

State's General Fund and the Transportation Trust Fund totaling \$55,000,000 and \$100,000,000, respectively. Under legislation adopted by the General Assembly, the funds transferred from the Transportation Trust Fund to MDIFC together with \$29,000,000 of funds transferred to the State's General Fund during fiscal year 1984, will be restored to the Transportation Trust Fund through distribution of corporate income tax revenues. The distributions will amount to \$2,500,000 per month from January, 1987 through June, 1988 and \$3,000,000 per month from July, 1988 through October, 1990.

The balance sheet of MDIFC at June 30, 1986 includes \$132,177,000 of deposits resulting from a distribution to depositors of a member association in receivership and the purchase of certain assets from another member association. The distribution totalled \$110,789,000 and was made in accordance with the Governor's General Distribution Plan, approved on March 5, 1986. MDIFC received subrogation of the depositor's rights to their share of proceeds from the liquidation of the association's net assets in an amount equal to the distribution. During the fiscal year, MDIFC also acquired \$21,388,000 of certain assets from a former member association primarily in settlement of a lawsuit.

In August 1986, a distribution of \$72,000,000 was made to depositors of a member association in receivership. The distribution was partially funded by a transfer of \$15,000,000 from the State of Maryland General Fund and borrowings of \$15,000,000 from a bank. The loan bears interest at 5/8 of prime and is collateralized by a bond anticipation note of the same amount.

In the wake of the savings and loan crisis discussed above, an allowance for estimated insurance losses of \$262,900,000 at June 30, 1986 has been established; however, MDIFC's ultimate liability, if any, cannot presently be determined.

Additionally, MDIFC and MSSIC are parties to several lawsuits, and, in the opinion of the Attorney General of the State of Maryland, the outcome of the litigation cannot presently be determined. Furthermore, there may be additional future litigation involving MDIFC. Additionally, MSSIC, although exempt from State of Maryland income taxes, was subject to Federal income taxation. MSSIC's Federal income tax return for the year 1971 was examined by the Internal Revenue Service to determine the propriety of the loss reserve provision. The matter was decided adversely by the U. S. Court of Claims in February, 1981. In September, 1982, MSSIC received a Notice of Tax Deficiency from the Internal Revenue Service relating to the years 1974 through 1980. Additionally, in July, 1984, a Notice of Tax Deficiency relating to the years 1981 and 1982 was received. A petition for redetermination of the proposed deficiency was filed with the U. S. Tax Court and the case was tried in December, 1984. A decision has not yet been reached. The primary issue addressed in the court case is the propriety of the loss reserve provision. In the opinion of management of MDIFC, adequate provision has been made to cover any additional tax liabilities that may result from the outcome of this litigation.

A condensed balance sheet of MDIFC as of June 30, 1986 is as follows (amounts expressed in thousands):

Assets:	
Cash and investments .....	\$ 48,128
Loans and notes receivable .....	116,951
Deposits .....	132,177
Other Assets .....	144
	<u>\$297,400</u>
Liabilities:	
Estimated loss on insured savings deposits .....	\$262,900
Capital notes .....	88,862
Deferred federal income taxes .....	25,282
Other liabilities .....	2,818
	<u>379,862</u>
Deficiency in Assets:	
Capital deposits by members .....	144,224
Deficit .....	<u>(226,686)</u>
	<u>(82,462)</u>
	<u>\$297,400</u>