

Touche Ross & Co.

The Honorable Louis L. Goldstein
Comptroller of the Treasury of Maryland

We have examined the combined financial statements of the State of Maryland as of and for the year ended June 30, 1985, as listed in the Table of Contents. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of the loan insurance programs and two loan programs of the Maryland Department of Economic and Community Development, Maryland Food Center Authority, Maryland Transportation Authority, Maryland State Lottery, and Maryland Higher Education Loan Corporation, which statements reflect total assets, revenues and expenses constituting 83 percent, 96 percent and 94 percent, respectively, of the related combined totals for Enterprise Funds. These statements were examined by other auditors whose reports thereon have been furnished to us, and our opinion expressed herein, insofar as it relates to the amounts included for the above mentioned units, is based only upon the reports of other auditors.

As discussed more fully in Note 14 to the financial statements, during the first half of calendar year 1985, several State-chartered savings and loan associations, whose deposits were privately-insured by the Maryland Savings-Share Insurance Corporation (MSSIC), experienced unusually heavy withdrawals of funds by depositors. This situation resulted in the enactment of emergency legislation on May 17, 1985, creating the State of Maryland Deposit Insurance Fund Corporation (MDIFC), an agency of the State, which, as successor to the assets and obligations of MSSIC, now insures member associations' savings deposits. MDIFC is a party to several lawsuits, including one by a former MSSIC member savings and loan association seeking the return of its capital deposits and capital notes; this suit, if successful, would seriously deplete MDIFC's resources for paying insured losses of depositors. At June 30, 1985, the financial statements of MDIFC reflect a deficiency in assets of \$159,703,000, after accrual for estimated losses on insured savings deposits of \$325,100,000. Any State funding of actual losses on insured deposits in excess of MDIFC's resources is dependent upon future legislative action. As a result, the ultimate outcome of the savings and loan situation cannot be determined at this time. We have examined the financial statements of MDIFC as of June 30, 1985 (not separately presented herein but included in the combined Proprietary Fund Type financial statements) and in our report dated October 11, 1985, we expressed an opinion subject to the effects of such adjustments, if any, as might have been required had the outcome of the uncertainties discussed in the preceding sentences been known.

In our opinion, based upon our examination and the reports of other auditors, the combined financial statements referred to above present fairly the financial position of the State of Maryland as of June 30, 1985, and the results of its operations and the changes in financial position of its Enterprise Funds, Nonexpendable Trust Fund and Pension Trust Fund for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination was made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining financial statements and schedules listed in the Table of Contents are presented for purposes of additional analysis and to meet legal reporting requirements and are not a required part of the combined financial statements of the State of Maryland. Except for the Schedules of Estimated Revenues and General, Special and Federal Fund Appropriations-Budgetary Basis for the year ending June 30, 1986 (pages 71 and 72), the information has been subjected to the auditing procedures applied in the examination of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

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

Baltimore, Maryland
October 31, 1985

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Certified Public Accountants