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October 27, 1986

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

The Comprehensive Annual Financial Report of the State of Maryland, for the fiscal year ended June 30, 1986, 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 the data, as presented, is accurate in all material aspects; that it is 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.

Financial and Accounting Systems

The financial statements contained in this report have been prepared in accordance with generally accepted accounting principles and have been examined by Touche Ross & Co., whose report thereon is included in this report.

Maryland maintains its accounts to conform to generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system. The State recognizes the difficulties and complexities involved in maintaining dual systems, and it has formed a task force to guide the conversion of budgetary practices into conformity with generally accepted accounting practices.

The timing differences in the general fund must be evaluated by the Executive and Legislative branches to determine the method of and timing for conversion to generally accepted accounting principles. Differences in fund structure are continuing to be analyzed by the task force to determine the appropriate approach to conversion.

The 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. The following criteria was utilized to determine the entity for the State of Maryland: selection of governing authority, appointment of management, constitutional officers' ability to significantly influence operations and accountability for fiscal operations and scope of public service.

General Governmental Functions

Revenues of the general governmental functions (excluding capital projects) totaled \$6,748,012,000 for the fiscal year ended June 30, 1986. This represents an increase of 9.4 percent over revenues for the fiscal year 1985. Income tax, the largest source of revenue, produced 31.7 percent of general governmental revenues compared to 31.9 percent last year. The revenues (amounts expressed in thousands) from various sources and the changes from last year are shown in the following tabulation: