

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.