

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.