreign currency forward contracts outstanding as of June 30, 1998 (amounts expressed in thousands).

#### Purchases

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 1998
Australian dollar.....	30,496	\$ 18,899
Canadian dollar.....	52,227	38,969
Danish krone.....	83,111	12,116
Deutsche mark.....	454,351	252,257
French franc.....	104,681	17,359
Hong Kong dollar.....	26,000	3,336
Italian lira.....	50,673,227	28,511
Japanese yen.....	25,229,233	182,488
Malaysian ringgit.....	21,700	5,080
Netherlands guilder.....	21,500	10,611
New Zealand dollar.....	690	358
Norwegian krone.....	26,840	3,503
Pound sterling.....	65,860	109,793
Spanish peseta.....	5,848,272	38,279
Swedish krona.....	77,259	9,711
Swiss franc.....	103,179	68,176
U.S. dollar.....	1,551,308	1,551,308
Total purchases.....		\$2,350,754

Sales

Currency	Sale Amount (In Local Currency)	Fair Value as of June 30, 1998
Australian dollar.....	73,061	\$ 45,285
Austrian schilling.....	9,900	784
Belgian franc.....	900,000	24,275
Canadian dollar.....	73,708	50,169
Danish krone.....	105,979	15,440
Deutsche mark.....	787,841	437,556
Finnish markka.....	58,400	10,683
French franc.....	303,669	50,345
Hong Kong dollar.....	86,000	11,033
Italian lira.....	128,762,785	72,459
Japanese yen.....	44,817,915	324,188
Malaysian ringgit.....	21,700	5,080
Netherlands guilder.....	24,676	12,137
New Zealand dollar.....	27,315	14,148
Pound sterling.....	175,396	291,921
Singapore dollar.....	14,000	8,252
Spanish peseta.....	3,039,768	19,865
Swedish krona.....	226,260	28,403
Swiss franc.....	290,297	191,714
U.S. dollar.....	730,185	730,185
Total sales.....		<u>\$2,343,922</u>

*C. Component Units:*

Cash and cash equivalents of the Component Units as of June 30, 1998, was \$238,582,000 most of which is pooled by the State except for \$6,349,000. The bank balance of cash deposited with financial institutions was \$6,429,000 of which \$5,942,000 was insured by Federal, private or foreign national government depository insurance in the State's name and \$487,000 was uninsured and uncollateralized.

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, commercial paper, repurchase agreements and banker's acceptances.

The Maryland Stadium Authority's marketable securities are held by the Bond Trustee. Proceeds to purchase these marketable securities were derived from various bond issues and any proceeds from the sale of these marketable securities are restricted to the purpose of the originating bond issue.

The investments of the Maryland Environmental Service (Service) primarily relate to bond indentures. The Service or its trustee banks are authorized to invest assets related to bond indentures in obligations of the United States of America, any federal agency, high quality commercial paper or mutual funds that invest in U.S. Government securities. Additionally, the Service may otherwise invest in securities allowed by the State.

Investments of the Maryland Stadium Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority and the higher education institutions are stated at fair value which is based on quoted market prices.

The investments as of June 30, 1998, for the discretely presented Component Units are as follows (amounts expressed in thousands).

	Category			Fair Value
	1	2	3	
U. S. Treasury and agency obligations.....	\$ 24,765	\$10,143		\$ 34,908
Corporate debt securities.....	11,775	613		12,388
Corporate equity securities.....	157,456			157,456
Other.....	1,662			1,662
	<u>\$195,658</u>	<u>\$10,756</u>		206,414
Mutual funds.....				2,692
Total.....				<u>\$209,106</u>

## 5. Taxes Receivable:

Taxes receivable, as of June 30, 1998, consist of the following (amounts expressed in thousands).

	Funds			
	General	Special Revenue	Debt Service	Trust and Agency
Income taxes.....	\$272,200			\$154,781
Sales and use taxes.....	204,958			
Transportation taxes, principally motor vehicle fuel and excise.....		\$32,445		
Unemployment compensation taxes.....				82,322
Other taxes, principally property.....			\$5,996	
Taxes receivable, net.....	\$477,158	\$32,445	\$5,996	\$237,103

## 6. Due From/To Other Funds:

Interfund receivables and payables, as of June 30, 1998, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund — Maryland Department of Transportation	\$ 3,768
	Pension Trust Fund — State Retirement System	9,236
	Enterprise Fund — Loan Programs	1,054
	Enterprise Fund — Maryland State Lottery Agency	35,782
	Component Units — Maryland Stadium Authority	6,817
Special Revenue Fund — Maryland Department of Transportation	General Fund	221,438
	Enterprise Fund — Loan Programs	1,000
Special Revenue Fund — Maryland Transportation Authority	Special Revenue Fund — Maryland Department of Transportation	22,992
Agency Funds —		
Local Income Taxes	General Fund	786,531
Payroll Taxes & Fringe Benefits	General Fund	1,033
Insurance Premium Taxes	General Fund	23,098
Admissions & Amusement Taxes	General Fund	11,983
Pension Trust Fund — State Retirement System	Mass Transit Administration Pension Plan	13,147
Enterprise Funds —		
Economic Development —		
— Insurance Programs	General Fund	100,180
— Loan Programs	General Fund	82,572
Maryland State Lottery Agency	General Fund	52,040
State Use Industries	General Fund	7,998
Components Units —		
Higher Education Fund	General Fund	230,035
Maryland Stadium Authority	General Fund	4,178
Maryland Food Center Authority	General Fund	5,555

## 7. Loans and Notes Receivable and Investment in Direct Financing Leases:

### A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 1998, consist of the following (amounts expressed in thousands).

	Primary Government					Component Units	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Higher Education	Proprietary Fund Types
Notes receivable:							
Political subdivisions —							
Water quality projects.....			\$ 9,900		\$ 254,012		
Construction.....		\$15,624	10				
Other.....			1,910				\$6,566
Hospitals and nursing homes.....			14,008				
Permanent mortgage loans.....					2,253,411		
Student and health profession loans.....						\$65,737	
Shore erosion loans.....				\$14,724			
Other.....	\$1,559					4,169	
	1,559	15,624	25,828	14,724	2,507,423	69,906	6,566
Less allowance for possible loan losses.....			105		19,919	9,985	
Loans and notes receivable, net.....	\$1,559	\$15,624	\$25,723	\$14,724	\$2,487,504	\$59,921	\$6,566

Notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 9.2% to 13.9% and mature over approximately 40 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds federal assistance program.

The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes.

Student and health profession loans are made pursuant to student loan programs funded through the U. S. Government.

**B. Investment in Direct Financing Leases:**

As of June 30, 1998, the Maryland Environmental Service (Service) has direct financing leases with the State of Maryland. The present value of the direct financing leases as of June 30, 1998, is \$8,836,000. As of June 30, 1998, the Service held \$4,498,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

1999.....	\$ 1,575
2000.....	1,586
2001.....	1,607
2002.....	1,475
2003.....	1,306
2004 and thereafter.....	12,038
Total.....	19,587
Less: Unearned income .....	6,253
	13,334
Restricted investments related to unexpended bond proceeds.....	4,498
Net investments in direct financing leases.....	\$ 8,836

As of June 30, 1998, the Maryland Stadium Authority (Authority) has direct financing leases with the State of Maryland. The present value of the direct financing leases as of June 30, 1998, is \$304,059,000. As of June 30, 1998, the Authority held \$1,401,000, to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

1999.....	\$ 20,059
2000.....	27,131
2001.....	27,131
2002.....	27,131
2003.....	27,134
2004 and thereafter.....	465,307
Total.....	593,893
Less: Unearned income .....	288,433
	305,460
Restricted investments related to unexpended bond proceeds.....	1,401
Net investments in direct financing leases.....	\$304,059

**8. Property, Plant And Equipment:**

**A. Enterprise Funds:**

Property, plant and equipment of the Enterprise funds, as of June 30, 1998, consists of the following (amounts expressed in thousands).

Structure and improvements.....	\$ 880
Equipment .....	26,691
	27,571
Less: Accumulated depreciation.....	20,473
Total.....	\$ 7,098

**B. General Fixed Assets:**

General fixed assets activity by asset classification for the year ended June 30, 1998, are as follows (amounts expressed in thousands).

Classification	Balance July 1, 1997	Additions	Deletions	Transfers in (out)	Balance June 30, 1998
Land and improvements .....	\$1,261,459	\$ 34,791	\$ 821	\$ 62,304	\$ 1,357,733
Structure and improvements.....	5,962,598	239,420	32	326,293	6,528,279
Equipment .....	1,569,876	78,282	52,980	93,847	1,689,025
Construction in progress .....	803,504	240,370		(482,444)	561,430
Total.....	\$9,597,437	\$592,863	\$53,833	\$ —	\$10,136,467

**C. Component Units:**

Property, plant and equipment of the discretely presented Component Units, as of June 30, 1998, consists of the following (amounts expressed in thousands).

	Higher Education Fund	Proprietary Funds
Land and improvements (proprietary funds include \$4,261 of land held for development).....	\$ 61,287	\$ 7,334
Structure and improvements.....	2,340,686	48,549
Equipment .....	608,480	12,932
Construction in progress .....	230,365	81
	3,240,818	68,896
Less: Accumulated depreciation.....		39,534
Total.....	\$3,240,818	\$ 29,362

**9. Long-Term Obligations:**

**A. General Long-Term Debt:**

Changes in general long-term debt, for the year ended June 30, 1998, are as follows (amounts expressed in thousands).

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Accrued Self- Insurance Costs	Accrued Annual Leave	Obligations Under Capital Leases	Obligations Under Capital Leases with Component Units	Total Long-Term Obligations
Balance, July 1, 1997 .....	\$3,025,394	\$935,355	\$391,938	\$123,895	\$144,340	\$ 85,847	\$267,193	\$4,973,962
Bond issuances.....	500,000	93,645	16,380					610,025
Bond accretion .....			3,496					3,496
New obligations under capital leases.....						9,794	50,252	60,046
Reduction in bond principal.....	(254,869)	(178,855)	(36,870)					(470,594)
Retirements of obligations under capital leases.....						(16,288)	(4,550)	(20,838)
Net increase in accrued self- insurance costs.....				4,025				4,025
Net increase in accrued annual leave .....					8,448			8,448
Balance, June 30, 1998 .....	\$3,270,525	\$850,145	\$374,944	\$127,920	\$152,788	\$ 79,353	\$312,895	\$5,168,570

**General Obligation Bonds —**

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, including facilities for institutions of higher education and the construction of public schools in political subdivisions. Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller of the Treasury and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans authorized by particular enabling acts.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the

date of issue. Property taxes, debt service fund loan repayments and general fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 1998, the State issued \$500,000,000 of general obligations at a premium of \$14,376,000 with related issuance costs of \$ 186,000.

Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

As of June 30, 1998, the State has \$246,206,000 of defeased debt outstanding, none of which was defeased during the year ended June 30, 1998.

General obligation bonds issued and outstanding, as of June 30, 1998, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
3/7/84	1987-1999	8.00-8.20	\$ 116,700	\$ 13,890
9/6/84	1988-2000	8.50-9.00	138,990	31,995
3/13/86	1989-2001	6.40-6.50	124,585	40,180
7/24/86	1990-2002	6.50-6.70	164,645	65,590
7/9/87	1991-2003	6.30-6.50	144,860	68,940
1/7/88	1991-2003	6.50-7.00	80,000	6,805
5/17/88	1991-2003	5.20-6.875	80,000	6,805
10/25/88	1991-2003	6.00-7.00	80,000	13,195
3/1/89	1992-2004	6.25-6.80	80,000	13,185
7/18/89	1992-2004	6.40-6.50	80,000	19,150
3/3/90	1993-2005	6.00-6.70	130,000	31,115
5/1/90	1995-2000	6.10-6.60	24,227	7,644
7/17/90	1994-2006	6.40-6.80	95,000	38,015
10/16/90	1994-2006	6.10-7.10	95,000	29,395
3/26/91	1994-2006	5.50-6.50	95,000	47,065
7/1/91	1996-2001	5.60-6.10	11,787	3,826
7/23/91	1996-2007	5.50-6.50	100,000	66,395
10/22/91	1996-2007	5.10-6.10	120,000	92,130
5/27/92	1996-2007	4.40-6.00	120,000	92,060
2/2/93	1996-2008	4.75-5.50	130,000	107,355
6/3/93(a)	1994-2008	4.50-5.50	278,150	246,895
10/21/93(a)	1996-2009	3.00-4.75	283,545	260,070
3/3/94(a)	1996-2009	3.50-4.75	184,210	165,630
6/2/94	1997-2009	4.875-5.50	120,000	106,475
10/20/94	1998-2010	5.00-6.00	160,000	151,140
3/23/95	1998-2010	5.00-5.70	175,000	165,580
10/26/95	1999-2011	4.50-5.125	150,000	150,000
2/29/96	1999-2011	4.00-4.90	170,000	170,000
6/20/96	1999-2011	5.00-5.25	150,000	150,000
10/24/96	1999-2011	5.00	170,000	170,000
3/13/97	2000-2012	5.00	240,000	240,000
8/14/97	2001-2013	4.75-5.00	250,000	250,000
3/5/98	2001-2013	4.50-5.00	250,000	250,000
			\$4,591,699	\$3,270,525

(a) Includes refunding debt

General obligation bonds authorized but unissued as of June 30, 1998, total \$622,512,000.

As of June 30, 1998, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands):

Years Ending June 30,	Total	Years Ending June 30,	Total
1999.....	\$411,240	2007.....	\$287,192
2000.....	434,254	2008.....	249,704
2001.....	437,289	2009.....	221,490
2002.....	415,242	2010.....	181,891
2003.....	396,838	2011.....	145,351
2004.....	362,437	2012.....	95,981
2005.....	343,815	2013.....	52,581
2006.....	319,589		

On July 8, 1998, general obligation bonds aggregating \$ 250,000,000 were issued. The interest rates on this issue range from 5.0% to 5.25% and the bonds mature serially through 2013.

*Transportation Bonds —*

Transportation Bonds outstanding as of June 30, 1998, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds — 3.9% to 6.7%, due serially through 2011 .....	\$347,375
Consolidated Transportation Bonds, Refunding — 3.8% to 5.5%, due serially through 2006 .....	496,640
County Transportation Bonds — 5.4% to 6.2%, due serially through 2006.....	6,130
	<u>\$850,145</u>

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed \$1,200,000,000. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 1998, was \$1,074,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 1998, was \$844,015,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses, for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (ii) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities, and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues.

Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department.

On May 5, 1998, the Department issued \$93,645,000 of refunding Consolidated Transportation Bonds Series 1998, with a premium of \$3,699,000, to advance refund \$91,200,000 of certain Consolidated Transportation Bonds Series 1990 (2nd issue) and 1991. The refunding Bonds are dated May 1, 1998, with maturities ranging from September 1998 to September 2006, at interest rates ranging from 4.5% to 5.5%. The net proceeds of \$97,031,000 (after a payment of \$313,000 in issuance costs) were used to purchase U.S. government securities and were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the applicable portion of the previously outstanding refunded bonds are considered to be defeased and the liability for those bonds has been removed from the general long-term debt account group. These advance refundings resulted in a reduction of future debt service cash flows of \$4,434,000, with an economic gain of \$3,455,000.

As of June 30, 1998, Transportation bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Consolidated Transportation Bonds	County Transportation Bonds	Total Transportation Bond Debt Service Requirements
1999.....	\$132,910	\$869	\$133,779
2000.....	133,267	869	134,136
2001.....	105,741	873	106,614
2002.....	109,246	878	110,124
2003.....	114,444	886	115,330
2004.....	117,286	885	118,171
2005.....	118,854	891	119,745
2006.....	83,856	888	84,744
2007.....	44,919	892	45,811
2008.....	29,682		29,682
2009.....	21,132		21,132
2010.....	16,768		16,768
2011.....	6,450		6,450
2012.....	6,150		6,150

*Maryland Transportation Authority Bonds —*

Bonds outstanding as of June 30, 1998, are as follows (amounts expressed in thousands).

Series 1991 Revenue bonds, maturing in annual installments from \$5,215 to \$8,200 from July 1, 1998, to July 1, 2005, with interest rates ranging from 6% to 6.5%, payable semiannually.....	\$ 50,715
Series 1992 Revenue bonds, maturing in annual installments from \$5,360 to \$14,570 from July 1, 1998, to July 1, 2013, with interest rates ranging from 4.6% to 5.8%, payable semiannually.....	83,705
Capital appreciation bonds maturing in annual installments of original principal and an accreted amount ranging from \$3,000 to \$15,420 from July 1, 2004, to July 1, 2015, with approximate yield to maturity of 6% to 6.35%.....	58,504
Current interest term bonds with interest payable semiannually at 5.75%, due July 1, 2015.....	27,020
Serial bonds maturing in annual installments ranging from \$180 to \$9,510 from July 1, 1999 To July 1, 2006 with interest rates ranging from 3.8% to 5.0%, payable semiannually.....	16,380
Series 1994, Special Revenue bonds maturing in annual installments from \$3,650 to \$12,230 from July 1, 1999, to June 30, 2020, with interest rates ranging from 4.10% to 6.30% payable semiannually.....	138,620
Total.....	\$374,944

The Maryland Transportation Authority (Authority) has issued Transportation Facilities Projects Revenue Bonds, Series 1991 and 1992, which are payable solely from the revenues of the transportation facilities projects.

The Series 1991 revenue bonds, maturing after July 1, 2001, are subject to redemption at the Authority's option on or after July 1, 2001, at redemption prices ranging from 100% to 102% of the principal amount. The debt service reserve requirement for the Series 1991 revenue bonds in the amount of \$9,990,000 has been satisfied through a surety bond.

With respect to the Series 1992 revenue bonds, \$13,130,000 of the current interest term bonds stated to mature on July 1, 2015, are subject to mandatory sinking fund redemption on July 1, 2014, at a redemption price equal to the principal amount plus accrued interest. The debt service reserve requirement has been satisfied by a \$20,142,000 deposit of cash with the trustee. The current interest serial bonds stated to mature on July 1, 2013, and the balance of the current interest term bonds stated to mature on July 1, 2015, are subject to redemption at the option of the Authority on or after July 1, 2002, without premium. The capital appreciation bonds are not subject to early redemption. Capital appreciation bonds payable as of June 30, 1998, include an accreted amount of \$17,609,000.

On April 15, 1998, the Authority issued \$16,380,000 in revenue refunding bonds with a premium of \$186,000 interest rates ranging from 3.8% to 5.0% to advance refund \$15,240,000 of certain outstanding 1991 series revenue bonds with interest rates ranging from 6.0% to 6.5%. The net proceeds of \$16,309,000 (after a payment of \$257,000 in underwriters discount and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result these bonds are considered to be defeased, and the liability for those bonds has been removed from the general long-term debt account group. The Authority advance refunded certain of its 1991 series bonds to reduce its total debt service payments over the next 8 years by \$459,000.

During the year ended June 30, 1994, the Authority issued \$162,580,000 of Series 1994 Special Revenue bonds to partially finance the development and operation of projects at Baltimore/Washington International Airport (the Airport Facilities Project). Principal and interest are payable solely from "Passenger Facility Charges" received by

the Maryland Aviation Administration and, in accordance with the Trust Agreement, deposited with the Trustee or in the general account maintained by the Authority. The Series 1994 Special Revenue bonds do not constitute a debt or pledge of faith and credit of the State, the Maryland Department of Transportation or the Maryland Aviation Administration.

In July 1998, the Authority made payments of \$19,705,000 towards principal for the early redemption of a portion of the Series 1994 Special Revenue bonds.

As of June 30, 1998, Maryland Transportation Authority Bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Total	Years Ending June 30,	Total
1999.....	\$33,720	2010.....	\$29,739
2000.....	33,613	2011.....	29,740
2001.....	33,628	2012.....	29,741
2002.....	33,650	2013.....	29,738
2003.....	33,674	2014.....	29,745
2004.....	38,457	2015.....	29,738
2005.....	39,649	2016.....	20,147
2006.....	39,682	2017.....	7,036
2007.....	39,363	2018.....	13,015
2008.....	29,745	2019.....	13,013
2009.....	29,736	2020.....	13,013

*Obligations Under Capital Leases —*

Obligations under capital leases as of June 30, 1998, bore interest at annual rates ranging from 3.5% to 7.7%. The capital leases with component units include capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games and capital leases with the Maryland Environmental Services. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 1998 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations With	
	Third Parties	Component Units
1999.....	\$ 19,127	\$ 21,634
2000.....	15,720	28,717
2001.....	13,821	28,738
2002.....	9,903	28,606
2003.....	7,439	28,440
2004 and thereafter.....	34,605	477,345
Total future minimum payments.....	100,615	613,480
Less amount representing interest.....	21,262	300,585
Present value of net minimum payments.....	\$ 79,353	\$312,895

*B. Long Term Obligations — Enterprise Funds —*

The enterprise fund long-term obligations as of June 30, 1998, consist of the following (amounts expressed in thousands).

Community Development Administration Revenue Bonds.....	\$2,385,177
Maryland Water Quality Financing Administration Revenue Bonds.....	151,328
Total Revenue Bonds.....	2,536,505
Maryland State Lottery Agency Notes Payable.....	2,630
Accrued Self-Insurance Costs.....	526
Accrued Annual Leave.....	788
Total long-term obligations.....	\$2,540,449

Maturities of enterprise funds notes payable and revenue bond principal are as follows (amounts expressed in thousands).

Years Ending June 30,	Community Development Administration	Maryland Water Quality Financing Administration	Maryland State Lottery Agency
1999.....	\$ 84,945	\$ 8,360	\$ 647
2000.....	55,598	8,765	767
2001.....	57,314	9,195	802
2002.....	58,565	11,595	414
2003.....	61,782	10,025	
2004 and thereafter.....	2,066,973	103,388	
	<u>\$2,385,177</u>	<u>\$151,328</u>	<u>\$2,630</u>

*Community Development Administration (Administration) — Revenue Bonds:*

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately \$2,711,296,000, and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 3.9% to 10.4%, with the bonds maturing serially through January 2040. The principal amount outstanding as of June 30, 1998, is \$2,385,177,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 103% of the outstanding principal amount.

Subsequent to June 30, 1998, the Administration issued and redeemed a total of \$44,165,000 and \$4,760,000 respectively, of revenue bonds.

*Maryland Water Quality Financing Administration (Administration) — Revenue Bonds —*

The Administration, an agency of the Department of Environment, has issued revenue bonds for making loans. Interest rates range from 4.0% to 6.9% with principal of \$130,778,000 due serially from September 1, 1997 to September 1, 2014, and term bonds aggregating principal of \$20,550,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration.

The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

As of June 30, 1998, the Administration had \$37,510,000 of debt defeased. The loss of \$3,677,000 from the defeasance is being deferred and amortized through interest expense through the year 2011.

*Maryland State Lottery Agency (Lottery) — Notes Payable —*

As of June 30, 1998, the Lottery had notes payable outstanding related to the financing of certain gaming equipment. The balance outstanding as of June 30, 1998, is \$2,630,000. Interest rates on the notes range from 4.5% to 6.7%.

*C. Long Term Obligations — Component Units:*

*Higher Education Fund —*

Certain State higher education institutions have issued revenue bonds and mortgage loans payable for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. The mortgage loans payable are collateralized by real estate. Interest rates range from 4.3% to 7.2% on the revenue bonds with the rate being 3.0% on the mortgage loans payable. In June 1992, and during the year ended June 30, 1998, the University System of Maryland issued serial Equipment Loan Program Obligations to finance the acquisition of new equipment and to refinance the balance of amounts due under certain installment purchase agreements for equipment then in the possession of the System. Payments of principal and interest, at rates ranging from 2.6% to 6.15%, are to be made semiannually through 2007. The Equipment Obligations are callable, at the option of the System, at premiums of no more than 2.0% of the outstanding principal, beginning in 2003. Maturities of principal are as follows (amounts expressed in thousands).

Years Ending June 30,	Equipment Loan Program Obligations	Revenue Bonds	Mortgages and Other	Total
1999.....	\$ 1,750	\$ 29,017	\$ 1,119	\$ 31,886
2000.....	1,595	33,685	800	36,080
2001.....	1,690	32,443	587	34,720
2002.....	1,775	29,997	620	32,392
2003.....	1,690	32,385	654	34,729
2004 and thereafter.....	<u>34,546</u>	<u>448,625</u>	<u>2,176</u>	<u>485,347</u>
	\$43,046	\$606,152	\$ 5,956	\$655,154

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

On July 2, 1997, the System issued \$60,000,000 of 1997 Series A Revenue Bonds, and used \$12,698,000 of the proceeds to advance refund \$12,800,000 of 1989 Series B Revenue Bonds. On April 22, 1998, the System issued \$91,600,000 of 1989 Series A Revenue Bonds, and used \$29,537,000 of the proceeds, along with \$1,824,000 of required debt service reserve funds, to advance refund \$18,969,000 of 1992 Series A and \$9,721,000 of 1992 Series B Revenue Bonds, along with Certificates of Participation in the amount of \$2,910,000. The advance refunding of Revenue Bonds and Certificates of Participation, while resulting in an accounting loss of \$790,000, reduced future debt service requirements by \$3,495,000. The refinancings resulted in an economic gain (the present value of the difference between the debt service requirements on the old, refunded debt, and the new debt) of \$3,224,000.

Obligations under capital leases of \$6,698,000 exist as of June 30, 1998, bearing interest at annual rates ranging from 4.6% to 7.2%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 1998 (amounts expressed in thousands).

Years Ending June 30,	Amount
1999.....	\$ 796
2000.....	715
2001.....	700
2002.....	722
2003.....	530
2004 and thereafter.....	<u>8,960</u>
Total future minimum payments.....	12,423
Less amount representing interest.....	<u>5,725</u>
Present value of net minimum payments.....	\$ 6,698

*Proprietary Fund Type —*

Maturities of component unit — proprietary fund type revenue bond principal and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Maryland Stadium Authority	Maryland Food Center Authority	Maryland Environmental Service	Total
1999.....	\$ 5,165	\$104	\$ 3,019	\$ 8,288
2000.....	6,980	112	3,195	10,287
2001.....	7,410	120	2,220	9,750
2002.....	7,870	128	1,916	9,914
2003.....	8,365	135	1,698	10,198
2004 and thereafter.....	<u>269,535</u>	<u>599</u>	<u>18,768</u>	<u>288,303</u>
	\$305,325	\$599	\$30,816	\$336,740

*Maryland Stadium Authority (Authority) — Revenue Bonds —*

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, and convention center expansions in Baltimore City and the Town of Ocean City. The outstanding debt is to be repaid through capital lease payments from the State of Maryland, as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 1998, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium.....	\$126,280	6.5% to 7.6%	December 15, 2019
Football Stadium.....	92,070	4.7% to 5.8%	March 1, 2026
Baltimore City Convention Center.....	53,120	5.25% to 5.88%	December 15, 2014
Ocean City Convention Center.....	17,340	4.8% to 5.38%	December 15, 2015

Also, as of June 30, 1998, the Authority had revenue notes outstanding of \$16,515,000 bearing interest of 9.7% to 10.0% which mature on December 15, 2019. The purpose of the notes was to finance the acquisition of property sites for the construction of the baseball stadium in Baltimore City.

*Maryland Food Center Authority (Authority) — Revenue Bonds —*

As of June 30, 1998, the Authority had revenue bonds outstanding of \$599,000 which bear interest at 7.0% and mature June 15, 2003.

*Maryland Environmental Service (Service) — Revenue Bonds —*

The Service has issued revenue bonds and other debt for the construction of certain projects. The balance as of June 30, 1998, is \$30,816,000. The debt bears interest at rates ranging from 3.3% to 6.9%. The bonds are collateralized by the revenues of the related projects. All rights, title and interest in the related property, plant and equipment remains with the Service until expiration or completion of the project and repayment of the revenue bonds. Thereafter, title to the assets passes to the governmental unit served by the projects.

**10. Loans from Primary Government:**

*Component Units — Maryland Food Center Authority (Authority) —*

The State loaned the Authority \$4,000,000, which the Authority is obligated to repay after all principal and interest has been paid on any revenue bonds which may be issued by the Authority. The loan accrued interest until June 30, 1993. The outstanding balance as of June 30, 1998, including deferred interest of \$1,577,000, was \$5,577,000.

The Authority assumed a non-interest bearing obligation in the amount of \$795,000 due to the debt service fund of the primary government pursuant to the transfer of the assets and obligations of the New Marsh Market to the Authority. The Authority is obligated to repay the debt service fund after all principal and interest has been paid on any revenue bonds which may be issued by the Authority. The outstanding principal as of June 30, 1998, is \$795,000.

**11. Insurance:**

The self-insurance liabilities represent the State's liability for its various self-insurance programs. The State is self-insured for general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (the Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This

charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and casualty costs are based upon separately determined actuarial valuations for the fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 1998 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability
Property, Casualty and General Liability .....	\$ 10,256	\$ 4,047	\$ 6,524	\$ 7,779
Workers' Compensation .....	150,000	27,617	26,617	151,000
Employee Health Benefits .....	26,262	273,785	267,924	32,123
Total Self-Insurance Costs .....	\$186,518	\$305,449	\$301,065	\$190,902

As of June 30, 1998, the Program held \$114,964,000 in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 1997 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability
Property, Casualty and General Liability .....	\$ 10,500	\$ 6,127	\$ 6,371	\$ 10,256
Workers' Compensation .....	146,415	32,566	28,981	150,000
Employee Health Benefits .....	28,321	254,285	256,344	26,262
Total Self-Insurance Costs .....	\$185,236	\$292,978	\$291,696	\$186,518

## 12. Equity:

### *Fund Balances/Retained Earnings —*

Fund balances and retained earnings are reserved as follows (amounts expressed in thousands).

	Governmental Fund Types				Fiduciary Fund Types	Component Units	
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	Higher Education	Proprietary Fund Types
Loans and Notes Receivable .....		\$ 15,624	\$25,723				
Loans to Component Units.....			6,372				
State Reserve Fund.....	\$ 699,154						
Encumbrances .....	175,500	85,222		\$308,271		\$ 26,007	
Agency Activities.....	187,568	29,076					\$4,729
Shore Erosion Loan Program.....				14,724			
Pension Benefits.....					\$28,118,073		
Deferred Compensation Benefits .....					1,160,177		
Unemployment Compensation Benefits .....					817,327		
Higher Education Programs .....						95,577	
Endowment Funds.....						190,790	
Debt and Plant Additions .....						163,997	
Total reserved fund balance/retained earnings.....	\$1,062,222	\$129,922	\$32,095	\$322,995	\$30,095,577	\$476,371	\$4,729

Loans receivable maturing after June 30, 1998, in the amount of \$15,624,000 and \$25,723,000 are not available for current operations and, accordingly, have been reflected as reservations of the special revenue and debt service fund balance.

Portions of the general fund balance and the special revenue fund balance, in the amounts of \$187,568,000 and \$29,076,000 respectively, as of June 30, 1998, representing special budgetary and nonbudgeted agency resources, were reserved for agency activities and programs.

A portion of the general fund balance, in the amount of \$699,154,000 as of June 30, 1998, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of a Dedicated Purpose Account, an Economic Development Opportunities Program Fund, a Catastrophic Event Fund, Citizen Tax Reduction and Reserve Account and a Revenue Stabilization Account with balances as of June 30, 1998, of \$58,900,000, \$9,330,000, \$3,001,000, \$10,010,000 and \$617,913,000 respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The Economic Development Opportunities Program Fund is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Fund is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases.

A portion of the general fund unreserved fund balance is designated for fiscal year 1998 appropriations in the amount of \$302,737,000. Furthermore, portions of the debt service unreserved fund balance are designated for payment of the debt service on the general long-term debt, Transportation debt and the Maryland Transportation Authority bond debt in the amounts of \$28,765,000, \$5,865,000, and \$79,899,000 respectively.

*Primary Government Contributed Capital —*

The changes in contributed capital of the enterprise funds for the year ended June 30, 1998, are as follows (amounts expressed in thousands).

	Economic Development			Total
	Insurance Programs	Loan Programs	State Use Industries	
Balance, July 1, 1997 .....	\$48,295	\$594,495	\$ 1,475	\$644,265
Contributions .....		15,705	4	15,709
Depreciation on contributed assets .....			(252)	(252)
Balance, June 30, 1998 .....	\$48,295	\$610,200	\$ 1,227	\$659,722

*Component Units — Proprietary Type Funds —*

The changes in contributed capital of the component units, proprietary fund type for the year ended June 30, 1998, are as follows (amounts expressed in thousands).

	Maryland Food Center Authority	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Total
	Balance, July 1, 1997 .....	\$412	\$3,631	\$23,750
Depreciation on contributed assets .....	(12)	(928)		(940)
Balance, June 30, 1998 .....	\$400	\$2,703	\$23,750	\$26,853

### 13. Interfund Transfers:

Interfund transfers, as of June 30, 1998, consist of the following (amounts expressed in thousands).

Operating Transfers In	Operating Transfers Out	Amount
General Fund	Special Revenue Fund — Maryland Department of Transportation	\$ 60,825
	Capital Projects Fund	1,964
	Enterprise Funds —	
	Maryland State Lottery Agency	400,126
	Economic Development — Insurance Programs	1,158
	Economic Development — Loan Programs	4,398
	Component Units —	
	Higher Education	426
	Maryland Industrial Development Financing Authority	167
Special Revenue Fund — Maryland Department of Transportation	General Fund	103,946
Debt Service Funds —		
General Obligation Bonds	General Fund	172,008
	Capital Projects Fund	14,376
Maryland Department of Transportation	Special Revenue Fund — Maryland Department of Transportation	127,277
Maryland Transportation Authority	Special Revenue Fund — Maryland Department of Transportation	21,958
	Special Revenue Fund — Maryland Transportation Authority	29,118
Capital Projects Fund	General Fund	83,634
Enterprise Funds —		
Loan Programs	General Fund	55,045
Component Units —		
Higher Education	General Fund	668,457
Component Units — Proprietary	Capital Projects Fund	83,800
Maryland Stadium Authority		
Maryland Industrial Development Financing Authority	General Fund	18,371
	General Fund	3,000

### 14. Segment Information:

Activity segments included in enterprise funds are described in Note 1B. Selected financial information with respect to these segments as of and for the year ended June 30, 1998, is as follows (amounts expressed in thousands).

	Segments				Total
	Insurance Programs	Loan Programs	Lottery	Manufacturing (State Use Industries)	
Operating revenues.....	\$ 14,447	\$ 258,583	\$1,072,632	\$30,003	\$1,375,665
Depreciation and amortization .....	14	1,070	890	883	2,857
Operating (loss) income .....	(2,707)	26,922	398,527	576	423,318
Operating interfund transfers:					
In.....		55,045			55,045
Out.....	(1,158)	(4,398)	(400,126)		(405,682)
Net income (loss).....	(3,865)	103,218	(1,789)	589	98,153
Current capital contributions.....		15,705		4	15,709
Property, plant, and equipment:					
Additions.....	3	353	2,396	1,719	4,471
Deletions.....		47		13	60
Total assets.....	117,417	3,697,178	527,394	20,315	4,362,304
Bonds and other long-term liabilities payable from operating revenues.....		2,536,505			2,536,505
Total capital.....	76,362	1,053,753	2,450	16,992	1,149,557
Net working capital.....	71,647	1,106,827	481,376	12,866	1,672,716

### 15. Retirement Benefits:

#### *State Retirement and Pension System of Maryland (System):*

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Mass Transit Administration Pension Plan described below) and employees of 127 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The

System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201.

*Plan Description:*

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

“Retirement System” — retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

“Pension System” — retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completing 5 years of service. A member terminating employment before attaining retirement age but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State Police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or after completing 30 years of service credit regardless of age, or at age 62 or older with specified years of service credit. State police members may retire with full benefits after attaining age 50, or after completing 25 years of service credit regardless of age.

The annual benefit for Retirement System members is equal to 1/55 (1.8%) of a member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. A member of the Pension System shall receive, upon retirement, an annual service retirement allowance equal to 0.8% of the member's highest three-consecutive-year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security wage base. A member may retire with reduced benefits after attaining age 55 and completing 15 years of service. The annual retirement allowance for a State Police member is equal to 1/45 (2.2%) of a member's highest three-year average salary multiplied by each year of service up to 25 years, plus 1/90 (1.1%) of the member's highest three-year average salary multiplied by each year of service in excess of 25 years.

Legislation enacted during the 1998 legislative session changed certain provisions of the Pension System. Effective July 1, 1998, members contribute 2.0% of earnable compensation. The annual pension allowance under a service retirement will generally equal 1.2% of the member's highest three-consecutive-year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three-consecutive-year average salary multiplied by the number of years of service credit after July 1, 1998.

*Funding Policy:*

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages (7.0% or 5.0% depending on the retirement plan selected). Members of the Pension System are required to contribute to the System 5.0% of their regular salaries and wages which exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular, periodic basis.

The contribution requirements of the System members and the State are established and may be amended by the Board of Trustees for the System. During 1998, the State's and its participating political subdivisions made their required contributions totaling \$735,788,000 which was 12.47% of covered payroll. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 1998, 1997 and 1996 the State had made all required contributions, and thus as of June 30, 1998, 1997 and 1996 the State did not have a net pension obligation.

***Annual Pension Cost and Net Pension Obligation:***

Three-Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ending June 30,		
	1998	1997	1996
Teachers' Retirement and Pension System.....	\$496,020	\$502,424	\$479,007
Employees' Retirement and Pension System.....	212,306	208,821	165,055
State Police Retirement System.....	8,841	10,918	11,801
Judges' Retirement System.....	13,292	12,931	12,361
Natural Resources Law Enforcement Officers Pension System.....	4,373	4,237	4,085
Municipal Corp. Law Enforcement Officers and Fire Fighters Pension System.....	956	927	709

**Percentage of Annual Pension Cost Contributed**

The State contributed 100% of the annual pension cost for each of the fiscal years ending June 30, 1998, 1997 and 1996 for each of the six plans listed above.

**Net Pension Obligation**

The State's net pension obligation was zero as of June 30, 1998, 1997 and 1996 for each of the six plans listed. In addition, there was no transition liability determined in accordance with GASB Statement No. 27.

The fiscal year 1998 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 1998. The significant actuarial assumptions listed below were used for all plans.

Valuation method.....	Aggregate Entry Age Normal
Cost method of valuing assets.....	Smoothing (difference in experienced and assumed return)
Rate of return on investments.....	7.5%
Rate of salary increase.....	Varies
Projected inflation rate.....	5.0%
Postretirement benefit increase.....	Varies
Amortization method.....	Level Percent of Payroll
Remaining amortization period.....	22 years as of June 30, 1998
Status of period (Open or Closed).....	Closed

***Mass Transit Administration Pension Plan (Plan):***

The Plan is a single employer non-contributory plan which covers all Mass Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 1998, the Administration's covered payroll was \$98,914,000 and, its total payroll was \$99,094,000. The Plan is administered and funded in compliance with the collective bargaining agreements which established the Plan. Separate statements for the Plan are not issued.

***Plan Description:***

The Plan provides retirement (normal and early), death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.3% of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 1998, membership in the Plan includes 912 retirees and beneficiaries currently receiving benefits, 320 terminated members entitled to, but not yet receiving benefits and 2,658 current active members.

There were no investments in loans to or leases with parties related to the Plan. In addition, no investment in any one organization constituted 5.0% or more of the net plan assets available for pension benefits.

***Summary of Significant Accounting Policies:***

As a part of the Pension Trust Fund, the accounts of the Plan, including benefits and refunds, are maintained using the accrual basis of accounting. Fair value of the investments by the Plan is determined by the State Retirement and Pension System of Maryland based on published securities data.

*Funding Policy:*

The Administration's required contributions are based on actuarial valuations. Effective January 1, 1990, in accordance with the law governing the Plan, all benefits of the Plan are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling \$13,902,000 (14.1 % of covered payroll) for fiscal year 1998 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 1996. This amount consisted of \$2,594,000 normal cost and \$11,308,000 amortization of the actuarial accrued liability (2.6% and 11.5%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities (as provided by law) is 22 years from June 30, 1998. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations.

The computation of the annual required contribution for fiscal year 1998 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

*Annual Pension Cost and Net Pension Obligation:*

The Administration's annual pension cost for the fiscal years ending June 30, 1998, 1997 and 1996 were \$13,902,000, \$11,502,000 and \$11,918,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ending June 30, 1998, 1997 and 1996 for the Plan.

The Administration's net pension obligation was zero as of June 30, 1998, 1997 and 1996 for the Plan.

The fiscal year 1998 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 1996. The significant actuarial assumptions listed below were used for the Plan.

---

Valuation method .....	Entry Age Normal Method
Cost method of valuing assets.....	Fair Value
Rate of return on investments.....	7.5% Compounded per Annum
Projected inflation rate .....	5.0%
Rate of salary increase.....	3.0%, Compounded per Annum
Postretirement benefit increase.....	N/A
Amortization method.....	Level dollar annual installments
Remaining amortization period .....	23 years from July 1, 1998
Status of period (Open or Closed) .....	Closed

---

During fiscal year 1998, there were no changes in actuarial assumptions or benefit provisions from 1997 which significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

*Post Retirement Benefits:*

The State also provides, in accordance with State Merit System Laws, postemployment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for postemployment health care benefits which is based on health care insurance charges for current employees. During fiscal year 1998, these benefits paid amounted to \$59,179,293. There are 22,055 participants currently eligible to receive benefits.

**16. Deferred Compensation Plan (Plan):**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Sections 457, 403(b), and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. Under the provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after

December 31, 1996, assets of the Plan must be held in a trust, custodial account or annuity contract for the exclusive benefit of employees and beneficiaries and will no longer be solely the property of the employer, subject only to claims of the employer's general creditors. As of December 31, 1997, all assets of the Plan met the requirements of SBJPA. The State has transferred the assets of the Plan to a trust fund.

Investments are managed by the Plan's third party administrator under one of several investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

### 17. Commitments:

The State leases office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 1998 were approximately \$38,671,000. Future lease commitments under these agreements as of June 30, 1998, are as follows (amounts expressed in thousands).

Years ending June 30,	Amounts
1999.....	\$ 35,882
2000.....	31,360
2001.....	23,430
2002.....	18,281
2003.....	14,235
2004 and thereafter.....	60,600
	<u>\$183,788</u>

As of June 30, 1998, the State had commitments of approximately \$102,875,030 for the completion of projects under construction.

As of June 30, 1998, the Department of Transportation and Maryland Transportation Authority had commitments of approximately \$801,085,000 and \$131,000,000 respectively, for construction of highway and mass transit facilities. Approximately 38% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various operating leases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years ending June 30,	Noncancellable Operating Leases Minimum Future Rentals
1999.....	\$ 67,239
2000.....	61,509
2001.....	59,313
2002.....	33,376
2003.....	23,868
2004 and thereafter.....	71,804
	<u>\$317,109</u>

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately \$87,134,000 for the year ended June 30, 1998, including contingent rentals of approximately \$22,965,000.

As of June 30, 1998, the Maryland State Lottery Agency had commitments of approximately \$83,089,000 for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 1998, the higher education fund, a component unit, had commitments of approximately \$221,450,000 for the completion of projects under construction.

As of June 30, 1998, the Maryland Stadium Authority, a proprietary type component unit, had commitments of approximately \$15,844,000 for the completion of construction of property to be leased under a capital lease.

As of June 30, 1998, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of \$18,938,000 in additional loans (Maryland Economic Development Opportunity Program Fund \$11,350,000; Maryland Industrial and Commercial Redevelopment Fund \$3,093,000; Maryland Industrial Loan Fund \$4,495,000).

## **18. Contingencies:**

The State is party to legal proceedings which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 1998, mortgage loan insurance programs included in the enterprise funds and component unit proprietary funds were contingently liable as insurer of mortgage loans payable or portions of mortgage loans payable, in an aggregate amount of approximately \$772,152,000 (including \$671,280,000 for the economic development loan programs). In addition, there are commitments to insure mortgage loans which would represent additional contingent liabilities of approximately \$2,175,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the 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 fund which received the grant. As of June 30, 1998, the State estimates that no material liabilities will result from such audits.

## **19. Landfill Closure and Postclosure Care Costs:**

State and Federal laws require the Maryland Environmental Service (the Service) to place a final cover on the Midshore Regional Landfill (Midshore), which is expected to close in 2010, and the Easton Landfill (Easton), which is filled to capacity and in the process of being closed, and to perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure. Although closure and postclosure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service accrues a portion of these closure and postclosure care costs as a liability based on the estimated capacity of the landfill that has been used to date, which was 42% as of June 30, 1998. The Service recognized a liability for Easton equal to the estimated total current cost of closure and postclosure care that has not been paid. A \$3,633,768 liability is included in accounts payable and accrued liabilities in the accompanying balance sheet of the Service. Total closure and postclosure care costs are currently estimated to approximate \$8,185,000 as determined through engineering studies. Actual costs may be higher due to inflation.

Under recently promulgated Federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 1997. The Service expects to satisfy these requirements as of June 30, 1998, using the same criteria.

## **20. Year 2000 Compliance (Unaudited)**

Certain computer programs have been written using two digits rather than four to define the applicable year, which could result in the computer recognizing the date using "00" as the year 1900 rather than the year 2000. This, in turn, could result in major system failures in miscalculations, and is generally referred to as the "Year 2000" problem. The State has commenced a process to assure Year 2000 compliance of all hardware, software, and ancillary equipment that is date dependent.

In August 1997, the State established the Year 2000 Program Management Office (PMO) to manage the State's year 2000 processes and oversee the activities underway at the agencies. While individual State agencies are responsible for their Year 2000 remediation, the PMO provides assistance to the agencies in the form of supplemental funds, methodologies, templates, definitions, access to approved vendors and other technical assistance. The PMO is also responsible to monitor the agencies' progress to assist them in meeting the deadlines established. Since August 1997, the Maryland General Assembly has appropriated \$53,000,000 to date, and may appropriate additional amounts to support the management and correction of the Year 2000 problem. As of November 7, 1998, approximately \$48,000,000 has been awarded to various vendors. Because each agency within the State is different, each agency will tailor its Year 2000 program in response to its unique needs and business practices. In addition, some agencies are completing Year 2000 compliance projects, which are budgeted in the agency budgets and are not included in the above amounts.

The State's Year 2000 process involves four phases.

*Phase 1 — Awareness Stage.* This phase encompasses establishing a budget and project plan for dealing with the Year 2000 issue.

*Phase II — Assessment Stage.* This phase begins with identifying all of the State's systems and individual components of those systems. The State has identified its mission-critical systems and equipment, which are systems and equipment that are critical to conducting operations and checking for compliance.

*Phase III — Remediation Stage.* This phase is comprised of making technical changes to existing systems and equipment or switching to new compliant systems. During this stage, decisions are made on how to make the systems Year 2000 compliant, and the required system changes are made.

*Phase IV — Validation/Testing Stage.* This phase validates and tests the changes made during the remediation stage. This stage includes the development of test data and test scripts, the running of test scripts, and the review of test results.

The State's Year 2000 program is built on an information technology approach whereby each State agency, as the business entity, is responsible for ensuring its systems are Year 2000 compliant. A critical part of the State's Year 2000 plan is the development of contingency plans to assure continued operation in the event of critical automated systems failure or unforeseen supply chain interruptions. Contingency plans describe the steps to be taken, including the activation of manual or outsourced processes, to ensure the continuing of operations in the event of a Year 2000 induced system failure. The PMO has been working with the State agencies to identify and prioritize systems and provide other technical and programmatic support to address all issues. The following chart details the mission critical systems by priority and their respective stage of conversion as determined by the PMO and the individual agencies.

	Number of Priority Systems			
	<u>Awareness</u>	<u>Assessment</u>	<u>Remediation</u>	<u>Validation/Testing</u>
Complete:				
Most Critical Systems	26	25	18	3
High Priority	207	153	90	34
Priority	215	190	119	43
Incomplete:				
Most Critical Systems		1	8	23
High Priority		54	117	173
Priority		25	96	172
<b>Total</b>	<b>448</b>	<b>448</b>	<b>448</b>	<b>448</b>

While the State has allocated significant resources to the Year 2000 issue and expects to resolve all of its Year 2000 problems prior to December 31, 1999, there can be no assurance that all systems will be ready or that failure of systems not identified as critical could have significant negative effect on the State's operation. Also minor problems will undoubtedly remain after December 31, 1999. The State does not expect Year 2000 problems to have a material adverse effect on its financial health or its ability to meet its financial obligations in a timely manner. However, the State has no control over the Year 2000 remediation efforts of external third parties and to the extent that the third parties have not resolved its Year 2000 problems, they may negatively impact the State.

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# Longest Serving Statewide Elected Official

Awards from the National Association of State Comptrollers, the Federation of Tax Administrators, the National Association of Government Accountants and many others attest to the fact that Comptroller Goldstein's contributions to government accounting, finance, and administration were nationally recognized far beyond the borders of his beloved state.

But that's not why Maryland voters returned their tax collector to office often enough to make him the longest serving statewide elected official in the nation. Instead, it was because he had their best interests at heart. He never lost his genuine love for his job or his affection for the people he served, and he refused to

rest on his achievements - always looking for better ways to get the job done.

Louis Goldstein never took the support of the people he served for granted. He regularly traveled throughout the state, speaking to different groups and listening to their concerns. He had filed to run for his eleventh term as state comptroller just weeks before his unexpected death on July 3, 1998.

He looked forward to leading the Comptroller's Office into the 21st century, using technology as a bridge - not a barrier - between government and the people it serves. The strong foundation he built over four decades of service should support that bridge for years to come.

---

Comptroller  
Goldstein  
believed  
in using  
technology  
as a bridge  
- not a barrier -  
between  
government  
and people

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Louis L. Goldstein was so beloved that he rode to the office on a highway dedicated to him and worked in a building named in his honor. *Photo by Mike Walsh*

**REQUIRED SUPPLEMENTARY INFORMATION**

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**STATE OF MARYLAND**

**Required Supplemental Schedule of Funding Progress for  
Pension and Retirement System  
(Expressed in Thousands)**

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	Unfunded AAL /Excess of Assets over AAL	Funded Ratio	Covered Payroll(1)	Unfunded AAL /Excess as a Percentage of Covered Payroll(2)
<b>TEACHERS RETIREMENT AND PENSION SYSTEM</b>						
1994	\$ 9,634,321	\$14,070,829	\$ (4,436,508)	68.47%	\$2,821,756	157.23%
1995	10,508,766	14,844,365	(4,335,599)	70.79	2,986,391	145.18
1996	11,630,258	15,616,272	(3,986,014)	74.48	3,065,203	130.04
1997	13,142,495	16,292,451	(3,149,956)	80.67	3,151,218	99.96
1998	14,934,503	17,452,180	(2,517,677)	85.57	3,319,260	75.85
<b>EMPLOYEES RETIREMENT AND PENSION SYSTEM</b>						
1994	\$ 5,843,445	\$ 6,969,182	\$ (1,125,737)	83.85%	\$2,328,321	48.35%
1995	6,294,727	7,361,026	(1,066,299)	85.51	2,446,296	43.59
1996	6,870,504	7,690,211	(819,707)	89.34	2,474,814	33.12
1997	7,668,655	8,060,733	(392,078)	95.14	2,399,504	16.34
1998	8,621,080	8,877,652	(256,572)	97.11	2,448,181	10.48
<b>STATE POLICE RETIREMENT SYSTEM</b>						
1994	\$ 675,456	\$ 606,019	\$ 69,437	111.46%	\$ 59,098	117.49%
1995	728,440	641,610	86,830	113.53	60,677	143.10
1996	802,943	675,097	127,846	118.94	60,823	210.19
1997	909,549	744,496	165,053	122.17	62,936	262.26
1998	1,033,274	739,074	294,200	139.81	70,663	416.34
<b>JUDGES RETIREMENT SYSTEM</b>						
1994	\$ 106,758	\$ 177,720	\$ (70,962)	60.07%	\$ 22,831	310.81%
1995	118,573	188,445	(69,872)	62.92	23,064	302.95
1996	131,631	196,319	(64,688)	67.05	23,917	270.47
1997	149,283	213,259	(63,976)	70.00	25,007	255.83
1998	170,953	220,136	(49,183)	77.66	25,552	192.48
<b>NATURAL RESOURCES LAW ENFORCEMENT OFFICERS PENSION SYSTEM</b>						
1994	\$ 9,458	\$ 44,487	\$ (35,029)	21.26%	\$ 10,177	344.20%
1995	12,208	49,051	(36,843)	24.89	11,369	324.07
1996	15,333	54,583	(39,250)	28.09	11,646	337.03
1997	44,949	60,824	(15,875)	73.90	12,904	123.04
1998	83,430	115,534	(32,104)	72.21	30,512	105.22
<b>MUNCIPAL CORP. LAW ENFORCEMENT OFFICERS AND FIRE FIGHTERS PENSION SYSTEM</b>						
1994	\$ 3,139	\$ 7,226	\$ (4,087)	43.44%	\$ 4,066	100.52%
1995	3,868	8,040	(4,172)	48.11	4,353	95.84
1996	4,611	8,875	(4,264)	51.95	4,430	96.25
1997	5,767	11,446	(5,679)	50.38	5,815	97.66
1998	7,114	12,358	(5,244)	57.57	6,288	83.40
<b>TOTAL OF ALL PLANS</b>						
1994	\$16,272,577	\$21,875,463	\$ (5,602,886)	74.39%	\$5,246,249	106.80%
1995	17,666,582	23,092,537	(5,425,955)	76.50	5,532,150	98.08
1996	19,455,280	24,241,357	(4,786,077)	80.26	5,640,833	84.85
1997	21,920,698	25,383,209	(3,462,511)	86.36	5,657,384	61.20
1998	24,850,354	27,416,934	(2,566,580)	90.64	5,900,456	43.50

- (1) Covered payroll includes the payroll cost of those participants which the State pays the retirement contribution but does not pay the participants payroll cost.  
(2) Percentage of excess assets over AAL as a percentage of covered payroll.

**STATE OF MARYLAND**

**Required Supplemental Schedule of Funding Progress for**

**Mass Transit Administration Pension Plan**

(Expressed in Thousands)

Actuarial Valuation Date June 30(1)	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll(1)	Unfunded AAL /Excess as a Percentage of Covered Payroll
1991	\$ 5,792	\$ 87,586	\$ 81,794	6.6%	\$77,451	105.6%
1992	8,891	92,718	83,827	9.6	80,700	103.9
1993	13,447	95,032	81,585	14.1	87,134	93.6
1994	17,572	126,351	108,779	13.9	88,491	122.9
1995	24,470	137,826	113,356	17.8	92,445	122.6
1996	34,568	143,075	108,507	24.2	95,550	113.6
1997	42,739	172,076	129,337	24.8	95,333	135.7
1998	51,208	167,331	116,123	30.6	98,814	117.5

**Required Supplemental Schedule of Employer Contributions for**

**Mass Transit Administration Pension Plan**

(Expressed in Thousands)

Year Ended June 30 (1)	Annual Required Contribution	Percentage Contributed
1991	\$ 7,677	100%
1992	7,327	100
1993	8,467	100
1994	8,452	100
1995	11,323	100
1996	11,918	100
1997	11,502	100
1998	13,902	100

(1) Supplemental information prior to 1991 is not available.

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**COMBINING FINANCIAL STATEMENTS AND SCHEDULES**

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**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Special Revenue Funds**  
**June 30, 1998**  
(Expressed in Thousands)

	Maryland Department of Transportation	Maryland Transportation Authority	Total
<b>Assets:</b>			
Cash and cash equivalents .....	\$ 6,714	\$ 63,075	\$ 69,789
Investments .....	59	154,939	154,998
Taxes receivable, net .....	32,445		32,445
Intergovernmental receivables .....	105,375		105,375
Other accounts receivable .....	64,218	3,688	67,906
Due from other funds .....	222,438	22,992	245,430
Loans and notes receivable, net .....	15,624		15,624
Other assets .....	31,064		31,064
<b>Total assets</b> .....	<b>\$477,937</b>	<b>\$244,694</b>	<b>\$722,631</b>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities .....	\$171,352	\$ 17,848	\$189,200
Due to other funds .....	26,760		26,760
Accounts payable to political subdivisions .....	58,011		58,011
Deferred revenue .....	1,695	1,497	3,192
<b>Total liabilities</b> .....	<b>257,818</b>	<b>19,345</b>	<b>277,163</b>
<b>Fund balances:</b>			
Reserved for:			
Encumbrances .....	31,723	53,499	85,222
Agency activities .....	12,084	16,992	29,076
Loans and notes receivable .....	15,624		15,624
Unreserved:			
Undesignated .....	160,688	154,858	315,546
<b>Total fund balances</b> .....	<b>220,119</b>	<b>225,349</b>	<b>445,468</b>
<b>Total liabilities and fund balances</b> .....	<b>\$477,937</b>	<b>\$244,694</b>	<b>\$722,631</b>

**STATE OF MARYLAND**  
**Combining Statement of Revenues,**  
**Expenditures, Other Sources and Uses of**  
**Financial Resources and Changes in Fund Balances**  
**Special Revenue Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	Maryland Department of Transportation	Maryland Transportation Authority	Total
<b>Revenues:</b>			
Motor vehicle taxes and fees.....	\$1,426,340		\$1,426,340
Charges for services.....	265,457	\$168,796	434,253
Interest and other investment income .....	10,948	12,766	23,714
Federal revenue.....	463,149		463,149
Other.....		7,932	7,932
<b>Total revenues .....</b>	<b>2,165,894</b>	<b>189,494</b>	<b>2,355,388</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Transportation.....	768,075	91,385	859,460
Intergovernmental.....	459,528		459,528
Capital outlays.....	876,003	57,052	933,055
<b>Total expenditures .....</b>	<b>2,103,606</b>	<b>148,437</b>	<b>2,252,043</b>
<b>Excess of revenues over expenditures .....</b>	<b>62,288</b>	<b>41,057</b>	<b>103,345</b>
<b>Other sources (uses) of financial resources:</b>			
Capital leases.....	57,188		57,188
Operating transfers in .....	103,946		103,946
Operating transfers out.....	(210,060)	(29,118)	(239,178)
<b>Net other uses of financial resources .....</b>	<b>(48,926)</b>	<b>(29,118)</b>	<b>(78,044)</b>
<b>Excess of revenues over expenditures and net other uses of financial resources.....</b>	<b>13,362</b>	<b>11,939</b>	<b>25,301</b>
Fund balances July 1, 1997 .....	206,757	213,410	420,167
<b>Fund balances June 30, 1998 .....</b>	<b>\$ 220,119</b>	<b>\$225,349</b>	<b>\$ 445,468</b>

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Debt Service Funds**  
**June 30, 1998**  
(Expressed in Thousands)

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Total
<b>Assets:</b>				
Cash and cash equivalents .....	\$11,887	\$ 6,386	\$67,548	\$ 85,821
Investments .....		835	11,849	12,684
Taxes receivable, net .....	5,996			5,996
Other accounts receivable .....	126	10	502	638
Loans and notes receivable, net .....	25,723			25,723
Loans to component units .....	6,372			6,372
Other assets .....	14,734			14,734
<b>Total assets</b> .....	<b>\$64,838</b>	<b>\$ 7,231</b>	<b>\$79,899</b>	<b>\$151,968</b>
<b>Liabilities:</b>				
Matured bonds and interest coupons payable .....	\$ 3,978	\$ 1,366		\$ 5,344
<b>Total Liabilities</b> .....	<b>3,978</b>	<b>1,366</b>		<b>5,344</b>
<b>Fund Balance:</b>				
Reserved for:				
Loans and notes receivable .....	25,723			25,723
Loans to component units .....	6,372			6,372
Unreserved:				
Designated for:				
General long-term obligation bond debt service .....	28,765			28,765
Transportation bond debt service .....		5,865		5,865
Maryland Transportation Authority bond debt service .....			\$79,899	79,899
<b>Total fund balances</b> .....	<b>60,860</b>	<b>5,865</b>	<b>79,899</b>	<b>146,624</b>
<b>Total liabilities and fund balances</b> .....	<b>\$64,838</b>	<b>\$ 7,231</b>	<b>\$79,899</b>	<b>\$151,968</b>

**STATE OF MARYLAND**  
**Combining Statement of Revenues,**  
**Expenditures, Other Sources and Uses of**  
**Financial Resources and Changes in Fund Balances**  
**Debt Service Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	General Obligation Bonds	Transportation Bonds	Maryland Transportation Authority Bonds	Total
<b>Revenues:</b>				
Other taxes.....	\$ 242,428			\$ 242,428
Interest and other investment income .....	2,177	\$ 117	\$ 1,634	3,928
Other.....	954			954
<b>Total revenues .....</b>	<b>245,559</b>	<b>117</b>	<b>1,634</b>	<b>247,310</b>
<b>Expenditures:</b>				
Debt service:				
Principal retirement.....	254,869	87,655	21,630	364,154
Interest.....	163,031	46,692	19,425	229,148
<b>Total expenditures .....</b>	<b>417,900</b>	<b>134,347</b>	<b>41,055</b>	<b>593,302</b>
<b>Deficiency of revenues over expenditures .....</b>	<b>(172,341)</b>	<b>(134,230)</b>	<b>(39,421)</b>	<b>(345,992)</b>
<b>Other sources of financial resources:</b>				
Proceeds from refunding bonds.....		97,031	16,309	113,340
Payment to escrow agent.....		(97,031)	(16,630)	(113,661)
Operating transfers in .....	186,384	127,277	51,076	364,737
Net other sources of financial resources.....	186,384	127,277	50,755	364,416
<b>Excess (deficiency) of revenues over expenditures and     net other sources (uses) of financial resources.....</b>	<b>14,043</b>	<b>(6,953)</b>	<b>11,334</b>	<b>18,424</b>
Fund balances, July 1, 1997 .....	46,817	12,818	68,565	128,200
Fund balances, June 30, 1998 .....	\$ 60,860	\$ 5,865	\$ 79,899	\$ 146,624

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Enterprise Funds**  
**June 30, 1998**  
(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
<b>Assets:</b>					
Cash and cash equivalents .....		\$ 190,522	\$ 1,200	\$ 10	\$ 191,732
Investments .....	\$ 1,812	835,537	459,586		1,296,935
Other accounts receivable .....	1	49,149	12,171	3,064	64,385
Due from other funds .....	100,180	82,572	52,040	7,998	242,790
Inventories .....				4,998	4,998
Loans and notes receivable, net .....	4,684	2,482,820			2,487,504
Property, plant and equipment, net .....	31	611	2,330	4,126	7,098
Other assets .....	10,709	55,967	67	119	66,862
<b>Total assets</b> .....	<b>\$117,417</b>	<b>\$3,697,178</b>	<b>\$527,394</b>	<b>\$20,315</b>	<b>\$4,362,304</b>
<b>Liabilities:</b>					
Accounts payable and accrued liabilities .....	\$ 597	\$ 45,166	\$ 5,424	\$ 2,152	\$ 53,339
Due to other funds .....		2,054	35,782		37,836
Lottery prizes .....			478,626		478,626
Accrued insurance and loan losses .....	35,788	824			36,612
Other liabilities .....	811	58,308			59,119
Deferred revenue .....	3,830	138	2,346	452	6,766
Notes payable .....			2,630		2,630
Revenue bonds payable .....		2,536,505			2,536,505
Accrued self-insurance costs .....	29	53	136	308	526
Accrued annual leave .....		377		411	788
<b>Total liabilities</b> .....	<b>41,055</b>	<b>2,643,425</b>	<b>524,944</b>	<b>3,323</b>	<b>3,212,747</b>
<b>Capital:</b>					
Contributed capital .....	48,295	610,200		1,227	659,722
Retained earnings — unreserved .....	28,067	443,553	2,450	15,765	489,835
<b>Total capital</b> .....	<b>76,362</b>	<b>1,053,753</b>	<b>2,450</b>	<b>16,992</b>	<b>1,149,557</b>
<b>Total liabilities and capital</b> .....	<b>\$117,417</b>	<b>\$3,697,178</b>	<b>\$527,394</b>	<b>\$20,315</b>	<b>\$4,362,304</b>

**STATE OF MARYLAND**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Retained Earnings**  
**Enterprise Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
<b>Operating revenues:</b>					
Lottery ticket sales .....			\$1,072,632		\$1,072,632
Charges for services and sales .....	\$ 8,374	\$ 3,849		\$30,003	42,226
Interest and other investment income .....	6,069	246,431			252,500
Other.....	4	8,303			8,307
<b>Total operating revenues .....</b>	<b>14,447</b>	<b>258,583</b>	<b>1,072,632</b>	<b>30,003</b>	<b>1,375,665</b>
<b>Operating expenses:</b>					
Prizes and claims .....			571,137		571,137
Commissions and bonuses .....			60,198		60,198
Cost of sales and services .....				24,501	24,501
Operation and maintenance of facilities .....		11,586			11,586
General and administrative .....	2,212	30,355	40,364	4,043	76,974
Interest .....		166,089			166,089
Depreciation and amortization .....	14	1,070	890	883	2,857
Provision for insurance and loan losses .....	14,928	832			15,760
Other.....		21,729	1,516		23,245
<b>Total operating expenses .....</b>	<b>17,154</b>	<b>231,661</b>	<b>674,105</b>	<b>29,427</b>	<b>952,347</b>
<b>Operating (loss) income .....</b>	<b>(2,707)</b>	<b>26,922</b>	<b>398,527</b>	<b>576</b>	<b>423,318</b>
<b>Non-operating revenues (expenses):</b>					
Investment income.....		1,722			1,722
Interest expense .....		(16)	(190)		(206)
Other.....		23,943		13	23,956
<b>(Loss) income before transfers .....</b>	<b>(2,707)</b>	<b>52,571</b>	<b>398,337</b>	<b>589</b>	<b>448,790</b>
Operating transfers in .....		55,045			55,045
Operating transfers out .....	(1,158)	(4,398)	(400,126)		(405,682)
<b>Net (loss) income.....</b>	<b>(3,865)</b>	<b>103,218</b>	<b>(1,789)</b>	<b>589</b>	<b>98,153</b>
Add: Depreciation of assets acquired from contributed capital.....				252	252
<b>Increase (decrease) in retained earnings.....</b>	<b>(3,865)</b>	<b>103,218</b>	<b>(1,789)</b>	<b>841</b>	<b>98,405</b>
Retained earnings, July 1, 1997 .....	31,932	340,335	4,239	14,924	391,430
Retained earnings, June 30, 1998 .....	<b>\$ 28,067</b>	<b>\$443,553</b>	<b>\$ 2,450</b>	<b>\$15,765</b>	<b>\$ 489,835</b>

**STATE OF MARYLAND**  
**Combining Statement of Cash Flows**  
**Enterprise Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	Economic Development		Maryland State Lottery Agency	State Use Industries	Total
	Insurance Programs	Loan Programs			
<b>Cash flows from operating activities:</b>					
Operating (loss) income .....	\$(2,707)	\$ 26,922	\$ 398,527	\$ 576	\$ 423,318
Adjustments to reconcile operating (loss) income to net cash provided by operating activities:					
Depreciation and amortization .....	14	1,070	890	883	2,857
Loss on disposal of property, plant and equipment .....		47		13	60
Effect of changes in assets and liabilities:					
Other accounts receivable .....		(5,281)	8,429	(425)	2,723
Due from other funds .....	1,519	(10,839)	(10,628)	562	(19,386)
Inventories .....				(470)	(470)
Loans and notes receivable .....	231	81,984			82,215
Other assets .....	161	10,813	3	21	10,998
Accounts payable and accrued liabilities .....	(69)	1,105	2,350	1,076	4,462
Due to other funds .....		(389)	2,623		2,234
Accrued insurance on loan losses .....	2,566	(291)			2,275
Other liabilities .....	(48)	7,325			7,277
Deferred revenue .....	(415)	(54)	(177)	(567)	(1,213)
Accrued self-insurance costs .....	29	(7)	136	36	194
Accrued annual leave .....		12		12	24
Lottery installment payments .....			(62,976)		(62,976)
Future lottery prize installments .....			62,013		62,013
Net cash provided by operating activities .....	1,281	112,417	401,190	1,717	516,605
<b>Cash flows from noncapital financing activities:</b>					
Proceeds from the sale of revenue bonds .....		435,085			435,085
Payment on revenue bonds .....		(355,219)			(355,219)
Operating transfers in .....		55,045			55,045
Operating transfers out .....	(1,158)	(4,398)	(400,126)		(405,682)
Contributed capital .....		15,705		4	15,709
Grant recoveries .....		2,008			2,008
Net cash provided by noncapital financing activities .....	(1,158)	148,226	(400,126)	4	(253,054)
<b>Cash flows from capital and related financing activities:</b>					
Principal paid on notes payable and revenue bonds .....			(3,873)		(3,873)
Interest payments .....		(16)	(190)		(206)
Acquisition and construction of property, plant and equipment .....	(3)	(353)	(2,396)	(1,719)	(4,471)
Net cash used by capital and related financing activities .....	(3)	(369)	(6,459)	(1,719)	(8,550)
<b>Cash flows from investing activities:</b>					
Purchase of investments .....	(120)	(685,622)	(57,581)		(743,323)
Proceeds from maturity and sale of investments .....		429,718	62,976		492,694
Interest and gains on investments .....		23,657			23,657
Net cash (used) provided by investing activities .....	(120)	(232,247)	5,395		(226,972)
Net increase in cash and cash equivalents .....		28,027		2	28,029
Cash and cash equivalents balance, July 1, 1997 .....		162,495	1,200	8	163,703
Cash and cash equivalents balance, June 30, 1998 .....	\$ —	\$ 190,522	\$ 1,200	\$ 10	\$ 191,732

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Fiduciary Fund Types**  
**June 30, 1998**  
(Expressed in Thousands)

	Expendable Trust Fund		Pension Trust Funds			Agency Funds					Total
	Unemployment Insurance Fund	Deferred Compensation Plan	Retirement and Pension System of Maryland	Mass Transit Administration Pension Plan	Patient and Prisoner Accounts	Local Government Investment Pool	Insurance Premium Taxes	Local Income Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	
<b>Assets:</b>											
Cash and cash equivalents .....		\$ 1,100	\$ 1,667,035	\$ 14,058	\$ 3,042	\$ 587,967	\$ 10		\$ 13,129	\$ (1,033)	\$ 1,697,341
Investments .....		1,150,658	26,814,769	56,735	1,160						28,611,289
Amount on deposit with U.S. Treasury .....	\$ 756,239										756,239
Taxes receivable, net .....	82,322							\$ 154,781			237,103
Other accounts receivable .....		8,548	317,809			2,413			270		329,040
Due from other funds .....			13,147				23,098	786,531	11,983	1,033	835,792
Collateral for loaned securities .....			2,419,590								2,419,590
<b>Total assets .....</b>	<b>\$ 838,561</b>	<b>\$ 1,160,306</b>	<b>\$ 31,232,350</b>	<b>\$ 70,793</b>	<b>\$ 4,202</b>	<b>\$ 590,380</b>	<b>\$ 23,108</b>	<b>\$ 941,312</b>	<b>\$ 25,382</b>	<b>\$ —</b>	<b>\$ 34,886,394</b>
<b>Liabilities:</b>											
Accounts payable and accrued liabilities .....	\$ 21,234	\$ 129	\$ 742,342	\$ 755	\$ 4,202	\$ 28	\$ 23,108		\$ 13,427		\$ 805,225
Due to other funds .....			9,236	13,147							22,383
Accounts payable to political subdivisions .....								\$ 941,312	11,955		953,267
Collateral obligation for loaned securities .....			2,419,590								2,419,590
Net assets held by local government investment pool .....						590,352					590,352
<b>Total liabilities .....</b>	<b>21,234</b>	<b>129</b>	<b>3,171,168</b>	<b>13,902</b>	<b>4,202</b>	<b>590,352</b>	<b>23,108</b>	<b>941,312</b>	<b>25,382</b>	<b>\$ —</b>	<b>4,790,817</b>
<b>Fund balances:</b>											
Reserved for:											
Pension benefits .....			28,061,182	56,891							28,118,073
Deferred compensation benefits .....		1,160,177									1,160,177
Unemployment compensation benefits .....	817,327										817,327
<b>Total fund balances .....</b>	<b>817,327</b>	<b>1,160,177</b>	<b>28,061,182</b>	<b>56,891</b>							<b>30,095,577</b>
<b>Total liabilities and fund balances .....</b>	<b>\$ 838,561</b>	<b>\$ 1,160,306</b>	<b>\$ 31,232,350</b>	<b>\$ 70,793</b>	<b>\$ 4,202</b>	<b>\$ 590,380</b>	<b>\$ 23,108</b>	<b>\$ 941,312</b>	<b>\$ 25,382</b>	<b>\$ —</b>	<b>\$ 34,886,394</b>

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Retirement and Pension System of Maryland**  
**June 30, 1998**  
(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Natural Resources Pension System	Total
<b>Assets:</b>							
Cash and cash equivalents .....	\$ 1,037,800	\$ 557,808	\$ 12,528	\$ 51,322	\$ 1,801	\$ 5,776	\$ 1,667,035
Investments .....	16,060,003	9,336,747	179,207	1,149,609	5,771	83,432	26,814,769
Other accounts receivable .....	186,374	114,002	2,536	13,446	114	1,337	317,809
Due from other funds .....	7,729	4,624	96	645	3	50	13,147
Collateral for loaned securities .....	1,426,865	832,897	30,914	114,196	2,046	12,672	2,419,590
<b>Total assets .....</b>	<b>\$ 18,718,771</b>	<b>\$ 10,846,078</b>	<b>\$ 225,281</b>	<b>\$ 1,329,218</b>	<b>\$ 9,735</b>	<b>\$ 103,267</b>	<b>\$ 31,232,350</b>
<b>Liabilities:</b>							
Accounts payable and accrued liabilities .....	\$ 453,793	\$ 253,126	\$ 6,246	\$ 26,655	\$ 297	\$ 2,225	\$ 742,342
Due to other funds .....	5,645	3,149	78	332	4	28	9,236
Collateral obligation for loaned securities .....	1,426,865	832,897	30,914	114,196	2,046	12,672	2,419,590
<b>Total liabilities .....</b>	<b>1,886,303</b>	<b>1,089,172</b>	<b>37,238</b>	<b>141,183</b>	<b>2,347</b>	<b>14,925</b>	<b>3,171,168</b>
<b>Fund balances:</b>							
Reserved for:							
Pension benefits .....	16,832,468	9,756,906	188,043	1,188,035	7,388	88,342	28,061,182
<b>Total liabilities and fund balances .....</b>	<b>\$ 18,718,771</b>	<b>\$ 10,846,078</b>	<b>\$ 225,281</b>	<b>\$ 1,329,218</b>	<b>\$ 9,735</b>	<b>\$ 103,267</b>	<b>\$ 31,232,350</b>

**STATE OF MARYLAND**  
**Combining Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Expendable Trust Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	Unemployment Insurance Fund	Deferred Compensation Plan	Total
<b>Revenues:</b>			
Other taxes.....	\$360,572		\$ 360,572
Interest and other investment income.....		\$ 102,505	102,505
Federal revenue.....	3,989		3,989
Employee contributions.....		242,784	242,784
Other.....		72	72
<b>Total revenues.....</b>	<b>364,561</b>	<b>345,361</b>	<b>709,922</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Benefit payments.....		27,004	27,004
Business and economic development.....	347,741		347,741
<b>Total expenditures.....</b>	<b>347,741</b>	<b>27,004</b>	<b>374,745</b>
<b>Excess of revenues over expenditures.....</b>	<b>16,820</b>	<b>318,357</b>	<b>335,177</b>
Fund balances, July 1, 1997.....	800,507		800,507
Cumulative effect of accounting change.....		841,820	841,820
<b>Fund balances, June 30, 1998.....</b>	<b>\$817,327</b>	<b>\$1,160,177</b>	<b>\$1,977,504</b>

**STATE OF MARYLAND**  
**Combining Statement of Changes in Plan Net Assets**  
**Pension Trust Funds**  
**for the year ended June 30, 1998**  
(Expressed in Thousands)

	Retirement and Pension System of Maryland							Subtotal	Mass Transit Administration Pension Plan	Total
	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Natural Resources Pension System				
<b>Additions:</b>										
<b>Contributions:</b>										
Employers.....	\$ 22,901	\$ 212,306	\$ 13,027	\$ 8,841	\$ 956	\$ 4,373	\$ 262,404	\$13,902	\$ 276,306	
Members.....	47,243	24,934	1,195	5,174	6	57	78,609		78,609	
Sponsors.....	473,119		265				473,384		473,384	
<b>Total Contributions.....</b>	<b>543,263</b>	<b>237,240</b>	<b>14,487</b>	<b>14,015</b>	<b>962</b>	<b>4,430</b>	<b>814,397</b>	<b>13,902</b>	<b>828,299</b>	
<b>Investment income:</b>										
<b>Net appreciation in fair value of investment.....</b>										
Interest.....	1,803,388	1,084,322	18,223	140,603	365	6,318	3,053,219	2,678	3,055,897	
Dividends.....	391,946	218,132	5,966	21,717	466	2,092	640,319	4,235	644,554	
Real estate operating net income.....	156,602	94,023	1,750	13,139	45	746	266,305		266,305	
<b>Total investment income.....</b>	<b>2,360,551</b>	<b>1,400,558</b>	<b>26,127</b>	<b>176,005</b>	<b>887</b>	<b>9,222</b>	<b>3,973,350</b>	<b>6,913</b>	<b>3,980,263</b>	
<b>Less investment expense.....</b>	<b>112,741</b>	<b>66,453</b>	<b>2,122</b>	<b>8,942</b>	<b>123</b>	<b>732</b>	<b>191,113</b>		<b>191,113</b>	
<b>Net investment income.....</b>	<b>2,247,810</b>	<b>1,334,105</b>	<b>24,005</b>	<b>167,063</b>	<b>764</b>	<b>8,490</b>	<b>3,782,237</b>	<b>6,913</b>	<b>3,789,150</b>	
<b>Total additions.....</b>	<b>2,791,073</b>	<b>1,571,345</b>	<b>38,492</b>	<b>181,078</b>	<b>1,726</b>	<b>12,920</b>	<b>4,596,634</b>	<b>20,815</b>	<b>4,617,449</b>	
<b>Deductions:</b>										
Benefit payments.....	635,241	364,893	12,242	32,426	202	2,770	1,047,774	9,378	1,057,152	
Refunds.....	9,134	10,460	2	341		70	20,007		20,007	
Administrative expenses.....	6,244	3,655	70	444	2	26	10,441	74	10,515	
<b>Total deductions.....</b>	<b>650,619</b>	<b>379,008</b>	<b>12,314</b>	<b>33,211</b>	<b>204</b>	<b>2,866</b>	<b>1,078,222</b>	<b>9,452</b>	<b>1,087,674</b>	
<b>Net increase in plan assets.....</b>	<b>2,140,454</b>	<b>1,192,337</b>	<b>26,178</b>	<b>147,867</b>	<b>1,522</b>	<b>10,054</b>	<b>3,518,412</b>	<b>11,363</b>	<b>3,529,775</b>	
<b>Net assets held in trust for pension benefits:</b>										
July 1, 1997.....	14,695,449	8,591,260	161,866	1,040,147	5,866	48,182	24,542,770	45,528	24,588,298	
June 30, 1998.....	\$16,835,903	\$9,783,597	\$188,044	\$1,188,014	\$7,388	\$58,236	\$28,061,182	\$56,891	\$28,118,073	

STATE OF MARYLAND

Combining Statement of Changes in Assets  
and Liabilities — All Agency Funds  
for the year ended June 30, 1998  
(Expressed in Thousands)

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
<b><i>Patient and Prisoner Accounts</i></b>				
Assets:				
Cash and cash equivalents .....	\$ 3,790	\$ 14,866	\$ 15,614	\$ 3,042
Investments .....	1,398		238	1,160
Other accounts receivable .....	3	437	440	
Total assets .....	\$ 5,191	\$ 15,303	\$ 16,292	\$ 4,202
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 5,191	\$ 15,303	\$ 16,292	\$ 4,202
<b><i>Local Government Investment Pool</i></b>				
Assets:				
Investments .....	\$ 440,127	\$57,057,041	\$56,909,201	\$ 587,967
Other accounts receivable .....	1,526	27,565	26,678	2,413
Total assets .....	\$ 441,653	\$57,084,606	\$56,935,879	\$ 590,380
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 19	\$ 28	\$ 19	\$ 28
Net assets held by local government investment pool .....	441,634	57,084,578	56,935,860	590,352
Total liabilities .....	\$ 441,653	\$57,084,606	\$56,935,879	\$ 590,380
<b><i>Insurance Premium Taxes</i></b>				
Assets:				
Cash and cash equivalents .....	\$ 21,309		\$ 21,299	\$ 10
Due from other funds .....		\$ 36,632	13,534	23,098
Total assets .....	\$ 21,309	\$ 36,632	\$ 34,833	\$ 23,108
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 21,309	\$ 36,632	\$ 34,833	\$ 23,108
<b><i>Local Income Taxes</i></b>				
Assets:				
Due from other funds .....	\$ 654,713	\$ 2,988,252	\$ 2,856,434	\$ 786,531
Taxes receivable .....	141,215	154,781	141,215	154,781
Total assets .....	\$ 795,928	\$ 3,143,033	\$ 2,997,649	\$ 941,312
Liabilities:				
Accounts payable to political subdivisions .....	\$ 795,928	\$ 3,143,033	\$ 2,997,649	\$ 941,312
<b><i>Local Transportation Funds and Other Taxes</i></b>				
Assets:				
Cash and cash equivalents .....	\$ 23,075	\$ 25,253	\$ 35,199	\$ 13,129
Due from other funds .....		59,504	47,521	11,983
Other accounts receivable .....	60	238	28	270
Total assets .....	\$ 23,135	\$ 84,995	\$ 82,748	\$ 25,382
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 13,249	\$ 25,491	\$ 25,313	\$ 13,427
Accounts payable to political subdivisions .....	9,886	59,504	57,435	11,955
Total liabilities .....	\$ 23,135	\$ 84,995	\$ 82,748	\$ 25,382
<b><i>Payroll Taxes and Fringe Benefits</i></b>				
Assets:				
Cash and cash equivalents .....	\$ 880	\$ 554,169	\$ 556,082	\$ (1,033)
Due from other funds .....		1,033		1,033
Total assets .....	\$ 880	\$ 555,202	\$ 556,082	\$ —
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 880	\$ 555,202	\$ 556,082	\$ —
<b><i>Totals — All Agency Funds</i></b>				
Assets:				
Cash and cash equivalents .....	\$ 49,054	\$ 594,288	\$ 628,194	\$ 15,148
Investments .....	441,525	57,057,041	56,909,439	589,127
Taxes receivable .....	141,215	154,781	141,215	154,781
Other accounts receivable .....	1,589	28,240	27,146	2,683
Due from other funds .....	654,713	3,085,421	2,917,489	822,645
Total assets .....	\$1,288,096	\$60,919,771	\$60,623,483	\$1,584,384
Liabilities:				
Accounts payable and accrued liabilities .....	\$ 40,648	\$ 632,656	\$ 632,539	\$ 40,765
Accounts payable to political subdivisions .....	805,814	3,202,537	3,055,084	953,267
Net assets held by local government investment pool .....	441,634	57,084,578	56,935,860	590,352
Total liabilities .....	\$1,288,096	\$60,919,771	\$60,623,483	\$1,584,384

**STATE OF MARYLAND**  
**Combining Balance Sheet**  
**Higher Education Component Unit Funds**  
**June 30, 1998**  
(Expressed in Thousands)

	Current Funds		Loan Funds	Endowment Funds	Plant Funds	Total
	Unrestricted	Restricted				
<b>Assets:</b>						
Cash and cash equivalents .....	\$ 12,108	\$ 3,000	\$ 5,330	\$ 14,866	\$ 169,338	\$ 204,642
Investments .....	6,241			175,924	10,803	192,968
Intergovernmental receivables .....		102				102
Other accounts receivable, net of allowance of \$8,773 .....	35,844	85,723	1,353		2,161	125,081
Due from primary government .....	230,035					230,035
Inventories .....	12,840					12,840
Loans and notes receivable, net of allowance of \$9,985 .....	18	4,151	55,752			59,921
Property, plant and equipment, net .....					3,240,818	3,240,818
Other assets .....	50,729	2	55		1,270	52,056
<b>Total assets.....</b>	<b>\$347,815</b>	<b>\$92,978</b>	<b>\$62,490</b>	<b>\$190,790</b>	<b>\$3,424,390</b>	<b>\$4,118,463</b>
<b>Liabilities:</b>						
Accounts payable and accrued liabilities .....	\$108,093	\$57,076	\$ 1,236		\$ 27,723	\$ 194,128
Deferred revenue .....	45,951	1,095				47,046
Revenue bonds and other debt.....					655,154	655,154
Accrued workers' compensation costs.....	17,645					17,645
Accrued annual leave .....	68,994	484				69,478
Obligations under capital leases.....					6,698	6,698
<b>Total liabilities .....</b>	<b>240,683</b>	<b>58,655</b>	<b>1,236</b>		<b>689,575</b>	<b>990,149</b>
<b>Fund balances:</b>						
Investment in fixed assets.....					2,567,471	2,567,471
Reserved for:						
Encumbrances .....	22,660				3,347	26,007
Sponsored research .....		34,323				34,323
Loans to students.....			61,254			61,254
Endowment .....				\$190,790		190,790
Debt and plant additions .....					163,997	163,997
Unreserved, undesignated.....	84,472					84,472
<b>Total fund balances.....</b>	<b>107,132</b>	<b>34,323</b>	<b>61,254</b>	<b>190,790</b>	<b>2,734,815</b>	<b>3,128,314</b>
<b>Total liabilities and fund balances .....</b>	<b>\$347,815</b>	<b>\$92,978</b>	<b>\$62,490</b>	<b>\$190,790</b>	<b>\$3,424,390</b>	<b>\$4,118,463</b>

**STATE OF MARYLAND**

**Schedule of Fixed Assets and Accumulated Depreciation**

**June 30, 1998**

(Expressed in Thousands)

	Land and Improvements	Structure and Improvements	Equipment	Construction in Progress	Total Cost	Accumulated Depreciation	Total Cost Less Accumulated Depreciation
<i>Proprietary Fund Type (By Fund):</i>							
Economic Development — Insurance Programs.....			\$ 213		\$ 213	\$ 182	\$ 31
Economic Development — Loan Programs.....			612		612	1	611
Maryland State Lottery.....			14,809		14,809	12,479	2,330
State Use Industries.....		\$ 880	11,057		11,937	7,811	4,126
Total.....	\$	\$ 880	\$ 26,691	\$	\$ 27,571	\$20,473	\$ 7,098
<i>General Fixed Assets (By Function):</i>							
General government .....	\$ 190,470	\$ 737,230	\$ 133,532	\$ 20,629	\$ 1,081,861		\$ 1,081,861
Education .....	2,511	64,127	51,244		117,882		117,882
Business and economic development ....			2,532		2,532		2,532
Labor, licensing and regulation .....	1,355	7,433	34,293	1,579	44,660		44,660
Human resources .....			43,995		43,995		43,995
Health and mental Hygiene .....	19,749	295,346	58,864	21,792	395,751		395,751
Environment.....			23,082		23,082		23,082
Transportation.....	728,490	4,414,005	1,025,966	378,010	6,546,471		6,546,471
Public safety and judicial .....	70,553	905,824	253,184	99,393	1,328,954		1,328,954
Housing and community development...	2,475	9,879	5,587	10,634	28,575		28,575
Natural resources and recreation.....	342,064	66,329	46,236	29,372	484,001		484,001
Agriculture.....	66	28,106	10,510	21	38,703		38,703
Total.....	\$1,357,733	\$6,528,279	\$1,689,025	\$561,430	\$10,136,467	\$	\$10,136,467
<i>Component Units Fixed Assets:</i>							
Higher Education Fund.....	\$ 61,287	\$2,340,686	\$ 608,480	\$230,365	\$ 3,240,818		\$ 3,240,818
Proprietary Fund.....	7,334	48,549	12,932	81	68,896	\$39,534	29,362
Total.....	\$ 68,621	\$2,389,235	\$ 621,412	\$230,446	\$ 3,309,714	\$39,534	\$ 3,270,180

**STATE OF MARYLAND**

**Schedule of Changes in General Fixed Assets by Function**

**for the year ended June 30, 1998**

(Expressed in Thousands)

Function:	Balance July 1, 1997	Additions	Deletions	Transfer In (Out)	Balance June 30, 1998
General government .....	\$1,071,408	\$158,908	\$ 3,491	\$(144,964)	\$ 1,081,861
Education .....	114,027	7,480	3,625		117,882
Business and economic development .....	2,289	493	250		2,532
Labor,licensing and regulation.....	42,008	2,652			44,660
Human resources .....	41,587	3,600	1,192		43,995
Health and mental hygiene.....	380,265	21,226	5,740		395,751
Environment.....	21,068	3,413	1,399		23,082
Transportation.....	6,314,366	253,216	21,022	(89)	6,546,471
Public safety and judicial .....	1,100,767	97,810	14,676	145,053	1,328,954
Housing and community development.....	27,922	1,064	411		28,575
Natural resources and recreation.....	443,543	42,223	1,765		484,001
Agriculture.....	38,187	778	262		38,703
Total.....	\$9,597,437	\$592,863	\$53,833	\$ —	\$10,136,467

**STATE OF MARYLAND**

**Schedule of Estimated and Actual Revenues By Source**

**Budgetary Basis**

**for the year ended June 30, 1998**

(Expressed in Thousands)

	Annual Budgeted Funds														
	General Fund				Special Fund		Federal Fund		Higher Education Funds				Capital Projects Fund	Other Funds	Total
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund		Capital Projects Fund	Other Funds	Total		
	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Actual Revenues	Actual Revenues	Actual Revenues		
<b>Taxes:</b>															
Property tax.....		\$ 339	\$ 315,813	\$ 306,101							\$ 63,604	\$ 616	\$ 370,660		
Franchise and corporation tax.....	\$ 173,807	167,438											167,438		
Death taxes.....	124,286	127,832											127,832		
Recordation tax.....		198		78								210	486		
Admission and amusement tax.....				1,127								8,898	10,025		
Alcoholic beverages tax.....	23,300	23,939											23,939		
Motor vehicle fuel taxes.....	10,844	12,776	624,700	663,875									676,651		
Income taxes.....	4,309,275	4,424,771	75,129	84,104									4,508,875		
Sales and use taxes.....	2,167,031	2,161,150											2,161,150		
Tobacco taxes.....	125,994	128,230	24	14									128,244		
Motor vehicle titling taxes.....			496,000	494,231								(495)	493,736		
Insurance company taxes.....	187,133	174,646											174,646		
Horse racing taxes.....			1,344	2,052									2,052		
Shellfish taxes.....				330									330		
Boxing, wrestling or sparring taxes.....		465		10									475		
Boat titling tax.....			3,260	17,240									17,240		
Energy generation tax.....			10,000	9,819									9,819		
Emergency telephone system tax.....			23,626	30,259									30,259		
Unemployment insurance taxes.....												351,938	351,938		
<b>Total taxes.....</b>	<b>7,121,670</b>	<b>7,221,784</b>	<b>1,549,896</b>	<b>1,609,240</b>							<b>63,604</b>	<b>361,167</b>	<b>9,255,795</b>		
<b>Other:</b>															
Licenses and permits.....	26,230	37,829	248,231	268,742									306,571		
Fees for services.....	100,136	90,379	203,405	279,585								170,840	540,804		
Fines and costs.....	70,212	91,402	14,452	19,586								2,132	113,120		
Sales to the public.....	3,451	3,253	51,927	61,980								1,039,565	1,104,798		
Commissions and royalties.....	23	557	89,087	52,832								37	53,426		
Rentals.....	870	739	53,337	50,310								11,306	62,355		
Interest on investments.....	72,209	113,947	8,825	25,674							5,547	4,335,800	4,480,968		
Interest on loan repayments.....			2,281	14,369								589	14,958		
Miscellaneous.....	53,692	48,000	47,361	43,951							(85)		91,866		
Colleges and universities.....							\$1,041,788	\$1,033,243	\$493,121	\$461,410		490,332	1,984,985		
Federal reimbursements and grants.....	3,600	10,008	11,194	45,959	\$3,797,358	\$3,298,193					787	235	3,355,182		
Other reimbursements.....	139,539	94,087	293,269	159,545								110,240	363,872		
<b>Bond issues:</b>															
State-general purpose.....				791								500,000	500,791		
Consolidated transportation bonds.....			54,350												
State reimbursements.....	354,572	494,216	310,835	4,894							13,426	(162,698)	349,838		
Appropriated from general fund.....							672,448	672,448					672,448		
Trust funds.....			18,349	11,244									11,244		
Revolving accounts.....		197	30,411	74,899								39,640	114,736		
Contributions.....												1,071,076	1,071,076		
<b>Total revenues.....</b>	<b>\$7,946,204</b>	<b>\$8,206,398</b>	<b>\$2,987,210</b>	<b>\$2,723,601</b>	<b>\$3,797,358</b>	<b>\$3,298,193</b>	<b>\$1,714,236</b>	<b>\$1,705,691</b>	<b>\$493,121</b>	<b>\$461,410</b>	<b>\$583,279</b>	<b>\$7,470,261</b>	<b>\$24,448,833</b>		

**STATE OF MARYLAND**

**Schedule of Budget and Actual Expenditures and Encumbrances by Major Function**

**Budgetary Basis**

**for the year ended June 30, 1998**

(Expressed in Thousands)

Expenditures and Encumbrances by Major Function	Annual Budgeted Funds												Capital Projects Fund	Other Funds	Total	
	General Fund		Special Fund		Federal Fund		Higher Education Funds									
							Current Unrestricted Fund		Current Restricted Fund							
	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual						
Payments of revenue to civil divisions of the																
State.....	\$ 64,424	\$ 64,409	\$ 1,344	\$ 1,332												\$ 65,741
Public debt.....	89,715	89,618	246,192	245,892												335,510
Legislative.....	41,607	41,607	100	78												41,685
Judicial review and legal.....	245,956	243,023	7,027	5,684	\$ 3,232	\$ 2,760							\$ 12,902			264,369
Executive and administrative control.....	129,979	128,611	52,534	50,507	83,149	67,721									56,551	303,390
Financial and revenue administration.....	150,495	150,107	57,750	56,580		30									112,374	319,061
Budget and management.....	64,282	64,275	12,782	10,621											26,990	101,886
Retirement and pension.....			17,486	17,272										1,258,780		1,276,052
General services.....	35,540	35,540	3,183	2,527												38,067
Transportation and highways.....			1,855,797	1,743,966	594,699	441,242									862,720	3,047,928
Natural resources and recreation.....	45,416	45,399	116,463	109,646	21,273	17,850										172,895
Agriculture.....	18,203	18,057	35,468	34,753	3,280	2,763									1,792	57,365
Health, hospitals and mental hygiene.....	1,888,820	1,877,476	141,618	120,578	1,390,981	1,381,120									(6,532)	3,372,642
Human resources.....	426,796	426,795	59,686	36,509	923,874	841,007									23,886	1,328,197
Labor, licensing and regulation.....	18,348	18,348	10,638	10,529	133,914	126,734										155,611
Restricted appropriation.....	28		1,038		696											
Public safety and correctional services.....	585,482	585,481	93,863	87,804	19,165	15,976									(889)	688,372
Public education.....	3,506,234	3,504,293	36,863	33,207	519,592	462,130	\$1,714,236	\$1,660,707	\$493,121	\$462,435				333,806	6,456,578	
Housing and community development.....	21,689	21,688	41,951	37,763	60,795	55,422									60,545	175,418
Business and economic development.....	53,889	53,889	53,175	45,670	3,565	2,414									369,731	471,704
Environment.....	38,708	38,708	100,278	94,228	22,759	18,294									16,761	167,991
Juvenile services.....	110,578	110,560	306	192	12,757	12,135									49	122,936
State police.....	186,431	186,266	41,668	40,522	3,597	2,346									675	229,809
State reserve fund.....	154,919	154,919														154,919
Loan accounts.....													\$468,319			468,319
Reversions:																
Current year reversions.....	(41,382)															
Prior year reversions.....		(42,861)		(11,535)		(40,849)		(1,225)		(626)						(97,096)
<b>Total expenditures and encumbrances.....</b>	<b>\$7,836,157</b>	<b>\$7,816,208</b>	<b>\$2,987,210</b>	<b>\$2,774,325</b>	<b>\$3,797,358</b>	<b>\$3,409,065</b>	<b>\$1,714,236</b>	<b>\$1,659,482</b>	<b>\$493,121</b>	<b>\$461,809</b>	<b>\$468,319</b>	<b>\$3,130,141</b>	<b>\$19,719,349</b>			

STATE OF MARYLAND

Schedule of Changes in Fund Equities — Budgetary Basis  
for the year ended June 30, 1998

(Expressed in Thousands)

	General Fund	Special Fund		Federal Fund	Higher Education		Capital Projects Fund	Other Funds	Total
		Other Special	Debt Service		Current Unrestricted Fund	Current Restricted Fund			
Fund equities, July 1, 1997.....	\$ 837,778	\$ 591,127	\$ 46,817	—	\$ 186,006	\$ 3,534	\$212,305	\$29,409,620	\$31,287,187
Increase:									
Revenues.....	8,206,398	2,463,523	260,078	\$3,298,193	1,705,691	461,410	583,279	7,470,261	24,448,833
Decrease:									
Appropriations.....	7,877,540	2,741,021	246,193	3,797,358	1,714,235	493,121			
Less: Current year reversions.....	(18,471)	(201,054)	(300)	(347,444)	(53,528)	(30,686)			
Prior year reversions.....	(42,861)	(11,535)		(40,849)	(1,225)	(626)			
Expenditures and encumbrances	7,816,208	2,528,432	245,893	3,409,065	1,659,482	461,809	468,319	3,130,141	19,719,349
Changes to encumbrances during									
fiscal year 1998.....	(46,804)	(100,296)		(9,303)	(711)	(63)			(157,177)
Expenditures.....	7,769,404	2,428,136	245,893	3,399,762	1,658,771	461,746	468,319	3,130,141	19,562,172
Transfers in (out).....	(10,342)	29,129	(142)	101,569	(2,701)	(16)	(293)	(117,204)	
Changes in contributed capital.....								14,517	14,517
Adjustments to beginning equity.....							259	841,820	842,079
Fund equities, June 30, 1998.....	\$1,264,430	\$ 655,643	\$ 60,860	\$ —	\$ 230,225	\$ 3,182	\$327,231	\$34,488,873	\$37,030,444
Invested in fixed assets.....								\$ 2,567,471	\$ 2,567,471
Contributed capital.....								686,575	686,575
Retained earnings:									
Reserved.....								4,729	4,729
Unreserved.....								714,762	714,762
Fund Balance:									
Reserved:									
Encumbrances.....	\$ 145,441	\$ 235,604		\$ 213,509	\$ 8,026	\$ 147	\$308,271		910,998
Agency activities.....									
State reserve fund.....	699,154								699,154
Loans and notes receivable.....		3,613	\$ 32,095					60,196	95,904
Shore erosion loan programs.....		14,724							14,724
Endowment funds.....								190,790	190,790
Debt and plant additions.....								86,759	86,759
Pension benefits.....								28,118,073	28,118,073
Deferred compensation benefits								1,160,177	1,160,177
Unemployment compensation									
benefits.....								817,327	817,327
Unreserved:									
Designated for:									
General long-term debt									
service.....			28,765						28,765
Transportation debt service.....								5,865	5,865
Maryland Transportation									
Authority bond debt service								79,899	79,899
1999 Operations.....	302,738								302,738
Undesignated surplus (deficit).....	117,097	401,702		(213,509)	222,199	3,035	18,960	(3,750)	545,734
Total.....	\$1,264,430	\$ 655,643	\$ 60,860	\$ —	\$ 230,225	\$ 3,182	\$327,231	\$34,488,873	\$37,030,444

**STATE OF MARYLAND**

**Schedule of Funds Transferred to Political Subdivisions  
for the year ended June 30, 1998 (1)  
(Expressed in Thousands)**

Subdivision (2)	State Sources				Other Sources			Assessed Value of Real and Personal Property (2)	Amount Per \$100 of Assessed Value
	Shared Revenues	Direct Grants and Appropriations	Debt Service	Total	Federal Funds	State Administered Local Revenue	Total		
Allegany .....	\$ 3,500	\$ 54,625	\$ 2,415	\$ 60,540	\$ 15,079	\$ 17,702	\$ 93,321	\$ 1,172,894	\$ 7.96
Anne Arundel .....	19,322	229,309	8,371	257,002	37,699	246,019	540,720	13,682,597	3.95
Baltimore County .....	29,377	357,850	10,660	397,887	70,252	378,119	846,258	17,420,510	4.86
Calvert .....	3,414	42,182	3,040	48,636	7,142	29,871	85,649	2,818,517	3.04
Caroline .....	2,765	24,449	921	28,135	5,550	8,206	41,891	483,579	8.66
Carroll .....	7,476	90,182	5,874	103,532	11,291	62,925	177,748	3,456,745	5.14
Cecil .....	4,107	58,259	1,465	63,831	10,773	26,035	100,639	1,797,901	5.60
Charles .....	5,603	82,081	4,027	91,711	12,652	45,500	149,863	3,095,654	4.84
Dorchester .....	2,969	22,778	1,115	26,862	7,284	7,797	41,943	663,092	6.33
Frederick .....	8,787	117,695	4,583	131,065	14,956	75,351	221,372	4,529,111	4.89
Garrett .....	3,576	24,814	1,394	29,784	5,855	7,686	43,325	759,358	5.71
Harford .....	9,053	134,837	2,987	146,877	18,493	84,899	250,269	4,757,906	5.26
Howard .....	10,276	110,806	4,848	125,930	12,236	152,520	290,686	7,394,837	3.93
Kent .....	1,531	10,960	1,042	13,533	3,556	6,604	23,693	529,361	4.48
Montgomery .....	25,736	294,991	35,281	356,008	57,469	637,822	1,051,299	31,300,438	3.36
Prince George's .....	19,353	491,808	9,917	521,078	91,340	275,554	887,972	17,037,173	5.21
Queen Anne's .....	3,385	23,299	1,533	28,217	4,952	19,400	52,569	1,118,922	4.70
St. Mary's .....	4,609	53,063	4,425	62,097	8,959	35,105	106,161	1,847,827	5.75
Somerset .....	2,025	16,530	712	19,267	5,547	4,287	29,101	305,292	9.53
Talbot .....	2,257	10,108	1,533	13,898	4,273	16,393	34,564	1,271,965	2.72
Washington .....	5,870	81,116	2,396	89,382	15,996	38,587	143,965	2,549,794	5.65
Wicomico .....	4,807	59,099	1,252	65,158	14,593	26,727	106,478	1,617,506	6.58
Worcester .....	3,303	12,916	257	16,476	7,515	10,421	34,412	2,411,450	1.43
Baltimore City .....	160,335	717,569	11,133	889,037	313,524	155,723	1,358,284	8,368,013	16.23
<b>Total .....</b>	<b>\$343,436</b>	<b>\$3,121,326</b>	<b>\$121,181</b>	<b>\$3,585,943</b>	<b>\$756,986</b>	<b>\$2,369,253</b>	<b>\$6,712,182</b>	<b>\$130,390,442</b>	

(1) In addition to the amounts shown for counties and Baltimore City, \$103,925,586 was distributed to municipalities within the counties.  
(2) Source: Fifty-fourth Report of the Department of Assessments and Taxation, dated January 1998. Amounts shown are the local subdivision's assessable base only.

**STATE OF MARYLAND**

**Schedule of Taxes Receivable from  
Collectors of State Property Taxes  
June 30, 1998  
(Expressed in Thousands)**

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany .....	\$ 135	\$ 55	\$ 190
Anne Arundel .....	540	137	677
Baltimore County .....	172	34	206
Calvert .....	140	5	145
Caroline .....	13	1	14
Carroll .....	66	4	70
Cecil .....	57	160	217
Charles .....	23	11	34
Dorchester .....	112	16	128
Frederick .....	28	4	32
Garrett .....	124	8	132
Harford .....	57	8	65
Howard .....	27	710	737
Kent .....	114	2	116
Montgomery .....	460	443	903
Prince George's .....	133	68	201
Queen Anne's .....	6	2	8
St. Mary's .....	172	12	184
Somerset .....	69	(15)	54
Talbot .....	15	17	32
Washington .....	14	2	16
Wicomico .....	27	1	28
Worcester .....	303	5	308
Baltimore City .....	464	1,035	1,499
<b>Total .....</b>	<b>\$3,271</b>	<b>\$2,725</b>	<b>\$5,996</b>

**STATE OF MARYLAND**

**Schedule of Estimated Revenues — Budgetary Basis  
for the year ending June 30, 1999  
(Expressed in Thousands)**

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Property taxes .....		\$ 311,013(1)				\$ 311,013
Franchise and corporation taxes.....	\$ 175,088					175,088
Death taxes .....	125,172					125,172
Alcoholic beverages taxes and licenses.....	23,681					23,681
Motor vehicle fuel taxes and licenses.....	11,000	633,400				644,400
Income taxes.....	4,249,770	76,515				4,326,285
Retail sales and use tax and licenses.....	2,244,633					2,244,633
State tobacco tax and licenses.....	122,844					122,844
Motor vehicle tax and licenses.....	8,284	654,500				662,784
Insurance company taxes, licenses and fees .....	194,811					194,811
Horse race taxes and licenses.....		2,498				2,498
District courts fines and costs.....	71,217					71,217
Interest on investments.....	72,000	5,000				77,000
Hospital patient recoveries.....	104,766					104,766
Miscellaneous taxes, fees and other revenues.....	73,138	24,571(2)				97,709
Legislative.....	375					375
Judicial review and legal.....	65,452	13,078	\$ 3,174			81,704
Executive and administrative control.....	1,667	52,050	68,790			122,507
Financial and revenue administration.....		11,332	30			11,362
Budget and management.....	3,157	14,341				17,498
State lottery agency.....	376,287	44,890				421,177
Retirement and pension.....		16,723				16,723
General services.....	37	2,741				2,778
Transportation and highways.....		519,922	479,400			999,322
Natural resources and recreation.....		58,626	24,481			83,107
Agriculture.....	246	11,395	2,046			13,687
Health, hospitals and mental hygiene.....	7,833	131,827	1,492,235			1,631,895
Human resources.....	4,700	39,053	919,183			962,936
Labor, licensing and regulation.....	10,170	2,529	133,866			146,565
Public safety and correctional services.....	6,274	84,863	4,194			95,331
Public education.....	19,481	32,890	460,991	\$1,788,642	\$489,329	2,791,333
Housing and community development.....		37,240	52,710			89,950
Business and economic development.....		28,258	477			28,735
Environment.....	227	50,796	20,961			71,984
Juvenile services.....	780	275	10,055			11,110
State police.....	3,272	46,014	1,010			50,296
State reserve fund.....		15,000				15,000
<b>Total estimated revenues.....</b>	<b>\$7,976,362</b>	<b>\$2,921,340</b>	<b>\$3,673,603</b>	<b>\$1,788,642</b>	<b>\$489,329</b>	<b>\$16,849,276(3)</b>

(1) Includes \$242,077,822 recorded in the Debt Service Fund for accounting purposes.

(2) Includes \$24,571,497 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported at July 1, 1998, and do not reflect revisions, if any, subsequent to that date.

**STATE OF MARYLAND**

**Schedule of General, Special, Federal, Current Unrestricted  
and Current Restricted Fund Appropriations — Budgetary Basis**

**for the year ending June 30, 1999**

(Expressed in Thousands)

Functions	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State.....	\$ 66,496	\$ 1,246				\$ 67,742
Public debt.....	72,579	266,649(1)				339,228
Legislative.....	44,064					44,064
Judicial review and legal.....	269,921	13,078	\$ 3,174			286,173
Executive and administrative control.....	255,969	52,050	68,790			376,809
Financial and revenue administration.....	153,143	56,222	30			209,395
Budget and management.....	59,843	14,341				74,184
Retirement and pension.....		16,723				16,723
General services.....	38,123	2,741				40,864
Transportation and highways.....		1,889,337	479,400			2,368,737
Natural resources and recreation.....	57,774	115,338	24,481			197,593
Agriculture.....	28,640	23,870	2,046			54,556
Health, hospitals and mental hygiene.....	2,011,864	131,827	1,491,235			3,634,926
Human resources.....	431,604	39,053	919,183			1,389,840
Labor, licensing and regulation.....	24,985	2,529	133,866			161,380
Public safety and correctional services.....	618,335	84,863	4,194			707,392
Public education.....	3,722,488	32,890	460,991	\$1,788,642	\$489,329	6,494,340
Housing and community development.....	27,885	38,240	52,710			118,835
Business and economic development.....	55,168	28,258	477			83,903
Environment.....	35,876	50,796	20,961			107,633
Juvenile services.....	122,100	275	10,055			132,430
State police.....	194,289	46,014	1,010			241,313
State reserve fund.....	193,157	15,000				208,157
<b>Total appropriations.....</b>	<b>\$8,484,303</b>	<b>\$2,921,340</b>	<b>\$3,672,603</b>	<b>\$1,788,642</b>	<b>\$489,329</b>	<b>\$17,356,217(2)</b>

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported at July 1, 1998, and do not reflect revisions, if any, subsequent to that date.

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**STATISTICAL SECTION**

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**STATE OF MARYLAND**

**Schedule of General Government Revenues by Source,  
Expenditures by Function and Other Sources (Uses)  
of Financial Resources and Changes in Fund Balances  
General, Special Revenue, Debt Service and Capital Projects Funds  
Last Ten Fiscal Years  
(Expressed in Thousands)**

	Year ended June 30,									
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
<b>Revenues:</b>										
Income taxes.....	\$ 4,491,384	\$ 4,084,147	\$ 3,796,251	\$ 3,669,027	\$ 3,590,562	\$ 3,303,678	\$ 3,043,695	\$3,035,505	\$3,096,423	\$3,037,900
Retail sales and use taxes.....	2,161,158	2,093,876	2,000,298	1,951,031	1,814,948	1,718,152	1,579,785	1,540,887	1,571,867	1,507,053
Motor vehicle taxes and fees.....	1,426,340	1,373,002	1,321,412	1,298,132	1,225,531	1,119,416	990,540	919,220	955,253	963,119
Other taxes.....	1,149,092	1,057,592	1,065,176	1,031,735	1,053,998	1,039,108	902,757	848,052	894,729	861,758
Other licenses and fees.....	289,414	208,009	211,817	216,621	193,216	197,255	142,525	125,476	113,189	109,523
Charges for services.....	737,099	658,583	670,901	803,183	691,597	630,597	608,385	403,942	331,312	333,342
Interest and other investment income.....	151,443	138,893	114,986	100,626	56,120	35,158	33,399	73,990	125,655	125,877
Federal.....	3,509,817	3,726,882	3,357,959	3,277,297	2,630,278	2,530,226	2,422,678	1,982,214	1,825,753	1,693,289
Other.....	134,829	134,875	186,902	190,297	215,761	251,737	258,042	250,109	192,183	188,241
<b>Total revenues.....</b>	<b>14,050,576</b>	<b>13,475,859</b>	<b>12,725,702</b>	<b>12,537,949</b>	<b>11,472,011</b>	<b>10,825,327</b>	<b>9,981,806</b>	<b>9,179,395</b>	<b>9,106,364</b>	<b>8,820,102</b>
<b>Expenditures:</b>										
<b>Current:</b>										
General government.....	427,482	382,424	520,419	616,518	536,542	494,041	482,752	475,868	453,164	437,089
Education.....	3,239,233	3,025,536	2,818,909	2,637,338	2,497,869	2,389,155	2,292,608	2,218,148	2,052,303	1,902,965
Business and economic development.....	45,083	41,026	42,259	163,735	149,647	155,575	148,413	152,121	147,404	118,804
Labor, licensing and regulation.....	148,980	141,523	155,495							
Human resources.....	1,317,365	1,304,480	1,344,361	1,382,650	954,822	926,954	916,320	907,736	753,935	695,029
Health and mental hygiene.....	3,255,961	3,323,439	3,132,078	3,240,900	2,965,057	2,781,409	2,767,977	2,350,469	1,990,090	1,784,992
Environment.....	60,973	64,722	71,911	64,943	60,567	51,598	61,294	62,608	52,245	45,114
Transportation.....	859,460	860,986	859,208	783,786	752,679	692,454	593,861	575,696	544,037	550,045
Public safety and judicial.....	1,202,632	1,238,772	1,061,974	938,507	896,938	862,311	832,312	791,728	728,105	648,200
Housing and community development.....	97,661	80,390	67,093	69,611	75,746	102,725	115,471	56,835	62,179	56,024
Natural resources and recreation.....	122,113	125,269	123,681	116,530	114,678	111,559	126,875	126,863	123,297	107,450
Agriculture.....	42,202	38,138	43,010	34,872	28,774	27,185	33,167	52,785	43,819	37,193
Intergovernmental.....	1,109,755	1,036,094	933,700	937,236	784,990	700,119	705,008	810,313	815,738	804,665
Debt service.....	593,302	585,589	601,999	506,031	467,279	488,153	451,600	477,156	467,197	454,474
Capital outlays.....	1,044,187	1,137,356	1,047,936	1,075,888	784,555	759,224	830,178	1,166,021	1,142,035	925,589
<b>Total expenditures.....</b>	<b>13,566,389</b>	<b>13,385,744</b>	<b>12,824,033</b>	<b>12,568,545</b>	<b>11,070,143</b>	<b>10,542,462</b>	<b>10,357,836</b>	<b>10,224,347</b>	<b>9,375,548</b>	<b>8,567,633</b>
Excess (deficiency) of revenues over expenditures.....	484,187	90,115	(98,331)	(30,596)	401,868	282,865	(376,030)	(1,044,952)	(269,184)	252,469
<b>Other sources (uses) of financial resources:</b>										
Capital leases.....	117,234	62,200	62,930	16,872	41,835	15,577	64,418	26,648	3,008	12,384
Proceeds from bond issues.....	514,190	460,000	469,504	566,384	416,780	332,419	464,197	617,338	499,688	265,191
Proceeds from loans to other funds.....							40,000	25,000		
Proceeds from refunding bonds.....	113,340				802,701	303,218				
Payments to escrow agents.....	(113,661)									
Operating transfers in.....	1,020,788	920,843	910,063	1,033,400	759,879	313,804	333,976	365,166	353,254	319,604
Operating transfers in from component units.....	593	870	1,339							
Operating transfers out.....	(670,151)	(563,969)	(548,955)	(1,342,979)	(1,024,000)	(650,893)	(644,333)	(727,465)	(863,240)	(613,723)
Operating transfers out to component units.....	(773,628)	(711,032)	(680,339)							
Recognition of fund liability.....							(65,000)			
Payment to refunded bond escrow agent.....					(802,701)	(298,759)				
Payment to refunded leases escrow agent.....					(8,567)					
<b>Net other sources (uses) of financial resources.....</b>	<b>208,705</b>	<b>168,912</b>	<b>214,542</b>	<b>273,677</b>	<b>185,927</b>	<b>(49,634)</b>	<b>258,258</b>	<b>306,687</b>	<b>(7,290)</b>	<b>(16,544)</b>
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources.....	692,892	259,027	116,211	243,081	587,795	233,231	(117,772)	(738,265)	(276,474)	235,925
Fund balance, July 1.....	1,736,539	1,476,480	1,360,269	1,117,188	529,393	137,467	246,889	985,154	1,261,628	1,025,703
Adjustments.....		1,032(4)				154,295(3)				
Fund balance, July 1, as restated.....		1,477,512				291,762				
Equity transfers.....						4,400(2)	8,350(1)			
<b>Fund balance, June 30.....</b>	<b>\$ 2,429,431</b>	<b>\$ 1,736,539</b>	<b>\$ 1,476,480</b>	<b>\$ 1,360,269</b>	<b>\$ 1,117,188</b>	<b>\$ 529,393</b>	<b>\$ 137,467</b>	<b>\$ 246,889</b>	<b>\$ 985,154</b>	<b>\$1,261,628</b>

Source: General Accounting Division, State Comptroller's Office

- (1) During 1992 the Economic Development Loan Programs returned \$8,350,000 to the General Fund. This return of contributed capital has been reported as an equity transfer.
- (2) During 1993 the Economic Development Loan Programs returned \$4,400,000 to the General Fund. This return of contributed capital has been reported as an equity transfer.
- (3) Effective July 1, 1992, the Maryland Transportation Authority's activities were recorded in the special revenue and debt service funds and its beginning equity was reclassified from the enterprise fund to the respective governmental funds.
- (4) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.

**STATE OF MARYLAND**  
**Schedule of Property Tax Levies and Collections**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percentage of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Tax Levy
1998.....	\$241,630	\$238,358	98.65%	\$2,890	\$241,247	99.84%	\$5,996	2.48%
1997.....	235,634	232,628	98.72	1,919	234,547	99.54	6,234	2.65
1996.....	229,756	226,618	98.63	1,063	227,681	99.10	6,095	2.65
1995.....	224,247	221,723	98.87	1,784	223,507	99.67	5,093	2.27
1994.....	217,194	214,560	98.79	2,193	216,753	99.80	5,111	2.35
1993.....	206,276	202,594	98.22	2,204	204,798	99.28	5,351	2.59
1992.....	189,448	186,163	98.27	2,101	188,264	99.38	4,347	2.29
1991.....	174,702	172,055	98.48	1,907	173,962	99.58	3,558	2.04
1990.....	161,400	159,310	98.71	2,389	161,699	100.19	3,098	1.92
1989.....	147,009	144,662	98.40	1,653	146,315	99.53	3,666	2.49

Source: State Comptroller's Office.

**STATE OF MARYLAND**  
**Schedule of Assessed and Estimated Actual**  
**Value of Taxable Property**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

Fiscal Year	Real Property		Personal Property		Total		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1998.....	\$109,893,050	\$274,732,625	\$34,570,947	\$34,570,947	\$144,463,997	\$309,303,572	46.7%
1997.....	107,205,699	268,014,248	31,885,281	31,885,281	139,090,980	299,899,529	46.4
1996.....	104,968,536	262,421,340	31,084,278	31,084,278	136,052,814	293,505,618	46.4
1995.....	103,018,904	257,547,260	29,512,076	29,512,076	132,530,980	287,059,336	46.2
1994.....	100,517,470	251,293,675	29,194,598	29,194,598	129,712,068	280,488,273	46.2
1993.....	96,042,289	240,105,723	28,432,706	28,432,706	124,474,995	268,538,429	46.4
1992.....	87,485,274	218,713,185	26,971,545	26,971,545	114,456,819	245,684,730	46.6
1991.....	79,546,272	194,656,715	25,577,795	25,577,795	105,124,067	220,234,510	47.7
1990.....	73,116,356	172,042,533	23,537,199	23,537,199	96,653,555	195,579,732	49.4
1989.....	66,430,610	153,739,328	21,525,228	21,525,228	87,955,838	175,264,556	50.2

Source: The Forty-fifth through Fifty-fourth Report of the State Department of Assessments and Taxation.

**STATE OF MARYLAND**  
**Schedule of Property Tax Rates —**  
**(Per \$100 of Assessed Value)**  
**Direct and Overlapping Governments**  
**Last Ten Fiscal Years**

	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
State of Maryland.....	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21	\$0.21
Subdivisions:										
Allegany .....	2.47	2.47	2.48	2.50	2.50	2.48	2.45	2.41	2.40	2.37
Anne Arundel.....	2.38	2.38	2.38	2.35	2.38	2.46	2.46	2.46	2.51	2.51
Baltimore County .....	2.86	2.86	2.86	2.86	2.87	2.87	2.87	2.90	2.90	2.89
Calvert.....	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23
Caroline.....	2.42	2.48	2.48	2.49	2.49	2.49	2.49	2.49	2.49	2.49
Carroll .....	2.62	2.62	2.35	2.35	2.35	2.35	2.35	2.35	2.35	2.23
Cecil.....	2.45	2.45	2.45	2.45	2.45	2.50	2.50	2.50	2.55	2.55
Charles .....	2.44	2.44	2.44	2.44	2.28	2.28	2.28	2.39	2.36	2.31
Dorchester .....	2.20	2.21	2.24	2.24	2.24	2.24	2.24	2.24	2.24	2.24
Frederick .....	2.26	2.26	2.26	2.26	2.26	2.27	2.27	2.19	2.19	2.19
Garrett.....	2.59	2.59	2.24	2.24	2.19	2.24	2.24	2.24	2.28	2.30
Harford.....	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73
Howard.....	2.59	2.59	2.59	2.59	2.59	2.59	2.59	2.45	2.49	2.49
Kent .....	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.00
Montgomery .....	1.96	1.99	2.00	1.94	1.92	1.92	2.01	1.94	2.07	2.09
Prince George's .....	2.42	2.43	2.43	2.44	2.45	2.47	2.48	2.40	2.40	2.40
Queen Anne's.....	2.25	2.35	2.17	2.17	2.17	2.17	2.17	2.17	2.17	2.17
St. Mary's.....	2.08	2.11	2.13	2.18	2.27	2.32	2.32	2.33	2.33	2.28
Somerset .....	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.00	2.00	2.00
Talbot .....	1.39	1.39	0.95	0.65	0.65	0.66	0.69	0.75	0.81	0.87
Washington .....	2.31	2.21	2.21	2.21	2.21	2.21	2.21	2.13	2.13	2.13
Wicomico .....	2.25	2.25	2.25	2.15	2.15	2.15	2.15	2.15	1.95	1.95
Worcester.....	1.72	1.68	1.68	1.68	1.68	1.62	1.59	1.59	1.59	1.59
Baltimore City.....	5.85	5.85	5.85	5.85	5.90	5.90	5.90	5.95	5.95	6.00

Source: The Forty-fifth through Fifty-fourth Report of the State Department of Assessments and Taxation.

**STATE OF MARYLAND**  
**Schedule of Employment by Sector**

	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
<b>Government:</b>			
State and local.....	284,018	\$ 9,080,592	\$615
Federal.....	125,470	6,268,645	961
<b>Total government.....</b>	<b>409,488</b>	<b>15,349,237</b>	<b>721</b>
Manufacturing.....	176,722	7,013,401	763
Contract construction.....	137,820	4,509,478	629
Transportation, communications and utilities.....	103,126	3,935,437	734
Wholesale.....	110,300	4,558,410	784
Retail.....	426,555	7,273,865	328
Finance, insurance and real estate.....	131,151	5,619,175	824
Services and other.....	736,337	22,583,032	590
<b>Total of all sectors.....</b>	<b>2,231,499</b>	<b>\$70,842,035</b>	<b>\$611</b>

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information, December 31, 1997.

**STATE OF MARYLAND**  
**Schedule of Ratio of General Long-Term Debt**  
**To Assessed Value and General Long-Term Debt Per Capita**  
**Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)			Ratio of General Long- Term Debt to Assessed Value	General Long- Term Debt per Capita
	Estimated Population	Assessed Value (1)	General Long- Term Debt (2)(3)		
1998.....	5,094	\$144,463,997	\$4,495,614	3.11%	\$883
1997.....	5,072	139,090,980	4,352,687	3.13	858
1996.....	5,042	136,052,814	4,248,263	3.12	843
1995.....	5,046	132,530,980	4,145,961	3.13	822
1994.....	4,965	129,712,068	3,852,680	2.97	776
1993.....	4,908	124,474,995	3,680,482	2.96	750
1992.....	4,860	114,456,819	3,275,439	2.86	674
1991.....	4,781	105,124,067	3,041,817	2.89	636
1990.....	4,743	96,653,555	2,694,611	2.79	568
1989.....	4,579	87,955,838	2,474,650	2.81	540

(1) Source: The Forty-fourth through Fifty-third Report of the State Department of Assessments and Taxation. Amounts shown are the State's assessable base only.

(2) Source: State Comptroller's Office.

(3) Includes all long-term general obligation and transportation bonds and excludes capital lease obligations.

**STATE OF MARYLAND**  
**Schedule of Ratio of Annual Debt Service for General**  
**Long-Term Debt to Total General Expenditures**  
**Last Ten Fiscal Years**

Fiscal Year	(Expressed in Thousands)				Ratio of Debt Service to General Expenditures (Percent)
	Principal	Interest	Total Debt Service	Total General Expenditures (1)	
1998.....	\$364,154	\$229,148	\$593,302	\$13,566,389	4.37%
1997.....	358,850	226,739	585,589	13,385,744	4.37
1996.....	370,675	231,324	601,999	12,824,033	4.69
1995.....	282,189	223,842	506,031	12,568,545	4.03
1994.....	229,725	237,554(2)	467,279	11,070,143	4.22
1993.....	251,539	236,614	488,153	10,542,462	4.63
1992.....	235,678	215,922	451,600	10,345,681	4.37
1991.....	276,131	201,025	477,156	10,224,347	4.67
1990.....	284,216	182,981	467,197	9,375,548	4.98
1989.....	272,355	182,119	454,474	8,567,633	5.30

(1) Includes general, special revenue, debt service and capital projects funds.

(2) Includes payments made in advance to refunding escrow account.

Source: General Accounting Division, State Comptroller's Office.

**STATE OF MARYLAND**  
**Schedule of Taxes Pledged to Consolidated Transportation**  
**Bonds and Net Revenues as Defined for Purposes of**  
**Consolidated Transportation Bonds Coverage Tests (1)**  
**Last Ten Fiscal Years**  
**(Expressed in Thousands)**

	Year ended June 30,									
	1998	1997	1996	1995	1994	1993	1992	1991	1990	1989
Revenues:										
Taxes and fees:										
Taxes pledged to bonds.....	\$ 857,816	\$ 839,928	\$ 813,072	\$ 771,765	\$ 727,557	\$ 633,974	\$553,185	\$535,131	\$571,567	\$581,073
Other taxes and fees.....	198,101	196,044	187,558	216,995	198,356	234,828	181,459	160,437	187,225	188,242
Total taxes and fees.....	1,055,917	1,035,972	1,000,630	988,760	925,913	868,802	734,644	695,568	758,792	769,315
Operating revenues.....	241,357	218,874	203,891	212,767	198,618	162,751	160,544	160,014	147,538	142,248
Investment income.....	10,933	9,108	13,646	12,705	10,144	3,412	3,800	10,106	16,112	9,077
Other.....	14,228	9,913	21,670	7,613	11,620	11,229	11,984	8,238	6,888	7,080
Total revenues.....	1,322,435	1,273,867	1,239,837	1,221,845	1,146,295	1,046,194	910,972	873,926	929,330	927,720
Administration, operation and maintenance expenditures.....	808,439	769,977	784,816	709,180	689,029	623,929	564,351	580,628	544,268	501,616
Less: federal funds.....	(11,530)	(19,966)	(21,520)	(17,567)	(21,904)	(19,279)	(16,991)	(19,969)	(16,791)	(17,567)
Total.....	796,909	750,011	763,296	691,613	667,125	604,650	547,360	560,659	527,477	484,049
Net revenues.....	\$ 525,526	\$ 523,856	\$ 476,541	\$ 530,232	\$ 479,170	\$ 441,544	\$363,612	\$313,267	\$401,853	\$443,671
Maximum annual principal and interest requirements.....	\$ 133,267	\$ 142,769	\$ 140,269	\$ 140,269	\$ 136,032	\$ 126,146	\$118,198	\$104,972	\$ 69,034	\$ 40,327
Ratio of net revenues to maximum annual principal and interest requirements.....	3.94	3.67	3.40	3.78	3.52	3.50	3.08	2.98	5.82	11.00
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements.....	6.44	5.88	5.80	5.50	5.35	5.03	4.68	5.10	8.28	14.41

Source: The Secretary's Office of the Department of Transportation.

(1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the proceeding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

**STATE OF MARYLAND**  
**Schedule of Demographic Statistics**  
**Last Ten Fiscal Years**

Fiscal Year	Population (1)	Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
1998.....	5,094,000	N/A	998,085	4.8%
1997.....	5,072,000	\$28,671	985,180	5.0
1996.....	5,042,438	27,618	977,828	5.1
1995.....	5,046,050	26,333	964,389	5.0
1994.....	4,965,000	21,040	949,659	5.6
1993.....	4,908,000	23,920	933,768	6.4
1992.....	4,860,000	23,249	919,598	6.5
1991.....	4,781,000	22,080	901,143	5.7
1990.....	4,743,000	21,789	880,035	4.3
1989.....	4,579,000	21,013	868,371	4.5

Sources:

- (1) U.S. Department of Commerce, Bureau of Census.
  - (2) U.S. Department of Commerce, Bureau of Economic Analysis.
  - (3) State Departments of Education and Higher Education.
  - (4) State Department of Economic and Employment Development.
- N/A Not available at this date.

**STATE OF MARYLAND**  
**Schedule of Property Value**  
**Last Ten Fiscal Years**  
(Expressed in Thousands)

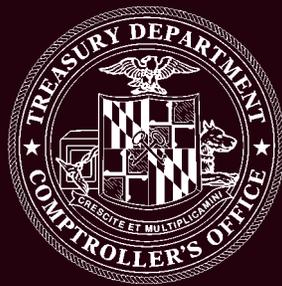
Fiscal Year	Commercial	Residential	Agricultural	Nontaxable
1998.....	\$62,377,451	\$205,239,920	\$7,115,253	\$42,687,496
1997.....	61,626,974	200,557,837	5,829,437	41,642,651
1996.....	59,843,316	197,628,263	5,541,304	41,317,411
1995.....	62,013,692	190,112,779	5,420,789	40,235,799
1994.....	64,464,686	181,420,690	5,408,299	40,235,799
1993.....	64,006,823	170,912,747	5,186,153	39,302,632
1992.....	60,460,121	153,526,926	4,726,138	37,817,267
1991.....	54,800,295	135,548,676	4,307,744	35,309,591
1990.....	48,755,868	119,369,152	3,917,513	32,623,097
1989.....	42,846,522	107,220,885	3,671,921	29,890,333

Sources: State Department of Assessment and Taxation.

**STATE OF MARYLAND**  
**Schedule of Miscellaneous Statistics**  
**June 30, 1998**

Date of Ratification	1788
Form of Government	Legislative — Executive — Judicial
Miles of State Highways	5,237
Land Area	9,775 square miles
State Police Protection:	
Number of Stations	26
Number of State Police	1,613
Higher Education (Universities, Colleges and Community Colleges):	
Number of campuses in State	33
Number of educators	7,794
Number of students	217,256
Recreation:	
Number of State Parks and Forests	61
Area of State Parks	91,009 acres
Area of State Forests	135,134
Employees	91,453

Sources: General Accounting Division, State Comptroller's Office, Maryland Manual 1996-1997, Department of Natural Resources.



**Comptroller of the Treasury**  
**Louis L. Goldstein Treasury Building**  
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**Annapolis, Maryland 21404-0466**