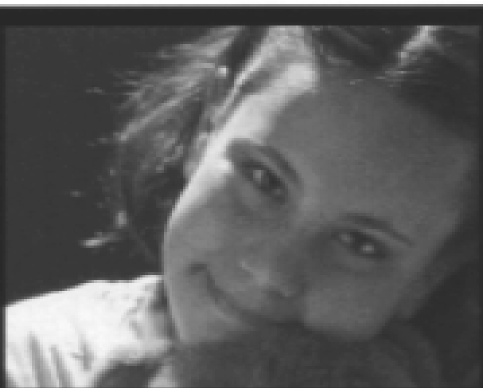


MARYLAND HIGHER EDUCATION INVESTMENT PROGRAM

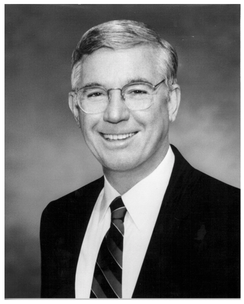
2000 ANNUAL REPORT

MARYLAND PREPAID COLLEGE TRUST

Toll free 1-888-4MD-GRAD

www.prepaid.usmd.edu

MAKING COLLEGE AFFORDABLE FOR MARYLAND AND WASHINGTON D.C. FAMILIES

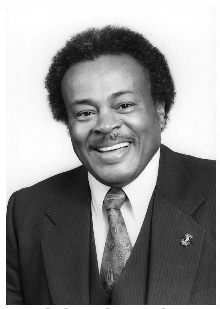


Parris N. Glendening
Governor

Kathleen Kennedy Townsend
Lt. Governor

MARYLAND HIGHER EDUCATION INVESTMENT BOARD

Edwin S. Crawford
Board Chair
Ferris Baker Watts Inc.

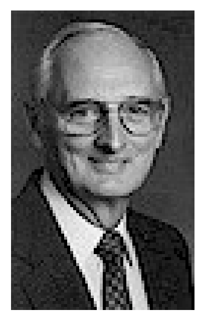


Richard N. Dixon
State Treasurer

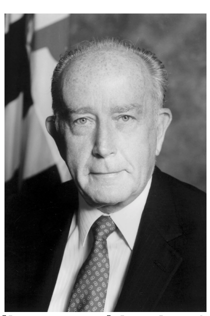
Patricia S. Florestano, Ph.D.
Secretary, Higher Education
(Retired June 30, 2000)

Nancy S. Grasmick, Ph.D.
Superintendent of Schools

Richard C. Hackney, Jr.
U.S. Trust Company



Donald C. Linton, CPA/CFP
Linton, Shafer & Co., P.A.



William Donald Schaefer
State Comptroller

Karl Spain
The Journal Newspapers

MARYLAND

PREPAID COLLEGE TRUST

September, 2000

Dear Maryland and District of Columbia families,

WE'RE ON OUR WAY! That's the overriding message for Maryland and District of Columbia families who have enrolled in the Maryland Prepaid College Trust OR who are considering enrolling OR even those who have college dreams for their children or grandchildren.

We're on our way to paying for future college tuition for more than 5,100 children with nearly $35 million in assets as of June 30th, on its way to $100 million in committed savings over time. In fact, the oldest children who are enrolled in the Trust are now entering their senior year in high school. We're looking forward to paying tuition benefits for the first time as these students enter college in the Fall of 2001.

We're on our way to continuing to strengthen our investments, with a $3.9 million actuarial surplus.

We're on our way to easing concerns about the future performance of the Trust's investments with the addition of a **new Maryland legislative guarantee** - thanks to Governor Parris N. Glendening and the Maryland General Assembly.

And we're on our way to offering even more options for families to invest to meet additional college costs while benefiting further from Maryland State and federal tax incentives through the introduction of the Maryland College Investment Plan, which will be launched in 2001.

As you read through this Annual Report you'll see that - not only have we had a great year - but we've also come a long way since the launch of the Maryland Prepaid College Trust in 1998. With the significant enhancements in the Trust and our outstanding performance over time - ALL Maryland and D. C. families with college dreams for their children or grandchildren should seriously consider the compelling financial and tax benefits that the Trust offers.

So, **congratulations on your decision** to include the Maryland Prepaid College Trust in your plans for financing your children's future college education. We look forward to partnering with you in making college dreams a reality for your family!

Sincerely,

Edwin S. Crawford

Edwin S. Crawford
Board Chair

TABLE OF CONTENTS

MAKING COLLEGE AFFORDABLE

“Peace of mind.” “Security.” "I can sleep better at night!" "Worry free." “A no brainer!”

These are just a few of the phrases that have been used to describe owning a Maryland Prepaid College Trust contract. Today, over 5,100 contracts are in place with parents, grandparents, aunts, uncles, relatives, and family friends to help them save for a child’s future college education.

“Innovative.” “Evolving.” “Change.” "Improvement."

At the Maryland Prepaid College Trust, these are the phrases that best describe the ongoing work being done by the staff, Board, Maryland Legislature, and Governor Parris N. Glendening to provide Maryland and District of Columbia families with the best possible college savings program. Improved Maryland State tax deductions, expanded use of benefits, extending enrollment to include the District of Columbia, expanding eligibility to include 10th graders, and extending the delayed use of benefits to 10 years after high school graduation, are just a few of the changes the Trust had added since its first offering in 1998. But this was just the beginning.

Now, the State of Maryland provides the Maryland Prepaid College Trust with a **Legislative GUARANTEE!**

When you purchase a contract from the Maryland Prepaid College Trust, you are saving for college based on the current cost of tuition and mandatory fees at Maryland’s public colleges. When your child goes to college, you are assured that the Trust will pay the full in-state tuition and mandatory fees to any Maryland public college. If your child opts to attend a private or out-of-state college, the Trust will pay that year’s weighted average tuition to the private or out-of-state school. The weighted average tuition is equal to the actual tuition and mandatory fees at each Maryland public college weighted by the number of full-time equivalent in-state students.

The Trust is currently preparing for its fourth enrollment period, which will begin on October 10, 2000 and continue through February 28, 2001. Here are just a few of the benefits you get as a purchaser of a Maryland Prepaid College Trust contract:

Tax Incentives

The Maryland Prepaid College Trust is a Section 529 college savings plan as defined by the Internal Revenue Code. Your money grows state & federal tax deferred, plus…

- When benefits are paid to an eligible college, the federal taxes on the earnings will be at the child’s tax rate

And even more tax incentives for Maryland residents

- You can deduct up to $2,500 of your payments each year from your Maryland income, for each contract you have purchased ($5,000 for two, $7,500 for three, etc.)
- Payments in excess of $2,500 per contract can be deducted in future years until the full amount of your payments has been deducted
- There are no Maryland State income taxes on the earnings when benefits are paid to an eligible college

Portable

In-state, out-of-state, public, private, & community colleges too

- Your benefits can be used at any 2- or 4-year Maryland public college
- You can also use the benefits at any accredited, degree-granting private and out-of-state college nationwide
- Unused benefits may be applied towards an eligible graduate school

Affordable
Families select the options that best fit their budget or educational needs - and can change them at any time

- A variety of payment options are available - lump sum, annual, 5-year, extended monthly, or down payment plans - one that is just right for your family's budget
- Tuition Plans range from 1 to 5 years at a four-year college, 2 years at a community college or a combination
- Contract prices are based in part on current college costs

Flexible
Your contract can change as your needs change

- You can change your Tuition Plan or Payment Option at any time
- You can transfer benefits to a family member of the beneficiary
- If your child gets a scholarship, grant, or tuition remission, you can apply your benefits towards other college expenses, such as room & board, books, or course specific fees
- You can add additional years at anytime during the year once you own a contract
- You can delay use of the benefits for up to 10 years after the child graduates from high school — plus any time served in active duty of the military
- If your child receives scholarships, grants, or tuition remission, you can get a full refund
- The Trust is a voluntary program - families may choose to withdraw at any time and receive a reduced refund

Year-Round Enrollment for Newborns
Newborns can be enrolled anytime throughout the year, until their first birthday

- When you enroll a newborn between enrollment periods, your contract prices are based on the previous enrollment period

APPLICATIONS AND CONTRACTS

Since the first enrollment period in 1998, the Trust has received over 6,000 applications for enrollment into the Trust. Today, approximately 4,000 families have purchased 5,140 contracts. Seventy-two percent of the applications were for four years of college with the vast majority of these selecting 4 years of the University Plan and the rest selecting the Two-plus-Two Plan. About 64 percent have chosen to make monthly payments, while 21 percent have selected to make a Lump Sum Payment and the remaining 15% have chosen to make annual payments.

Thus far, the Trust has received over $32 million in payments from current contract owners. These payments are part of a long-term commitment to the Trust of approximately $100 million to be invested for the future college expenses of the Trust's current beneficiaries.

Within the next year, the Trust will achieve another milestone. Beginning in 2001, the Trust will begin to pay out benefits for students who are entering college. However, this fall the Trust is getting a preview of how the process will go, as we are currently preparing for the very first beneficiary to go to college. This student completed her high school education a year earlier than anticipated, and will start college this fall.

LEGISLATION

Each year since 1997, the Maryland General Assembly has passed additional enhancements to the Trust, including tax benefits and increased use of benefits, with the assistance of Governor Glendening.

During the 2000 Legislative Session, the Maryland General Assembly passed several significant enhancements that were signed into law by Governor Glendening on May 18th. The most important enhancement in the life of the Trust is the creation of a new **Maryland Legislative Guarantee** that now provides families with the assurance of knowing that the State will stand behind the Trust. This legislative guarantee provides that if the Trust were in the unlikely situation of being short of funds to fully pay contracted benefits, the Governor would have to include the amount of the shortfall in the State's budget. As with the State's entire budget, the Maryland General Assembly has final approval of all appropriations. This appropriation would then be repaid to the State by the Trust over a two-year period.

The legislation also expands the way Trust benefits can be used when students receive scholarships, grants, or tuition remission. Now, if a student attends college using Maryland Prepaid College Trust benefits and has received scholarships, grants, or tuition remission, they will be able to apply the Trust's benefits towards other eligible college expenses. These expenses include room & board, course specific fees, as well as tuition and mandatory fees at an eligible graduate school.

Finally, House Bill 11 provides the Maryland Higher Education Investment Board with the green light to develop a second Section 529 plan for Maryland - the Maryland College Investment Plan - which will be available in 2001. This investment plan will offer families a plan that they may use to invest for other college expenses not traditionally provided for by the Maryland Prepaid College Trust. These expenses could include the difference in costs between a Maryland public college and a private or out-of-state college, or room & board. As with the Trust, the college investment plan will offer Maryland residents with significant State tax benefits and all contributors with the same federal tax incentives. Unlike the Maryland Prepaid College Trust, the college investment plan will not be backed by the State legislative guarantee. The college investment plan and the Maryland Prepaid College Trust could be used separately or together to form a family's college saving strategy.

MARYLAND PREPAID COLLEGE TRUST CHRONOLOGICAL HISTORY

Changes and improvements initiated by the Maryland Higher Education Investment Board, Governor Parris N. Glendening, and the Maryland State Legislature

1996 Governor appoints Task Force to study college savings programs for Maryland.

1997 Trust creation included in Governor's legislative package to the General Assembly.

Board is appointed and new independent State agency begins.

1998 State tax deduction introduced.

Trust holds its first open enrollment period. More than 1,100 families purchase contracts.

Board opens enrollment year-round to newborns.

1999 General Assembly improves the State tax benefits.

Board adds annual payment and down payment options.

Unused benefits can now be used towards graduate school.

Participation increases by more than 200% as Trust holds its second enrollment period. Total number of contracts more than 3,700.

General Assembly opens enrollment to District of Columbia families.

Enrollment is expanded to now include tenth graders.

1999/2000 Enrollment increases another 50%, to more than 5,100 total contracts with third enrollment period.

2000 New legislation allows children receiving scholarships, grants, or tuition remission to apply benefits towards other college related expenses, such as room & board or books.

General Assembly provides the Trust with **Maryland Legislative Guarantee**.

Companion savings program - Maryland College Investment Plan - passed by General Assembly - to be available in 2001.

Delayed use of benefits extended by Board from 5 to 10 years after high school.

Board introduces minimum benefit pay out - your benefits will never be less than your contract payments.

Board set new policy to always pay the full in-state tuition and mandatory fees at any Maryland public college for all children enrolled in the Trust, regardless of residency.

Fourth open enrollment period to begin October 10, 2000 through February 28, 2001.

MARKETING

During each of the Maryland Prepaid College Trust's enrollment periods, the primary goals of the Trust have been to reach as many Maryland families as possible, and to get them information about how the Trust can offer significant assistance in helping to save for a child's future college education. And with the Fall 1999 enrollment period, the efforts were extended to include District of Columbia families as well, thanks the to Maryland General Assembly opening the Trust to these families. This makes the Maryland Prepaid College Trust one of only two prepaid college tuition program in the country to have opened its enrollment beyond the sponsoring state's borders.

During the Fall enrollment period, the Trust greatly reduced its paid advertising efforts, totally eliminating television advertising. The paid marketing efforts were conducted statewide and in DC on radio, in newspapers, through direct mail, and on the Internet. While the level of paid advertising was reduced, the Trust strove to increase its one-on-one marketing and public relations efforts.

ONE-ON-ONE MARKETING

The Trust discovered shortly after the Spring 1999 enrollment period that 43 percent of the families that had purchased contracts had learned about the Trust through direct contact with a member of the Trust's staff. During the Fall enrollment period, the Trust worked to reach more Maryland and DC families through one-on-one contact. Between September 1999 and March 2000, the Trust arranged with school systems, private employers, government agencies (State, county, and federal), shopping malls, public libraries, and public event planners to host more than 260 presentations. The one-on-one marketing efforts resulted in more than 25 percent of the new contracts for the enrollment period. For example, on February 5, 2000, the Trust hosted an Open House in Washington, DC for parents to learn about the Trust. One hundred percent of the parents who attended this event are now enrolled in the Trust.

Parent Information Nights

The Trust worked with the majority of school districts across Maryland to hold another series of Parent Information Nights in the public schools. These events were posted on the Trust's web site and flyers advertising each jurisdiction's nights were distributed by the school systems to all parents of elementary and middle school aged children. These evenings were well attended, with the average audience containing 20 or more parents or grandparents eager to learn more about how the Trust could help them save for college.

The Trust has also worked with private and parochial schools to offer Parent Information Nights to these parents. Due to the independence of these schools, it has been difficult to schedule all of the private schools throughout the State. However, by attending the Association of Independent Maryland Schools (AIMS) Fall Conference, the Trust was able to make significant in-roads during the Fall enrollment period. The Trust has already begun working with each of the school districts statewide to schedule Parent Information Nights for the next enrollment period. The Trust has set a goal of 113 events to be scheduled through the school systems. However, it is expected that this number will increase as individual schools, PTAs, or other parent groups arrange for their own Parent Information Nights.

We are also planning to work harder to arrange for more sessions to be held at the larger private schools across the State, by continuing to strengthen our relationship with AIMS and individual schools.

Ambassador Program

During the Spring 1999 enrollment period, the Trust began using Ambassadors to assist with delivering presentations at Parent Information Nights in various counties. During the Fall enrollment period, the Trust expanded the use of Ambassadors. The Trust will continue to utilize the Ambassador Program again this Fall to assist with the number of Parent Information Nights being scheduled.

Shopping Malls - Public Events

In addition to the Parent Information Nights, the Maryland Prepaid College Trust took its message to the public by setting up information tables or booths at shopping malls and other public events like trade shows, fairs, conferences, and other venues where the Trust could reach its targeted audience. The time, date and location of these appearances are posted on the Trust's web site. Shopping malls have become an extremely successful way to get information into the hands of parents and grandparents. During the Fall enrollment period, the Trust visited malls in Baltimore, Prince George's, and Frederick counties.

Distributing information at public events has also been successful for the Trust. During the enrollment period, the Trust had booths at the Maryland State Teachers Association Convention in Ocean City, the AIMS Conference in Baltimore, The Governor's Annual Awards & Employee Recognition Conference, the Baltimore Sun's Dollars & Sense Conference, The Maryland Technology Showcase, and at Health Fairs hosted by several colleges and private employers.

Following the close of the enrollment period, the Trust has continued to distribute information at a number of different public events throughout the State. This has enabled the Trust to raise awareness of the new Maryland legislative guarantee prior to the launch of the next enrollment period.

Employee Forums - Brown Bag Luncheons

Working with State, county, and federal departments and agencies, as well as with major private employers, the Trust was able to conduct numerous presentations to employees at their work place. These sessions, advertised on the Trust's web site and by the hosting company or agency through newsletters or e-mail, have provided many with the opportunity to learn more about the Trust without having to travel or give up an evening at home with the family.

The Trust is planning an aggressive campaign to conduct even more of these employee sessions during the upcoming enrollment period.

RADIO ADVERTISING

The Trust's statewide radio advertising campaign covered a six-week period beginning in January 2000. The condensed schedule allowed the Trust to increase frequency, reminding listeners to act, as the end of the enrollment period was growing closer.

TELEVISION ADVERTISING / PUBLIC SERVICE ANNOUNCEMENTS

For budgetary reasons, the Trust opted not to conduct a television advertising campaign during the Fall enrollment period. Instead, the Trust edited the commercial it had made with Governor Parris N. Glendening and Lt. Governor Kathleen Kennedy Townsend, and offered it to cable television systems statewide to air as a public service announcement. Additionally, the County Executives in several of Maryland's larger counties taped public service announcements to air on the cable systems within their own counties.

The use of public service announcements was successful, with several cable systems giving the Trust significant air time. However, the marketing data indicates that there was a significant drop in the number of potential contract purchasers crediting television as the source of where they first heard about the Trust over previous enrollment periods when paid television advertisements were utilized.

DIRECT MAIL ADVERTISING

Direct mail advertising can be an extremely useful marketing tool, especially when used in conjunction with other marketing devices. During the radio advertising campaign, the Trust sent more than 90,000 "targeted" Maryland and DC families an informational brochure highlighting the benefits of joining the Maryland Prepaid College Trust.

PRINT ADVERTISING

With the elimination of television advertising during the Fall enrollment period, the Trust increased its use of newspaper advertising in the Baltimore and Washington metropolitan areas.

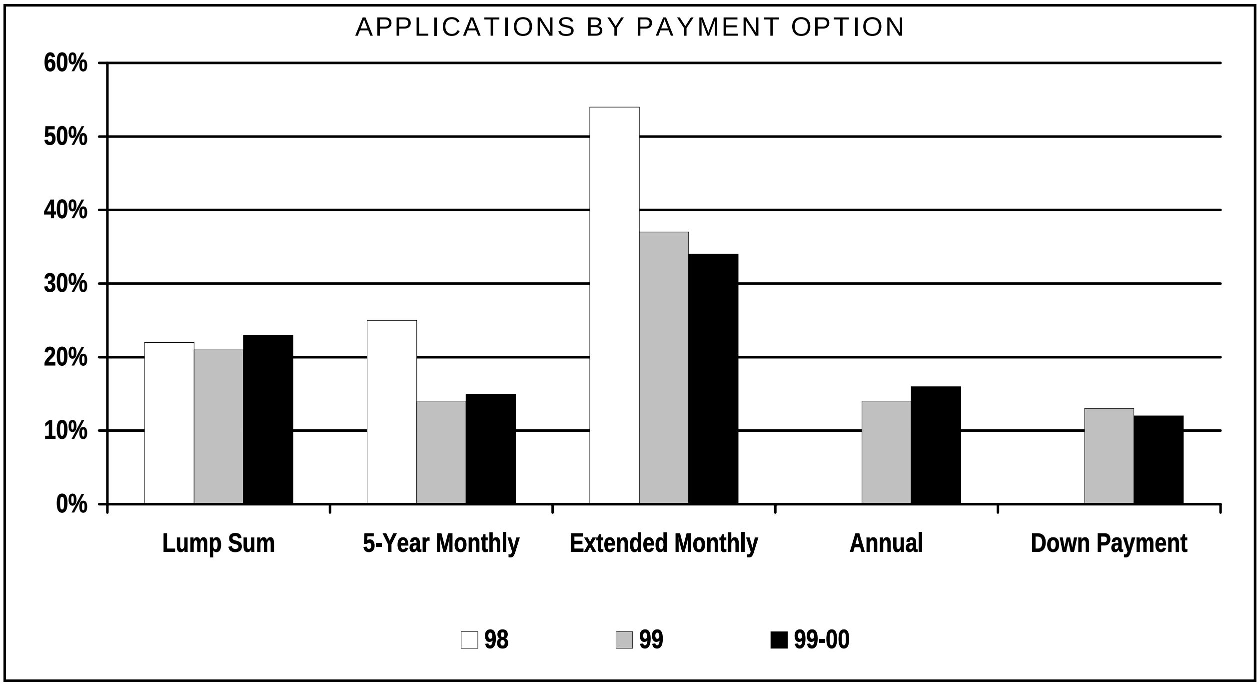
INTERNET ADVERTISING

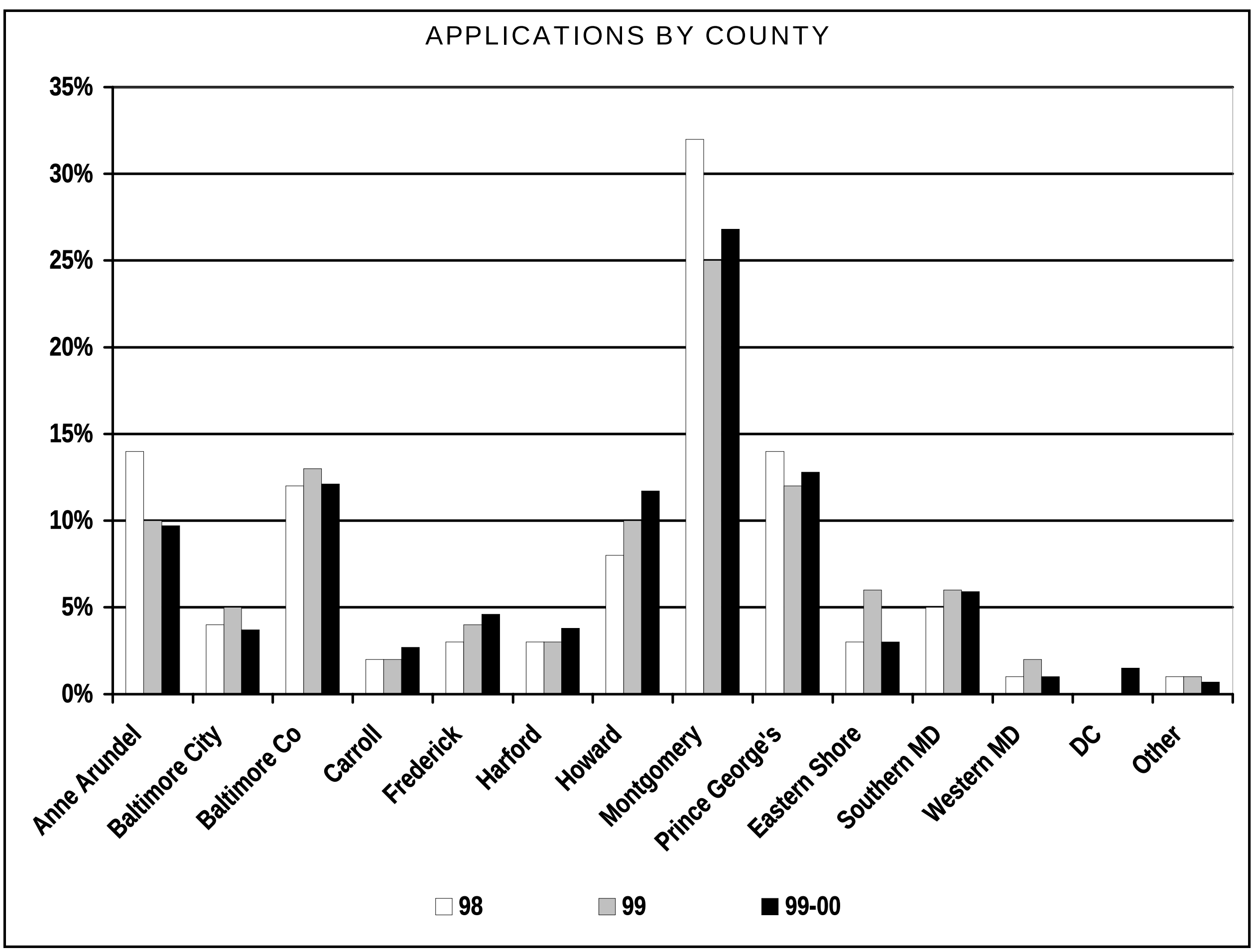
As the number of families accessing the Internet daily from work, school, or home computers increases, the Trust decided to place an Internet advertisement on one of Maryland's most visited web sites - sunspot.net - the web site of the Baltimore Sun newspaper. The commercial ran for a month on the Maryland page, allowing viewers to click on the spot and immediately be linked to the Trust's web site.

TELL A FRIEND - TELL A NEIGHBOR

One of the most effective marketing tools the Trust has, but has not yet fully utilized, is word-of-mouth marketing by current contract owners. During the Fall enrollment period, the Trust started to see applications indicating that a friend had told the new purchaser about the Trust. In the Spring/Summer Newsletter, the Trust asked current members to send or e-mail "testimonial" statements to the Trust for potential use in future marketing efforts. But this is just scratching the surface of the ways contract owners can help to promote the Trust.

If you would like to host a Parent Information Night at your child's school - or - sponsor an employee forum at your work-place - or - have a speaker at a meeting of a social or community organization you belong to, all you have to do is let us know. Call the Trust at **1 888 4MD GRAD** (option #3) and we will mail or fax you a Speaker Request Form. All you have to do is complete the form, and fax or send it back to us. Once we confirm the time and date of your event, it will be posted on our web site. You can also get a copy of the Speaker Request Form by visiting the web site at **www.prepaid.usmd.edu.**


APPLICATIONS BY PAYMENT OPTION
60%
50%
40%
30%
20%
10%
0%
Lump Sum
5-Year Monthly
Extended Monthly
Annual
Down Payment
98
99
99-00


APPLICATIONS BY COUNTY
35%
30%
25%
20%
15%
10%
5%
0%
Anne Arundel
Baltimore City
Baltimore Co
Carroll
Frederick
Harford
Howard
Montgomery
Prince George's
Eastern Shore
Southern MD
Western MD
DC
Other
98
99
99-00

Executive Summary

Adequacy of Trust

The Trust is actuarially sound, this means the expected value of the assets exceeds the expected value of liabilities. The assumptions used to project the actuarial status of the Trust are those set by the Board. The significant results are shown below:

Present value of June 30, 2000		**(Thousands)**
Assets		
	Investments	$34,886
	Future Contract Payments	45,794
	Other	6
Total Assets		$80,686
Liabilities and Actuarial Reserves		
	Future Contract Benefits and other expenses	$76,208
	Other Liabilities	625
	Actuarial Reserve	3,853
	Total Liabilities and Reserves	$80,686

Assumptions

- Yield on Investments – 7.65%
- The Trust is exempt from federal taxes.
- Future Tuition Increases – 5.0% per annum
- Future Mandatory Fee Increases – 10.0% per annum

Expected Cash Flows

Cash flows to the Trust are expected to be positive through fiscal year 2008 and negative from 2009 until 2023 and positive from then until liabilities are satisfied. A positive cash flow occurs when contract payments and investment income exceed tuition and mandatory fee payments. When negative cash flows occur, asset sales will provide the necessary cash.

Investment Strategy

The investment policy of the Trust is designed to enable the Board to meet the actuarially determined Program liabilities. The purpose of the Board’s Comprehensive Investment Plan is to meet the projected future liabilities.

The Board has selected the Vanguard Groups Institutional Fund to invest the equity portion of the Trust’s assets. The fixed income portion of the Trust’s assets is invested in the Summit Limited Term Bond Fund at T. Rowe Price.

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers LLP
203 North LaSalle St.
Chicago IL 60601
Telephone (312) 701 5500
Facsimile (312) 701 6533

August 30, 2000

Mr. Edwin S. Crawford, Chairman
Maryland Prepaid College Trust
217 East Redwood Street
Suite 2050
Baltimore, Maryland 21202

Dear Mr. Crawford:

Richard M. Kaye & Associates in conjunction with PricewaterhouseCoopers LLP (PwC) has performed an actuarial valuation of the Maryland Prepaid College Trust as of the June 30, 2000 . The valuation compares the value of the assets of the program to the value of expected future tuition payments to beneficiaries. The following pages summarize the actuarial valuation of the trust fund as of June 30, 2000.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2000 there is a surplus of $ 3,852,809.

The actuarial valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the following pages have been appropriately determined according to the actuarial assumptions stated herein.

Respectfully submitted,

Richard M. Kaye

Richard M. Kaye
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

John T. Devereux

John T. Devereux, ACAS, MAAA
Principal Consultant, PricewaterhouseCoopers LLP

ERNST & YOUNG

■ Ernst & Young LLP
One North Charles
Baltimore, Maryland 21201

■ Phone: (410) 539-7940
www.ey.com

Report of Independent Auditors

To the Board of the Maryland Higher Education
Investment Program:

We have audited the accompanying balance sheet of the Maryland Higher Education Investment Program ("the Program"), as of June 30, 2000, and the related statements of revenues, expenses and changes in retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Program's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland Higher Education Investment Program, as of June 30, 2000, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 8 to the financial statements, in 2000 the Program changed its method of accounting for tuition contracts revenue and related benefit expense.

We have not audited the other data included in this Annual Report and, accordingly, we express no opinion thereon.

Ernst + Young LLP

September 8, 2000

MARYLAND HIGHER EDUCATION INVESTMENT PROGRAM
Balance Sheet
As of June 30, 2000

ASSETS

Cash and cash equivalents	$1,452,694
Investments, at fair value	33,433,181
Tuition contracts receivable	45,793,992
Fixed assets, net	6,246
Total Assets	$80,686,113

LIABILITIES AND RETAINED EARNINGS

Accounts payable and accrued expenses	$79,315
Loans payable to Maryland Higher Education Commission	620,000
Accrued tuition benefits	76,208,103
Compensated absences	26,665
Total Liabilities	76,934,083
Retained Earnings	3,752,030
Total Liabilities and Retained Earnings	$80,686,113

See accompanying notes to financial statements

MARYLAND HIGHER EDUCATION INVESTMENT PROGRAM
Statement of Revenues, Expenses and Changes in Retained Earnings
For the Fiscal Year Ended June 30, 2000

Revenues:	
Tuition contracts	$13,476,947
Application and other fees	156,643
Total Revenues	$13,633,590
Operating Expenses:	
Tuition benefits	15,665,905
Salaries, wages and benefits	426,735
Other expenses	707,758
Total expenses	16,800,398
Operating Loss	($3,166,808)
Non-operating Income:	
Grant from Maryland Higher Education Commission	420,000
Unrealized gain on investments	1,301,511
Investment income	578,189
Total non-operating income	2,299,700
Net Loss	(867,108)
Retained Earnings, Beginning of Year, as restated	4,619,138
Retained Earnings, End of Year	$3,752,030

See accompanying notes to financial statements

MARYLAND HIGHER EDUCATION INVESTMENT PROGRAM
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2000

Operating Loss	($3,166,808)
Adjustments to reconcile operating loss to	
Net Cash Provided by Operating Activities:	
Depreciation	9,827
Changes in assets and liabilities:	
Increase in compensated absences	8,242
Decrease in accounts payable	(437,449)
Decrease in tuition contracts receivable	12,401,420
Increase in accrued tuition benefits payable	15,665,905
Net cash provided by operating activities	27,647,945
Cash Flows from Investing Activities:	
Investment income	578,189
Purchase of investments	(25,255,522)
Net cash used by investing activities	(26,677,332)
Cash Flows from Non-capital Financing Activities:	
Proceeds from Grant from Maryland Higher Education Commission	420,000
Proceeds from Loan from Maryland Higher Education Commission	250,000
Net cash provided by non-capital financing activities	670,000
Net increase in cash and cash equivalents	473,804
Cash and cash equivalents, Beginning of Year	978,890
Cash and cash equivalents, End of Year	$1,452,694
Non-cash Transactions:	
Unrealized gain on investments	1,301,511

See accompanying notes to financial statements

1. ORGANIZATION AND PURPOSE

The purpose of the Maryland Higher Education Investment Program (the Program) is to provide a simple and convenient way for Maryland families to save in advance for a college education. It provides for the payment of tuition and mandatory fees based in part on these costs at Maryland public colleges and universities. A purchaser enters into a contract for the future payment of tuition and fees for a designated beneficiary. When the beneficiary enrolls in college, the Program will pay the contract benefits. Following graduation from high school, the beneficiary has ten years plus the number of years purchased to use the contract benefits. This time period may be extended by any time served in active military duty. The contract benefits are based on resident rates for Maryland public colleges and universities, but can be used towards these costs at any accredited, non-profit, degree granting, private or out-of-state college or university.

The Maryland General Assembly created the Program during the 1997 legislative session. The program is an independent agency of the State of Maryland, authorized by the Maryland Annotated Code Education Article, Section 18, Subtitle 19. The Maryland Higher Education Investment Program Board (the Board) directs the Program. The Board consists of nine members; four of which are ex-officio members. The ex-officio members are the Comptroller, the Treasurer, the Secretary of the Maryland Higher Education Commission, and the State Superintendent of Schools. The five remaining members are public members appointed by the Governor.

The Program is an independent state agency, but, by law, its funds are not considered moneys of the State and may not be deposited into the Treasury. Funds remaining in the Program at the end of any fiscal year remain in the Program rather than reverting to the State General Fund.

Legislation passed in 2000 established an additional financial guarantee that requires the Governor to include in his budget the amount of any shortfall of Program assets to pay current contract liabilities. Legislation passed in 1998 and 1999 established tax incentives for Maryland residents participating in the Program. All contributions to the Program can be deducted from Maryland State income at a rate of up to $2,500 for each contract annually. Earnings on those payments are exempt from Maryland taxes when used for qualified expenses of college. Contributions grow on a tax-deferred basis at the federal level while in the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The activities operated by the Program are accounted for in an enterprise fund. Such funds focus on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator. Therefore, the accompanying financial statements have been prepared on the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when incurred.

As permitted by Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Program has elected not to adopt Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, unless GASB specifically adopts such FASB statements or interpretations.

Investments

Investments are stated at fair value as provided by GASB Statement No. 31. Unrealized appreciation or depreciation on investments due to changes in fair value is recognized in the Program's operations each year.

Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Fixed assets are depreciated on a straight-line basis over the following useful lives:

Computers	3 years
Furniture	10 years
Equipment	5 years

Compensated Absences

The Program accrues for obligations that may arise in connection with compensated absences for annual leave and eligible sick leave at the current rate of employee pay. Employees fully vested in all earned but unused annual leave, up to a maximum of 400 hours, are eligible to receive compensation, at the current rate of employee pay, on termination of State employment. In accordance with state personnel policies, eligible employees may participate in the State Sick Leave Incentive Program. This Program permits payments for up to 56 hours of unused sick leave, per calendar year, for employees who used no more than 24 hours of sick leave during the calendar year and have a sick leave balance of at least 240 hours on December 31 of that calendar year. The Program also permits payments for up to 40 hours of unused sick leave, per calendar year, for employees who used no more than 40 hours of sick leave during the calendar year and have a sick leave balance of at least 240 hours on December 31 of that calendar year.

Risk Management

The Program is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illnesses of employees; and natural disasters. The Program participates in the State's various self-insurance programs. The State is self-insured for general liability, property and casualty, workers compensation, environmental and anti-trust liabilities and certain employee health benefits.

The State allocates the cost of providing claims servicing and claims payment by charging a "premium" to the Program based on a percentage of the Program's estimated current-year payroll or based on the average loss experienced by the Program. This charge considers recent trends in actual claims experience of the State as a whole and makes provisions for catastrophic losses.

3. DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of amounts maintained in a bank account controlled by the Program, pooled cash maintained by the State Treasurer and overnight investments with original maturities of 90 days or less. Cash deposits of the Program are made in accordance with the Annotated Code of Maryland, which requires depositories to give security in the form of collateral as provided in the Code, for the safekeeping, when required, of these deposits.

At June 30, 2000, the carrying amount of the Program's cash and cash equivalents was $1,452,694 and the bank balances totaled $1,625,061. Of the bank balances, $61,528 represents deposits covered by federal depository insurance and $1,563,533 represents repurchase agreements categorized as uninsured and unregistered, (with securities held by the pledging financial institution's agent but not in the Program's name).

The Program's comprehensive investment plan (the Plan), authorized by the Annotated Code of Maryland, allows the Program to purchase investments including domestic equities, intermediate term investment grade bonds, and other governmental agency instruments, as well as money market deposits based on the Plan's specified portfolio allocation.

The investment Plan adopted by the Board specifies the portfolio allocation, which considers the investment safety and liquidity characteristics while aiming for the specified yield targets of the Program

The Program's investments, excluding repurchase agreements treated as cash equivalents, as of June 30, 2000 are not subject to classification by credit risk because the Program own units rather than specific securities, which by their nature are not subject to risk categorization. All such investments are in mutual fund shares stated at fair value based upon quoted market prices.

At year-end, the Program's investment balances in mutual funds were as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Common Stock Funds	$ 25,259,573	$ 27,449,214	$ 2,189,640
Bond Funds	6,089,910	5,983,967	(105,943)
	$ 31,349,483	$ 33,433,181	$ 2,083,697

4. FIXED ASSETS

As of June 30, 2000, fixed assets consist of the following:

Computers	$ 24,863
Furniture	6,337
Equipment	4,527
Total	35,727
Less: Accumulated depreciation	29,481
Fixed assets, net of accumulated deprecation	$ 6,246

5. LOANS PAYABLE

During the fiscal year ended June 30, 2000, the Program was granted a loan of $250,000 from the Maryland Higher Education Commission (MHEC). Additionally in fiscal year 1999, the Program was granted and received additional loans totaling $400,000, of which $30,000 has been repaid. The loans are non-interest bearing. During the 2000 legislative session, the General Assembly included a provision in the annual budget bill, which permits the Program to delay its outstanding loan repayments until the Program is financially self-sufficient.

6. PENSION AND POSTRETIREMENT BENEFITS

Eligible employees of the Program, as employees of the State, are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. This system is a cost-sharing multiple-employer defined benefit pension plan administered by the System Board of Trustees in accordance with Article 73 B of the Annotated Code of Maryland. Eligible employees are required to contribute to the System a fixed percentage of their regular salaries and wages, which exceed the Social Security wage base, and the Program is required to make contributions to the System based on actuarial valuations. The contribution requirements of eligible employees and the Program are established and may be amended by the System Board of Trustees. The Program's only liability for retirement and post employment benefits is its required annual contribution, which it has fully funded during the years ended June 30, 2000, 1999 and 1998. These contributions amounted to $23,691, $19,534 and $6,118 for the years ended June 30, 2000, 1999 and 1998, respectively. The System prepares a separate audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 301 West Preston Street, Baltimore, Maryland 21201.

7. TAX EXEMPT STATUS

The Program is exempt from federal taxation in accordance with Section 529 of the Internal Revenue Code. Additionally, the Program is exempt from state and local taxation in accordance with Senate Bill 232, which established the Program.

8. RETAINED EARNINGS RESTATEMENT

Beginning retained earnings for the Program has been restated from $1,076,513 to $4,619,138 at July 1, 1999 to account for a change in accounting principle among acceptable alternatives.

	Amount Previously Reported	Amount of Change	Restated Amount
Retained earnings	$ 1,076,513	$ 3,542,625	$ 4,619,138

In prior years, the Program recorded tuition benefits expense equal to the participant tuition payments received. In order to better match the Program's tuition contract revenues with the related estimated future benefits payable, the Program changed its method of accounting for both tuition contracts revenue and related benefits expense to conform to the following policies.

Revenue Recognition

The Program records revenue for tuition contracts in the year the contracts are entered into with the purchaser. Revenue is recorded at the present value of future contract payments adjusted for estimated cancellations. The Program uses a 7.65% discount rate, which is based on the anticipated rate of return on investments for the life of the enrollment plan. The Program recognizes revenue for application fees when an application is received.

Tuition Contracts Receivable

Tuition contracts receivable at the balance sheet date represents Program management's best estimate of the present value of future contract payments adjusted for estimated cancellations and using a 7.65% discount rate.

Accrued Tuition Benefits

The Program's consulting actuary independently determines the Program's actuarial present value of future contract tuition benefit payments. The actuarial calculation is based on the present value of estimated future tuition benefit payments to be made from the Program, which includes assumptions for future tuition and mandatory fee increases and contract terminations that are determined by the Board and its actuaries.

The significant assumptions used for this calculation are discussed below:

> Tuition and Mandatory Fee Increases The Weighted Average Tuition (WAT) for universities and community colleges is projected to increase 5% and 10% per annum for tuition and mandatory fees respectively, based on historical data.

Investment Return   The actuarial valuation of the Program's Trust Fund was determined using an assumed 7.65% rate of return on investments. It is further assumed that the Program's Trust fund is exempt from federal income tax.

Enrollment of Beneficiaries   It is assumed that beneficiaries will attend college full-time commencing with their expected matriculation date. Contract beneficiaries are assumed to attend the various colleges and universities in the same proportion as the headcount information that was used to determine the 1999-2000 WAT with a 6% bias load added.

Bias Load   The assumed bias load is 6% and is based on a credibility weighted average of the mix of current enrollment statistics and a disproportionate number of beneficiaries attending more expensive schools. The credibility factor is based on the number of contracts sold and the sales figures needed for full credibility.

Death and Disabilities   Mortality rates for beneficiaries are assumed to follow the 1990 U.S. Life Tables.

9. SUBSEQUENT EVENTS

House Bill 11, effective July 1, 2000, was passed during the 2000 legislative session. This bill changed the name of the Program from the Maryland Higher Education Investment Program to the Maryland Prepaid College Trust. This legislation also established an additional financial guarantee that requires the Governor to include in the State's budget the amount of any shortfall of Trust's assets to pay current contract liabilities.