002 ANNUAL REPORT

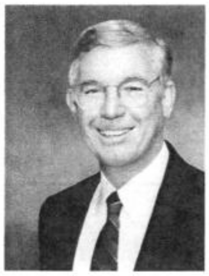
COLLEGE SAVINGS
PLANS OF MARYLAND

smart choices

MARYLAND'S 529 PLANS:

MARYLAND PREPAID COLLEGE TRUST

MARYLAND COLLEGE INVESTMENT PLAN



PARRIS N. GLENDENING
GOVERNOR

KATHLEEN KENNEDY TOWNSEND
LT. GOVERNOR

MARYLAND HIGHER EDUCATION INVESTMENT BOARD

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DONALD C. LINTON, CPA/CFP

WILLIAM DONALD SCHAEFER
STATE COMPTROLLER

KARL SPAIN

COLLEGE SAVINGS
PLANS OF MARYLAND

September 2002

Dear Friends,

This past year has been one of substantial growth for the College Savings Plans of Maryland. As our first year of offering two Section 529 college savings plans - the **Maryland Prepaid College Trust** and the **Maryland College Investment Plan** - several factors combined to enable these plans to reach more than $250 million in college savings assets by June 30, 2002:

- The **College Investment Plan**, managed for the State by T. Rowe Price, opened for enrollment in December 2001. Many families had been awaiting the launch of this new plan and immediately responded by investing $100 million in the plan's first month of operation.
- Substantial improvements in **Federal tax benefits** for 529 plans became effective on January 1, 2002, including federally tax-free earnings for funds that are used for eligible college expenses through at least 2010.
- **Tuitions at colleges nationwide have increased** at even higher rates this year than during the past several years, due in part to limitations on states' funding as a result of current economic conditions.
- **Uncertainty and volatility in the stock market** throughout the year was a factor in families of more than 4,000 children locking in future college tuition benefits backed by the security of the Legislative Guarantee in the **Prepaid College Trust**. The Trust experienced its second best enrollment period since its launch in 1998. Families of more than 14,400 children are now enrolled in the Prepaid College Trust, with **nearly 300** students already using their tuition benefits at colleges nationwide.

With an increasing level of public attention now focused on the importance of saving for future college expenses and the clear advantages of 529 plans, many families are becoming confused about how to determine the best option for them. The College Savings Plans of Maryland stands ready to serve as an educational resource for all Maryland families on saving for college.

The Board and staff have worked hard to ensure that the College Savings Plans of Maryland continue to offer a range of "Smart Choices" for Maryland families to use to meet one of our most important life goals: providing a college education for our children.

Sincerely,

Edwin S. Crawford

Edwin S. Crawford
Board Chair

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College Savings Plans of Maryland - Features and Benefits

The **College Savings Plans of Maryland** offer a wide variety of features and benefits designed to encourage all families who have college dreams for their children to choose to save for future higher education costs. Using the **Prepaid College Trust**, families can choose to lock in future college tuition at today's prices, backed by a Maryland legislative guarantee. Or, by using the **College Investment Plan**, managed for the State by T. Rowe Price, families can choose how much they wish to invest in a variety of flexible investment options, ranging from more conservative to more aggressive. By choosing either plan - or both plans – most families are sure to find options within the **College Savings Plans of Maryland** that suit their individual investing style and comfort level.

Both plans are Section 529 plans – named after the section of the Internal Revenue Code that permits states to establish and administer tax-deferred college savings plans. Both plans benefit from generous federal and Maryland state tax incentives, including:

- Tax-deferred growth at the Maryland state and federal level;
- Tax-free earnings at the Maryland state and federal level through at least 2010, when the funds are used for eligible college expenses;
- Maryland State income deduction of contributions to either or both plans, up to $2500 annually per participant holder and beneficiary in each plan. Contributions above $2500 annually in either plan can also be carried forward and deducted in future years.

While tax-deferred growth and federally tax-free earnings are features of all states' 529 plans, the ability to deduct contributions from Maryland State income applies only to the **College Savings Plans of Maryland.**

Both plans can also be used toward eligible college expenses at nearly any college in the country. Finally, unlike several 529 plans offered by other states, the **College Savings Plans of Maryland** does not offer any funds that have a sales "load" or broker commission.

Both plans are marketed as the **College Savings Plans of Maryland**, so that families can learn about the features and advantages of both plans and then choose the plan or combination of plans that best meet their needs.

Families have responded very positively to both plans. The **Prepaid College Trust** had its second highest number of new enrollments in the past year, adding another 4,000 accounts to bring the total number of accounts to approximately 14,400. The **College Investment Plan** opened for enrollment in December 2001, with families investing $100 million in its first month of operation. Growth in the **College Investment Plan** has continued to outpace expectations. By June 30, the **College Investment Plan** had $157 million invested on behalf of 22,100 beneficiaries.

Online enrollment is available for either plan at www.collegesavingsmd.org. This feature proves to be especially popular for new enrollments in the **Prepaid College Trust**, with more than 30% of new enrollments in the **Prepaid College Trust** being completed online. Also, complete information on both plans is now available on our web site, along with quarterly performance updates for the **College Investment Plan** and account maintenance forms. More information continues to be added to the web site on a regular basis.

Market Environment

Challenging Investment Environment Affects Both Plans

The past year proved to be a challenging one for even skilled investment professionals as they faced a stock market battered by the aftermath of 9/11, a recession, and a lack of investor confidence. After wrestling with an economic downturn last summer and the shock of 9/11, the stock market demonstrated its resiliency, finishing 2001 with a strong rally and riding the wave of economic recovery into 2002.

However, the market was unable to carry its momentum into the new year. The major stock indexes declined sharply in the first half of 2002, as investors grew increasingly concerned about a wide range of issues both at home and abroad. Despite an improved economic environment, corporate profits continued to disappoint, and global political tensions only added to the general feeling of unease. But most troubling were widespread revelations of corporate misconduct, from questionable accounting practices to fraudulent behavior.

Even the economy couldn't prop up the stock market. Although the economy rebounded smartly in the first quarter, growing at a 6% annual rate, growth slowed to a more gradual pace in the second quarter. And the missing ingredient for a meaningful recovery-a rebound in capital spending-has yet to materialize.

Diversification Pays - Investors with broadly diversified portfolios were able to mitigate the losses incurred in the stock market. For example, foreign stocks outperformed the domestic market, especially in the first half of 2002. International markets were somewhat removed from the problems afflicting corporate America, and they also benefited from a weaker dollar.

Even within the U.S. stock market, diversification proved beneficial. Value stocks continued to outperform growth-oriented companies, while small- and mid-cap shares held up better than their large-cap counterparts. Among specific industries, the best performers included consumer, basic materials, and real estate-related stocks-the parts of the economy that remained healthy throughout recession and recovery. On the negative side, technology and telecommunications stocks continued to suffer from competitive pressures and a lack of business spending on infrastructure upgrades.

The best case for diversification was the performance of the bond market, which moved in the opposite direction of stocks. Investors looking for a safe place to hide from the stock decline found refuge in the bond market, especially in high-quality issues, and the increased demand boosted bond prices.

The economic environment was also bond-friendly. Strong growth in the first quarter convinced the Federal Reserve to end its 2001 campaign of interest rate cuts, but the slower pace of the recovery in the second quarter shifted expectations of a Fed rate *increase*-which many thought could happen as early as May-to the end of the year.

Treasury and other government bonds benefited the most from the "flight to quality" as stocks fell. Mortgage-backed securities also attracted investor demand, though their performance was muted by increased refinancing activity thanks to low mortgage rates. Corporate bonds, on the other hand, were hurt by the same factors that weighed on the stock market.

Taking A Long-Term View **-** As we look ahead to the second half of 2002, we see some promising signs on the horizon. Behind the headline-grabbing corporate transgressions and stock market weakness, there is a genuine economic recovery underway that should continue to improve in the coming months. In time, the current disconnect between the economy and the stock market should end as corporate profits begin to recover.

It's been said that investing is a marathon, not a sprint. But when the stock market grows volatile or declines suddenly, it's easy to get caught up in short-term market fluctuations. At times like these, we endeavor to focus not on what happens in the market today or tomorrow, but on your long-term goal of meeting your college education needs.

College Costs Increasing in Maryland and Nationally at Higher Rates

For the past several years, the strong economy has allowed the State of Maryland to invest in Maryland's public colleges at a level that is unprecedented in recent history. Maryland college students have realized the benefits of these investments in many ways, including a wide range of new and refurbished facilities and other improvements on campus, along with tuition increases that have stayed in the 4% range for the past several years.

This year, however, the economy and other factors have led to increased upward pressure on tuition levels at Maryland's public colleges. In May 2002, the Maryland Board of Regents announced another 1.5% tuition increase for the 2002-2003 academic year, on top of its previously announced 4% increase for the 2002-2003 year. Additional mandatory fees and fee increases were also announced, bringing the total annual increases at Maryland's public colleges for the 2002-2003 academic year to an average of 6.2% for tuition and 15.3% for mandatory fees. These double announcements of tuition increases have not occurred in at least the last several years. In fact, this is the first time since the launch of the **Prepaid College Trust** that this type of double increase has occurred.

Numerous other states across the country have announced double-digit tuition increases at their public colleges, contributing to a nationwide trend toward higher tuition increases for 2002-2003 than has been seen over the past several years. The current downturn and uncertainty in the financial markets leads to forecasts of continued tuition increases for at least the next couple of years being closer to the 2002-2003 increases than to the lower increases of the prior several years.

Federal Legislation Improves Plans' Tax Benefits and Flexibility

529 plans like the **College Savings Plans of Maryland** were provided with important added tax benefits and additional flexibility on January 1, 2002 with the Economic Growth and Tax Relief Reconciliation Act of 2001 (2001 Tax Act). First, earnings from the **College Savings Plans of Maryland** are now federally tax-free when funds from either Plan are used for eligible college expenses. Maryland State law already provides for State tax-free earnings from the **College Savings Plans of Maryland**. This federal tax enhancement provided by the 2001 Tax Act has a "Sunset Provision" which means it will expire in 2010 unless Congress decides to extend it. Fortunately, Congress is already considering legislation that would eliminate this "Sunset Provision" relative to Section 529 plans. While it's too early to know exactly what action, if any, Congress will take in this area, their consideration of these bills is yet another indication of the importance that Congress places on encouraging families to save for future college expenses.

In addition to federally tax-free earnings, the 2001 Tax Act and subsequent IRS guidance now allow participants in 529 college savings plans, like the **College Investment Plan**, to make a change in the investment allocation of their current account balance once per calendar year for each beneficiary they have enrolled.

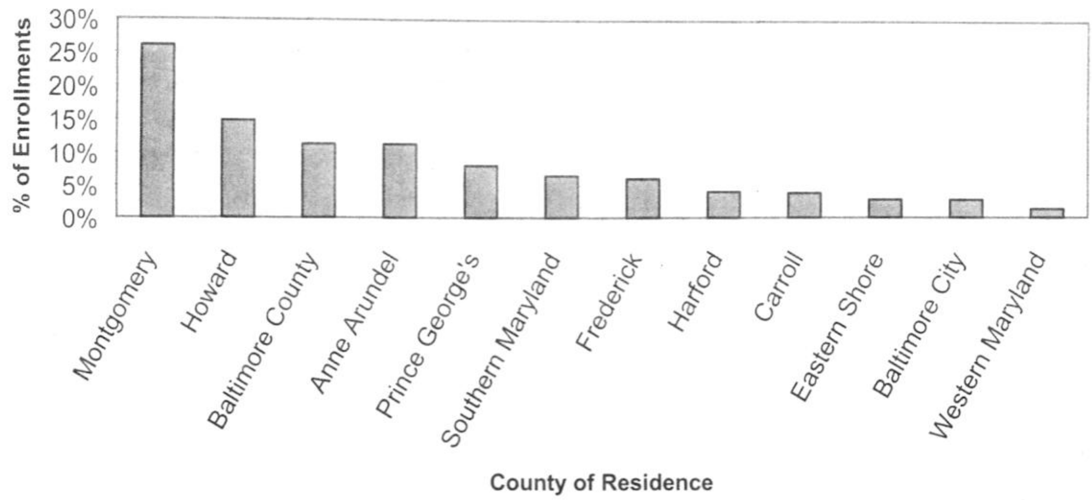
Also, while funds in any 529 plan could be transferred to a wide range of family members of the original beneficiary, thanks to the 2001 Tax Act, funds can now also be transferred to a first cousin of the beneficiary. This is especially attractive to grandparents, who can now transfer funds from one grandchild to another, even if those grandchildren happen to be cousins instead of siblings.

Maryland Prepaid College Trust

Profile of New Enrollments

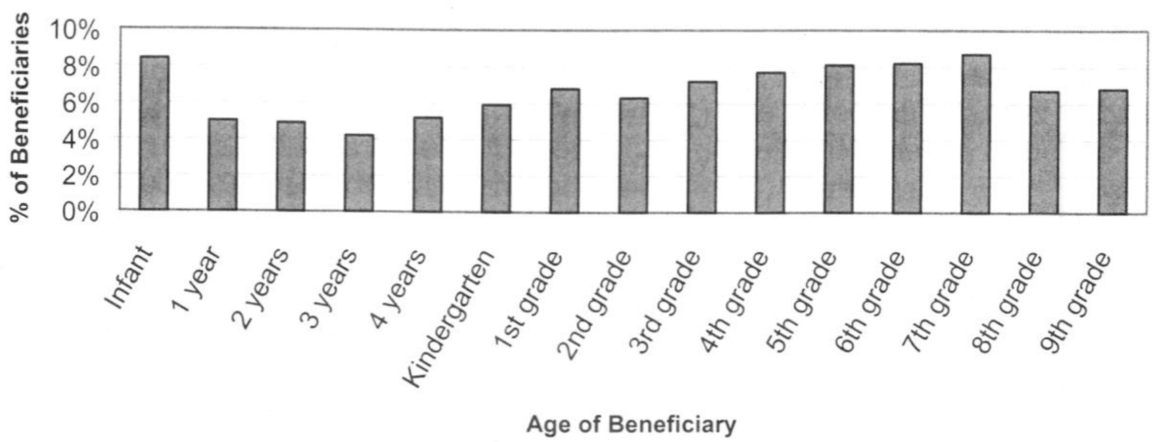
Enrollments by County:

Of the 4,082 new enrollments that were received primarily in the last enrollment period - December 11, 2001 - March 22, 2002 (with the exception of newborn infants who can be enrolled anytime during the year until they reach 1 year of age), Montgomery County residents produced the largest number by far, generating almost 25% of all new enrollments. Howard County was the second largest source of new enrollments this year, as illustrated by the following chart:



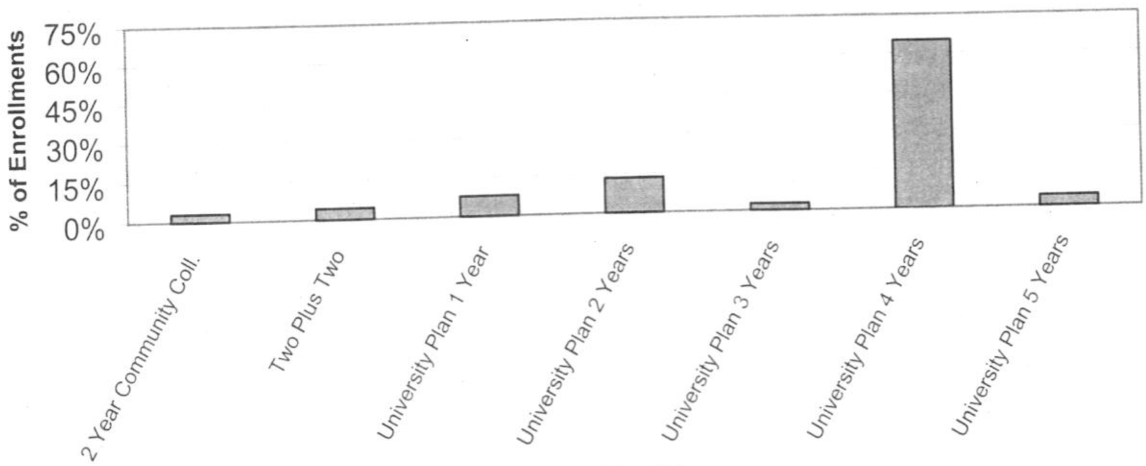
Age of Beneficiaries at Time of Enrollment:

Continuing a trend from prior years, larger numbers of students are enrolled in the **Prepaid College Trust** when they are in their later elementary and middle school years, as demonstrated by the chart below. This year, a larger number of infants were also enrolled than in previous years. Hopefully, this develops into a trend where families start earlier in planning to fund future higher education costs. The average age of all children enrolled this year in the **Prepaid College Trust** is about 8 years old.



Tuition Plan Selected:

Also continuing trends set in prior years, more than 60% of new enrollments this year were for the 4-year University Plan, as illustrated below:



More Students Use Prepaid College Trust Tuition Benefits At Colleges Nationwide

This year, our second "class" of students enrolled in the **Prepaid College Trust** are entering college this fall and are using their tuition benefits at colleges and universities across the country. About 309 students were enrolled in the **Prepaid College Trust** in 1998 and 1999 who are entering college for the first time this fall. Added to the approximately 62 students who began using their tuition benefits last fall, the Trust currently has approximately 371 students who are now eligible to receive tuition benefits. So far, about 40% of these students are choosing to attend Maryland public colleges, with approximately 33% choosing to attend a wide variety of public and private colleges across the country and the remaining 11% currently deferring the use of their tuition benefits.

Actuarial Valuation Study Reflects Difficult Investment Environment

The results of the Actuarial Valuation Study are summarized on the next page. While the **Prepaid College Trust** experienced an actuarial deficit as of June 30, 2002, it is important to note that the Trust is approximately 89% funded. The three primary factors influencing the actuarial deficit are: (1) investment results were lower than expected; (2) based on recent experience, the annual projected future increase in tuition has been increased from 5% to 6%; and (3) tuition and fee increases for the 2002-2003 academic year were larger than expected.

PRICEWATERHOUSECOOPERS

PricewaterhouseC
One North Wacker
Chicago IL 60606
Telephone (312) 29
Facsimile (312) 29

September 9, 2002

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

Dear Mr. Crawford:

PricewaterhouseCoopers LLP in conjunction with Richard M. Kaye & Associates, I performed an actuarial valuation of the Maryland Prepaid College Trust as of June 30, 20 The valuation compares the value of the assets of the prepaid program to the value of expec future tuition payments to beneficiaries. The following pages summarize the actuai valuation of the trust fund as of June 30, 2002.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2002 th is a deficit of $31,394,973.

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

Respectfully submitted,

PricewaterhouseCoopers LLP

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

Richard M. Kaye, FSA, CPA
Richard M. Kaye & Associates
Consultant to PricewaterhouseCoopers LLP

Management's Discussion and Analysis

Our discussion and analysis of the **Maryland Prepaid College Trust's** financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2002. This discussion was prepared by the Maryland Prepaid College Trust and should be read in conjunction with the **Maryland Prepaid College Trust's** financial statements and notes, which begin on page 15.

Financial Highlights

- The **Prepaid College Trust's** assets increased significantly as a result of receiving payments in fiscal year 2002 from the more than 5,400 enrollments in fiscal year 2001 enrollment period. Lump sum and down payments for these accounts were due on June 1, 2001, which caused a substantial cash inflow. While payments for the approximately 4,000 new enrollments in fiscal year 2002 were not scheduled to begin until fiscal year 2003, many participants elected to make early payments, which contributed to the increase in **Prepaid College Trust** assets for fiscal year 2002. This was due primarily to participants seeking to take advantage of the State income deduction for tax year 2001.

Receipts from Participants

Current Year	Prior Year
$30,323,699	$38,680,052

- Total revenues for tuition contracts and expenses for tuition benefits are significantly higher, due to the increase in the Trust's total enrollment of nearly 40%. Additionally, revenues are higher as a result of the Board's collection of one-half of the enrollment fee from participants in the **Maryland College Investment Plan**.

Enrollment Fees

Current Year	Prior Year
$1,326,686	$498,918

- During fiscal year 2002 the Maryland Prepaid College Trust diversified its portfolio by adding three new mutual funds to its asset allocation.

Mutual Funds

	Current Year	Prior Year
S&P Index	$40,540,751	$31,114,901
Short Term Bond	9,562,419	8,514,332
Small Cap Growth	12,094,010	-
Intermediate Term Bond	14,288,893	-
Large Cap Value	2,500,000	-
Total investments	$78,986,073	$39,629,233

Using this Annual Report

The Maryland Prepaid College Trust financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.* This statement is effective for the year ending June 30, 2002. The Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows provide information about the activities of the Prepaid College Trust as a whole and present a long-term view of the Trust's finances. The Statement of Cash Flows presents detailed information about cash activity of the Trust during the year. These financial statements begin on page 15.

Analysis of Financial Position and Results of Operations

Statement of Net Assets

The Statement of Net Assets presents assets, liabilities, and net assets of the Trust as of the end of the fiscal period. This statement, along with all of the Trust's financial statements, is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the enrollment process is concluded, benefit distributions and refunds are recognized when paid and expenses and liabilities are recognized when others provide the service, regardless of when cash is exchanged.

The condensed statement of net assets at June 30, 2002 is presented below:

(in millions)

Assets	
Current	$141.3
Non current	96.5
Total	237.8
Liabilities	
Current	4.4
Non current	263.9
Total	268.3
Net Assets	
Unrestricted	(30.7)
Invested in capital assets	.2
Total	$(30.5)

The net assets of the Trust decreased by $30.5 million. This was due primarily to three factors. The first and most significant was the negative effect of the unrealized loss on investments. In addition to the unrealized loss, the Trust did not generate the earnings expected on investments; an investment rate of return assumption of 7.5% was included in the Trust's pricing, which had a negative impact to net assets. The third factor contributing to the decrease in net assets was the impact of the University System of Maryland unexpectedly increasing tuition a second time for the Fall 2002. This increase was not included in the contract pricing; therefore, it negatively impacted the Trust.

As discussed above, the Statement of Net Assets includes assets, liabilities and net assets. Assets are classified as current and non-current. Current assets consist primarily of cash and cash equivalents, investments and tuition contracts receivable. Of these amounts, investments comprise approximately 55.9% of current assets. Tuition contracts receivable represent 99.6% of the non-current assets.

Current liabilities consist of accounts payable and accrued expenses, due to primary government and software license fee payable. The current portion of the Trust's accrued tuition benefits and loans payable are also included in this category. Non-current liabilities consist of accrued tuition benefits and loans payable.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Assets. The purpose of this statement is to present both operating and non- operating revenues received by the Trust and the expenses, gains and losses incurred by the Trust.

Operating revenues are the result of new enrollments in the Prepaid College Trust. Operating expenses are those expenses paid to acquire goods or services and to provide tuition benefits. Non-operating revenues are revenues received for which goods or services are not provided.

The condensed Statement of Revenues, Expenses and Changes in Net Assets for the year ended June 30, 2002 is presented below:

(in millions)

Operating revenues	
Tuition contracts	$ 88.9
Other	1.3
Total	90.2
Operating expenses	
Tuition benefits	112.5
Other	1.8
Total	114.3
Operating loss	(24.1)
Non Operating revenues/expenses	
Unrealized investment loss	(8.4)
Investment income	2.0
Total	(6.4)
Change in Net Assets	$(30.5)

For the fiscal year ending June 30, 2002, the Trust reported an operating loss of $24.1 million and a change in net assets of $(30.5) million. The change in net assets includes approximately an $8.4 million change in unrealized loss on investments.

Statement of Cash Flows

The Statement of Cash Flows presents information related to cash flows of the Trust. The statement presents cash flows by category: operations, investing, capital and related financing, and non-capital and related financing. The net cash provided by or used by the Trust by category is presented.

The condensed Statement of Cash Flows for the year ended June 30, 2002 is presented below:

(in millions)

Cash provided (used) by:	
Operating activities	$ 29.2
Investing activities	(45.9)
Capital and related financing activities	-
Non-capital and related financing activities	.2
Net change in cash	($16.5)
Cash and cash equivalents, Beginning of Year	28.8
Cash and cash equivalents, End of Year	$ 12.3

Increases in cash were due primarily to receipts from participants for contract payments. These increases were offset by decreases in cash from the Trust's investing activities.

Budgetary Control and Financial Oversight

As a non-budgeted state agency the Trust is not subject to an appropriation by the State. However, for sound management and oversight purposes, an annual budget is presented to, and approved by the Board. In accordance with the Trust's enabling legislation the Board submits its budget to the General Assembly for informational purposes only. Quarterly, the Board reviews a comparison of actual and budgeted expenses to monitor the Trust's compliance with its budget.

Economic Factors

The actuarial valuations of tuition contracts receivable and accrued tuition benefits liability as of June 30, 2002, as well as the prices for prepaid tuition contracts are based on many assumptions. Key assumptions include average annual tuition and mandatory fee increases of 6% and 10%, respectively and a 7.65% average rate of return on investments. Weighted average tuition for in-state students at 4-year public universities increased 7.99% from academic years 2001 to 2002, and 4.27% from 2000 to 2001. The Trust's rate of return on its investments was (7.78)% for fiscal year 2002 and (8.82)% for fiscal year 2001.

Long-term variances in the assumptions can affect the Trust's financial position. The Trust's management together with its actuarial consultants and investment advisors review the assumptions annually. Management of the Trust and its advisors believe that the key assumptions, while subject to sudden and unexpected changes in the future, were reasonable for the fiscal years ended June 30, 2002 and 2001.

Capital Asset and Debt Administration

The Trust had no significant capital asset additions during the past fiscal year. The Trust continued to repay its outstanding loan balance to the State. During this fiscal year there was decrease in the loan balance of $100,000. After this payment there is a remaining loan balance of $520,000.

Contacting the Trust's Financial Management

The above financial highlights are designed to provide a general overview of the Trust's operation and insight into the following financial statements. Additional information may be found on our website and inquiries may directed to the Trust via www.collegesavingsmd.org or by delivering your request to 217 E. Redwood Street, Suite 1350, Baltimore, MD 21202.

ERNST & YOUNG

Ernst & Young LLP
One North Charles
Baltimore, Maryland 21201

Phone: (410) 539-7940
www.ey.com

Report of Independent Auditors

To the Maryland Higher Education
Investment Board

We have audited the accompanying Statement of Net Assets of the Maryland Prepaid College Trust (the Trust), as of June 30, 2002, and the related Statement of Changes in Revenues, Expenses and Net Assets and the Statement of Cash Flows for the year then ended. These financial statements are the responsibility of the Trust'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 Prepaid College Trust, as of June 30, 2002, and the changes in financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

As discussed in Note 2 to the financial statements, the Trust adopted Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.*

Management's discussion and analysis on pages 8 through 13 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Ernst & Young LLP

September 6, 2002

MARYLAND PREPAID COLLEGE TRUST

Statement of Net Assets
As of June 30, 2002

ASSETS	
Current assets:	
Cash and cash equivalents	$12,331,108
Investments, at fair value	78,986,073
Tuition contracts receivable	50,012,312
Total current assets	141,329,493
Non current assets:	
Tuition contracts receivable	96,110,676
Capital assets, net	406,396
Total non current assets	96,517,072
TOTAL ASSETS	237,846,565
LIABILITIES	
Current liabilities:	
Accounts payable and accrued expenses	$402,536
Due to Primary Government	147,346
Software license fee payable	165,060
Loans payable to Maryland Higher Education Commission	130,000
Other liabilities	56,949
Accrued tuition benefits payable	3,506,973
Total current liabilities	4,408,864
Non current liabilities:	
Loans payable to Maryland Higher Education Commission	390,000
Accrued tuition benefits payable	263,503,016
Total non current liabilities	263,893,016
TOTAL LIABILITIES	268,301,880
NET ASSETS DEFICIENCY	
Unrestricted (deficit)	(30,696,651)
Invested in capital assets, net of related debt	241,336
TOTAL NET ASSETS DEFICIENCY	($30,455,315)

See accompanying notes to financial statements

MARYLAND PREPAID COLLEGE TRUST

Statement of Revenues, Expenses and Changes in Net Assets
For the Fiscal Year Ended June 30, 2002

Operating revenues:	
Tuition contracts	$88,926,562
Maryland College Investment Plan enrollment fees	976,364
Enrollment and other fees	350,322
Total operating revenues	90,253,248
Operating expenses:	
Salaries, wages and benefits	537,003
Technical and special fees	52,582
Communication	157,668
Travel	11,128
Marketing	328,653
Contractual services	411,823
Supplies	11,259
Equipment	48,885
Fixed charges	48,579
Depreciation	116,102
Other expenses	14,915
Tuition benefits	112,583,906
Total operating expenses	114,322,503
Operating loss	(24,069,255)
Non operating revenues and expenses:	
Change in unrealized loss on investments	(8,429,359)
Other income	124,650
Investment income	1,866,073
Total non operating revenues (expenses)	(6,438,636)
Change in net assets	(30,507,891)
Total net assets, Beginning of Year	52,576
Total net assets deficiency, End of Year	($30,455,315)

See accompanying notes to financial statements

MARYLAND PREPAID COLLEGE TRUST

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Cash flows from operating activities:	
Receipts from participants	$30,674,021
Receipts from Maryland College Investment Plan enrollment fees	976,364
Payments to:	
Employees	(548,534)
Marketing	(326,019)
Contract vendors	(281,555)
Communication	(106,299)
Universities and participants	(881,921)
Other operating expenses	(280,226)
License fee payments	(40,410)
Net cash provided by operating activities	29,185,421
Cash Flows from Investing Activities:	
Investment income	1,866,072
Purchase of investments	(47,787,287)
Net cash used by investing activities	(45,921,215)
Cash Flows from Capital and related Financing Activities:	
Purchase of capital assets	(9,960)
Net cash used by capital financing activities	(9,960)
Cash Flows from Non-capital Financing Activities:	
Receipts from Maryland College Investment Plan for future system development	195,000
Net cash used by non-capital financing activities	195,000
Net Decrease in cash and cash equivalents	(16,550,754)
Cash and cash equivalents, Beginning of Year	28,881,862
Cash and cash equivalents, End of Year	$12,331,108
Reconciliation of operating loss to net cash provided by Operating Activities:	
Operating loss	($24,069,255)
Adjustments to reconcile operating loss to Net cash provided by operating activities:	
Depreciation expense	116,102
Change in assets and liabilities:	
Increase in accounts payable	300,728
Decrease in software license fee payable	(165,060)
Decrease in loan payable to Maryland Higher Education Commission	(100,000)
Increase in due to primary government payable	61,410
Increase in other liabilities	9,558
Increase in tuition contracts receivable	(58,602,864)
Increase in accrued tuition benefits payable	111,634,801
Net cash provided by operating activities	$29,185,421
Non-cash Transactions:	
Unrealized loss on investments	($8,429,359)

See accompanying notes to financial statements

Maryland Prepaid College Trust

Notes to Financial Statements
Year Ended June 30, 2002

1. ORGANIZATION AND PURPOSE

The purpose of the Maryland Prepaid College Trust (the Trust) 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 Trust 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 Trust during the 1997 legislative session. The program is an independent agency of the State of Maryland, authorized by the Maryland Code Annotated Education Article, Section 18, Subtitle 19. The Maryland Higher Education Investment Board (the Board) directs the Trust. 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 Trust 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 Trust 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 Trust assets to pay current contract liabilities. As with all aspects of the Governor's budget, the Maryland General Assembly has final approval of any amount included. If the Maryland General Assembly does not fully fund the budget request, the Board may adjust the terms of subsequent or current contracts to ensure continued actuarial soundness of the Trust. Legislation passed in 1998 and 1999 established tax incentives for Maryland residents participating in the Trust. All contributions to the Trust can be deducted from Maryland State income at a rate of up to $2,500 for each contract annually. Beginning January 1, 2002 earnings on contributions are tax free for federal and State when used toward eligible qualified higher education expenses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The activities operated by the Trust are accounted for as 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, regardless of the timing of cash flows.

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 Trust 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.

The Trust distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services in connection with the Trust's principal ongoing operations. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the Trust are tuition contract payments and enrollment fees.

It is the Trust's policy to first apply unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Investments

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

Capital Assets

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

Computers	3 years
Furniture	10 years
Equipment	5 years
Software	3 years
Perpetual Software License	7 years

The capitalization threshold for all capital assets is $500.

Compensated Absences

The Trust 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.

Risk Management

The Trust is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to and illness of employees; and natural disasters. The Trust 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 Trust based on a percentage of the Trust's estimated current-year payroll or based on the average loss experienced by the Trust. This charge considers recent trends in actual claims experience of the State as a whole and makes provisions for catastrophic losses.

Implementation of GASB Statement No. 34

The Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2001. Statement 34 requires the Trust to make several changes to the presentation of its financial statements in addition to requiring a management's discussion and analysis that precedes the financial statements. Such changes include presenting the statement of net assets in a classified manner by segregating current and non current assets and liabilities, presenting net assets as either invested in capital assets, net of related debt, or unrestricted, and presenting the statement of cash flows using the direct method. There was no change to the previously reported net asset balance as of July 1, 2001.

3. DEPOSITS AND INVESTMENTS

Cash and cash equivalents consist of amounts maintained in a bank account controlled by the Trust, pooled cash maintained by the State Treasurer and overnight investments with original maturities of 90 days or less. Cash deposits of the Trust 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.

As of June 30, 2002, the carrying amount of the Trust's cash and cash equivalents was $12,331,108 and the bank balance totaled $14,858,161. Of the bank balances $63,300 represents deposits covered by federal depository insurance and $14,794,861 represents repurchase agreements categorized as uninsured and unregistered (with securities held by the pledging financial institution's agent but not in the Trust's name).

The Trust's comprehensive investment plan (the Plan), authorized by the Annotated Code of Maryland, allows the Trust 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 Trust.

The Trust's investments, excluding repurchase agreements that are treated as cash equivalents, as of June 30, 2002 are not subject to classification by credit risk because the Trust owns 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 Trust's investment balances in mutual funds were as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
Common Stock Funds	$ 66,423,601	$ 55,134,760	$(11,288,841)
Bond Funds	23,677,079	23,851,313	174,234
	$ 90,100,680	$ 78,986,073	$(11,114,607)

4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2002 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets				
Computers	$ 81,149	$ 9,960	$ (2,078)	$ 89,031
Furniture	9,540	–	–	9,540
Equipment	10,076	–	–	10,076
Software	52,621	–	–	52,621
Perpetual Software License	495,180	–	–	495,180
Total capital assets at historical cost	648,566	9,960	(2,078)	656,448
Less accumulated depreciation for:				
Computers	38,084	24,853	–	62,937
Furniture	2,855	954	–	3,809
Equipment	4,731	2,015	–	6,746
Software	17,540	17,540	–	35,080
Perpetual Software License	70,740	70,740	–	141,480
Total accumulated depreciation	133,950	116,102	–	250,052
Capital assets, net	$ 514,616	$ 106,142	$ (2,078)	$ 406,396

5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2002, accounts payable and accrued expenses consisted of the following:

Due to vendors	$ 177,836
Salaries and employee benefits	29,700
Total	$ 207,536

6. LICENSE FEE PAYABLE

In fiscal year 2001, the Trust entered into an agreement to fund the perpetual software license fee purchased from SCT Software Resource and Management Corporation. This agreement requires payment in the amount of $165,060 to be made on July 1st of the next fiscal year.

7. LOANS PAYABLE

The Trust was granted loans in 1998, 1999 and 2000 totaling $650,000 from the Maryland Higher Education Commission (MHEC), of which $130,000 has been repaid as of June 30, 2002. 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 Trust to delay its outstanding loan repayments until the Trust is financially self-sufficient.

The balance of long-term loans payable for the year ended June 30, 2002 is $390,000. Short-term loan payable activity for the year ended June 30, 2002 was as follows:

July 1, 2001	Additions	Reductions	June 30, 2002	Amount due within one year
$ 620,000	$ -	$ (100,000)	$ 520,000	$ 130,000

8. OTHER LIABILITIES

At June 30, 2002, other liabilities consisted of the following:

Uncompensated Absences	$	43,949
Workers' Compensation		13,000
Total	$	56,949

9. PENSION AND POSTRETIREMENT BENEFITS

Eligible employees of the Trust, 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 that exceed the Social Security wage base. The Trust is required to make contributions to the System based on actuarial valuations. The contribution requirements of eligible employees and the Trust are established and may be amended by the System Board of Trustees. The Trust'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, 2002, 2001, 2000, 1999 and 1998. These contributions amounted to $19,624, $20,068, $23,691, $19,534 and $6,118 for the years ended June 30, 2002, 2001, 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, 120 East Baltimore Street, Baltimore, Maryland 21202.

10. TAX EXEMPT STATUS

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

11. ACCRUED TUITION BENEFITS

The Trust's consulting actuary independently determines the Trust'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 Trust, 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 6% and 10% per annum for tuition and mandatory fees respectively, based on historical data.

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

Enrollment of Trust 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 2002-2003 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.

Changes in accrued tuition benefits payable for the year ended June 30, 2002 are as follows:

July 1, 2001	Increases	Decreases	June 30, 2002	Amount due within one year
$155,308,004	$112,583,906	$ 881,921	$ 267,009,989	$ 3,506,973

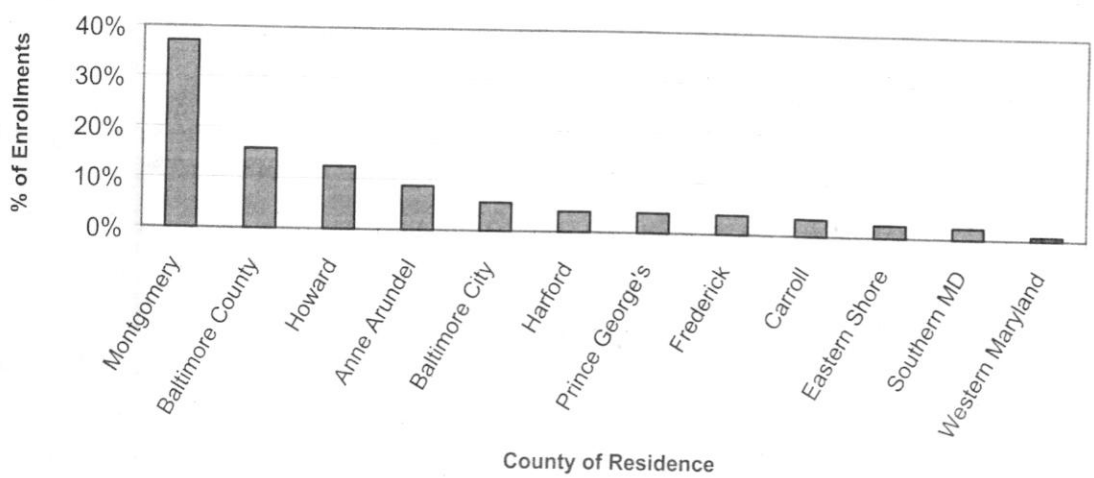
Maryland College Investment Plan

Profile of New Enrollments

We are excited about the number of parents, grandparents, aunts, uncles, and others who are choosing to take advantage of the many benefits available through the College Investment Plan.

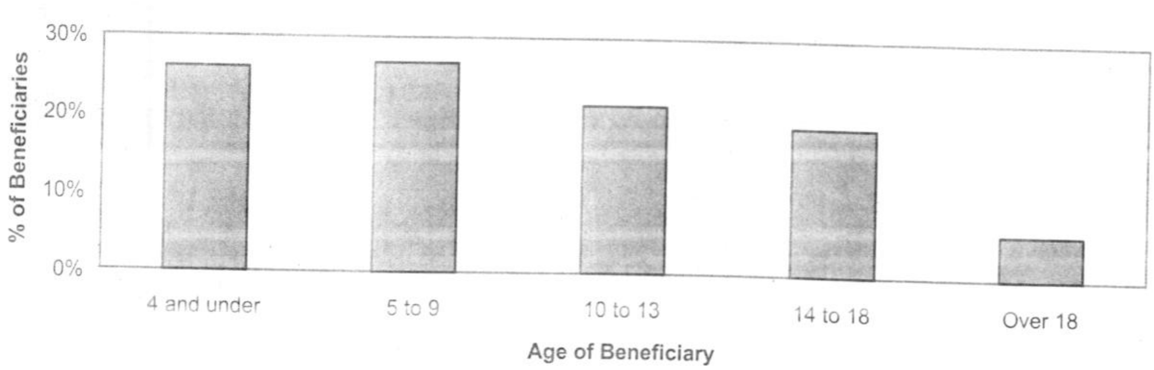
Enrollments by County:

Of the 14,529 participants, participation in the College Investment Plan has been concentrated in the larger counties like Montgomery, Baltimore, and Howard. However, participation from other parts of the state has been experiencing steady growth. The following chart shows the counties and regions of residence for the College Investment Plan participants:



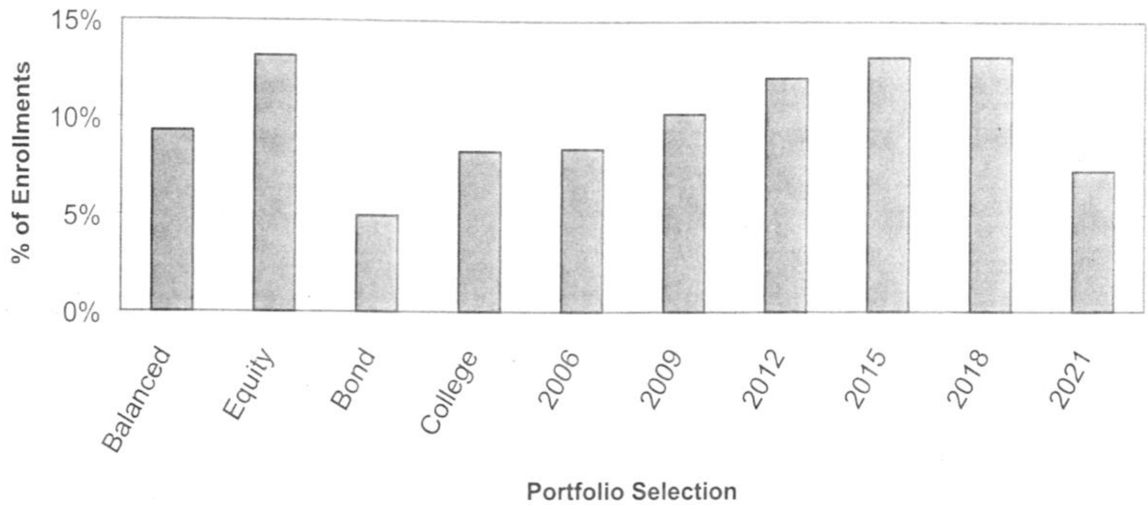
Age of Beneficiaries at Time of Enrollment:

Broad ranges of beneficiaries participating in the plan tell us that Maryland families are taking the task of saving for college seriously and, even better, starting early. More than 50% of all beneficiaries are under 9 years of age, with half of those aged 4 or under at the time of enrollment. Since the College Investment Plan permits beneficiaries of any age, we are pleased that more than 5% of all beneficiaries are over 18 years of age, as shown in the chart below:



Investment Portfolio Selected:

Initial trends in investment selection have shown that the Enrollment-Based Portfolios, with investment mixes that automatically adjust over time, have proven to be a popular choice in the College Investment Plan. As shown below, participants are well diversified in their selection of portfolios:



Participant are Choosing the Convenience of Systematic Investing:

Almost 25% of accounts in the College Investment Plan are utilizing the automatic monthly contribution feature to contribute to accounts on a regular basis.

Students Already Using Accounts Toward College Expenses

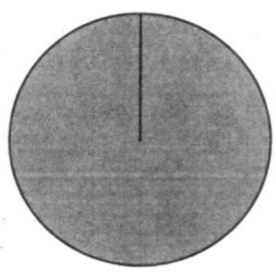
With the College Investment Plan launching in December 2001, most account holders have been focused on creating their accounts and contributing to those accounts. However, distributions have been occurring since shortly after the launch of the College Investment Plan as well. Since January 1, 2002, distributions have been taken for 358 unique beneficiaries totaling nearly $1.9 million. It's important to note that there is no minimum amount of time that funds need to be invested in the College Investment Plan before they can be used for eligible higher education expenses.

Management's Discussion and Analysis

Our discussion and analysis of the **Maryland College Investment Plan's** financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2002. This discussion was prepared by the Maryland Prepaid College Trust and should be read in conjunction with the **Maryland College Investment Plan's** financial statements and notes, which begin on page 33. Additional information is contained on the portfolio financial schedules, which begin on page 38.

Financial Highlights – Enrollment Based Portfolios

Portfolio 2021



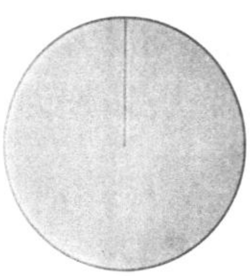
Stocks
100 %

Mirroring the decline in the stock market, Portfolio 2021 posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The portfolio, which consists entirely of stocks, narrowly lagged its benchmark.

Performance Comparison

	June 30, 2002	Since inception
Portfolio for 2021	-10.81%	-8.92 %
Weighted Benchmarks *	-10.23 %	-8.59 %

Portfolio 2018



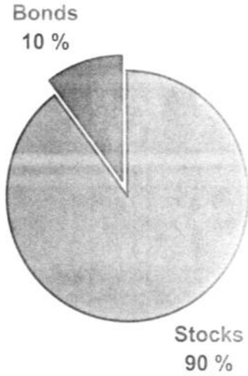
Stocks
100 %

Reflecting the decline in the stock market, Portfolio 2018 posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The portfolio, which consists entirely of stocks, narrowly trailed its benchmark.

Performance Comparison

	June 30, 2002	Since inception
Portfolio for 2018	-10.80 %	-8.83 %
Weighted Benchmarks *	-10.23 %	-8.59 %

Portfolio 2015

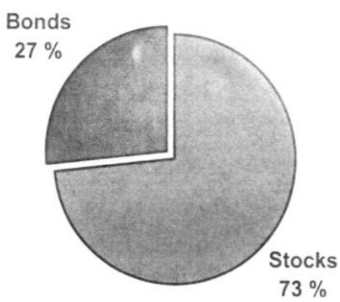


Portfolio 2015 posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. This performance tracked the general decline in stocks, which comprised approximately 90% of the portfolio.

Performance Comparison

	June 30, 2002	Since inception
Portfolio 2015	-9.47 %	-7.81 %
Weighted Benchmarks *	-8.84 %	-7.37 %

Portfolio 2012

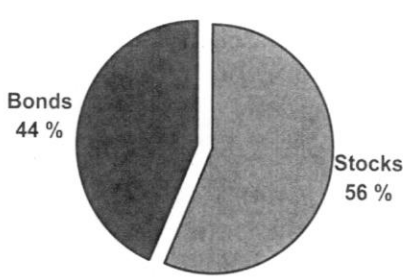


Portfolio 2012 posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The general decline in stocks, which comprised approximately 73% of the portfolio, overshadowed the positive contribution of the portfolio's bond holdings.

Performance Comparison

	June 30, 2002	Since inception
Portfolio 2012	-7.67 %	-6.32 %
Weighted Benchmarks *	-6.88 %	-5.75 %

Portfolio 2009

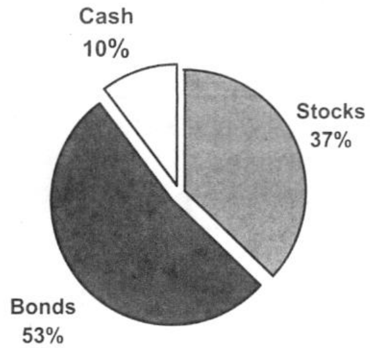


Portfolio 2009 posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The general decline in stocks, which accounted for more than 50% of the portfolio, outweighed the positive contribution of the portfolio's bond holdings.

Performance Comparison

	June 30, 2002	Since inception
Portfolio 2009	-5.07 %	-4.29 %
Weighted Benchmarks *	-4.21 %	-3.49 %

Portfolio 2006

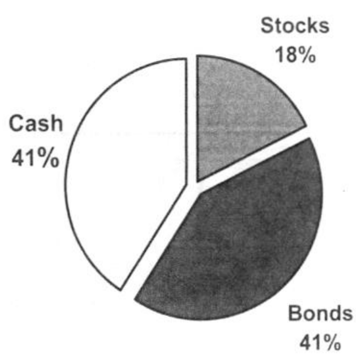


Portfolio 2006 posted a modestly negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. Positive results from the portfolio's bond and cash holdings, which comprised more than 50% of the portfolio, were overshadowed by a sharp stock market decline.

Performance Comparison

	June 30, 2002	Since inception
Portfolio 2006	-3.45 %	-3.01 %
Weighted Benchmarks *	-2.62 %	-2.29 %

Portfolio for College



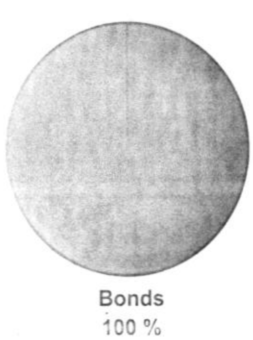
The portfolio posted a slightly negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The portfolio benefited, as compared to other enrollment based portfolios, from its conservative posture and broad diversification. Approximately 80% of the portfolio was invested in bonds and cash, which yielded positive results and helped to offset a sharp decline in stocks.

Performance Comparison

	June 30, 2002	Since inception
Portfolio for College	-1.81 %	-1.63 %
Weighted Benchmarks *	-1.36 %	-1.09 %

Financial Highlights – Fixed Portfolios

Bond Portfolio

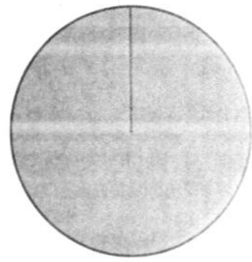


The Bond Portfolio posted a positive return for both the six months ended June 30, 2002 and the period from the portfolio's inception. However, the portfolio lagged its benchmark, the Lehman Brothers Aggregate Bond Index.

Performance Comparison

	June 30, 2002	Since inception
Bond Portfolio	2.64 %	1.81 %
Weighted Benchmarks *	3.79 %	3.13 %

Equity Portfolio

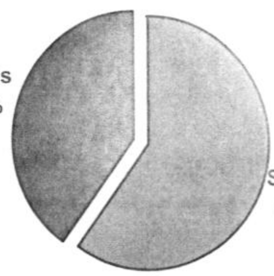


The Equity Portfolio posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The portfolio modestly trailed its weighted benchmark.

Performance Comparison

	June 30, 2002	Since inception
Equity Portfolio	-10.72 %	-8.75 %
Weighted Benchmarks *	-10.39 %	-8.82 %

Balanced Portfolio



The Balance Portfolio posted a negative return for both the six months ended June 30, 2002 and the period from the portfolio's inception. The general decline in stocks, which accounted for more than 60% of the portfolio, overshadowed the positive contribution of the portfolio's bond holdings.

Performance Comparison

	June 30, 2002	Since inception
Balanced Portfolio	-5.42 %	-4.47 %
Weighted Benchmarks *	-4.67 %	-3.91 %

* The Weighted Benchmark is a composite of each benchmark associated with each asset contained within the portfolio.

Using this Annual Report

The Maryland College Investment Plan financial statements were prepared in accordance with standards issued by the Governmental Accounting Standards Board. In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments.* This statement is effective for the year ended June 30, 2002. The Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Net Assets provide information about the activities of the College Investment Plan as a whole and present a long-term view of the Plan's finances. Portfolio financial schedules begin on page 38.

Analysis of Financial Position and Results of Operations

Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets presents assets, liabilities, and net assets of the Plan as of the end of the fiscal period. This statement, along with all of the Plan's financial statements, is prepared using the accrual basis of accounting, whereby revenues and assets are recognized when the enrollment process is concluded, benefit distributions and refunds are recognized when paid, and expenses and liabilities are recognized when services are provided, regardless of when cash is exchanged.

The net assets of the Plan increased by $158 million. This was due to the launch of the new College Investment Plan.

As discussed above, the Statement of Fiduciary Net Assets includes assets, liabilities and net assets. Assets are classified as current and non-current. Current assets consist primarily of investments. Of these amounts, investments comprise in excess of 99% of current assets.

Net assets consist primarily of participant contributions and investment earnings, net of benefit distributions to participants.

Statement of Changes in Fiduciary Net Assets

Changes in net assets as presented on the Statement of Changes in Fiduciary Net Assets are based on the activity of the Plan. The purpose of this statement is to present the participant contributions and increases or decreases in the fair value of investments of the Plan and the payments made by the Plan.

Additions are the result of new enrollments into the College Investment Plan. Deductions are those payments made to participants due to distributions to college or account refunds due to closure.

Portfolio Financial Schedules

The Schedule of Assets and Liabilities by Portfolio, the Schedule of Operations and Changes in Net Assets and the Financial Highlights are included as Supplementary Information. These schedules contain information for each of the Portfolios within the Plan as of the end of the fiscal period.

The Schedule of Assets and Liabilities by Portfolio details the investments and net assets for each portfolio. This schedule also contains information regarding the investments in the underlying mutual funds for each of the portfolios. Net assets consist of participant contributions and investment earnings and losses, net of benefit distributions to participants.

The Schedule of Operations and Changes in Net Assets reports the investment income, the realized and unrealized gains and losses and information regarding participant contributions and distributions for each portfolio.

The Financial Highlights schedule includes net asset value information, total return and various ratios for each individual portfolio.

Budgetary Control and Financial Oversight

The Plan is a program whose administration is overseen by the Trust, a non-budgeted state agency, which is not subject to an appropriation by the State. However, for sound management and oversight purposes, an annual budget is presented to, and approved by the Board. In accordance with the Trust's enabling legislation the Board submits its budget to the General Assembly for informational purposes only.

Contacting the Trust's Financial Management

The above financial highlights are designed to provide a general overview of the Plan's operation and insight into the following financial statements. Additional information may be found on our website and inquiries may directed to the Plan via www.collegesavingsmd.org or by delivering your request to 217 E. Redwood Street, Suite 1350, Baltimore, MD 21202

ERNST & YOUNG

Ernst & Young LLP
One North Charles
Baltimore, Maryland 21201

Phone: (410) 539-7940
www.ey.com

Report of Independent Auditors

To the Maryland Higher Education
Investment Board

We have audited the accompanying statement of fiduciary net assets of the Maryland College Investment Plan (the Plan), as of June 30, 2002, and the related statement of changes in fiduciary net assets for the year then ended. These financial statements are the responsibility of the Plan'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 College Investment Plan, as of June 30, 2002, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 26 through 31 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Plan. The portfolio financial schedules, including each of the individual portfolios, on pages 38 through 42, are presented for the purposes of additional analysis and are not a required part of the financial statements. The portfolio financial schedules, including each of the individual portfolios, have been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Ernst + Young LLP

September 6, 2002

MARYLAND COLLEGE INVESTMENT PLAN

Statement of Fiduciary Net Assets
June 30, 2002
(amounts in thousands)

ASSETS	
Current assets:	
Investments, at fair value	$158,107
Other assets	365
Total current assets	158,472
TOTAL ASSETS	158,472
LIABILITIES	
Current liabilities:	
Other liabilities	437
TOTAL LIABILITIES	437
NET ASSETS	
Restricted held in trust for:	
Individuals and organizations	158,035
TOTAL NET ASSETS	$158,035

See accompanying notes to financial statements

MARYLAND COLLEGE INVESTMENT PLAN

Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended June 30, 2002
(amounts in thousands)

Additions:	
Contributions:	
Account holders	$175,822
Total Contributions	175,822
Investment income:	
Net decrease in fair value of investments	(11,454)
Net investment income	941
Total Investment income	(10,513)
Deductions:	
Payments in accordance with trust agreements	7,274
Total Deductions	7,274
Net additions to Net Assets	$158,035
Net assets, Beginning of year	0
Net assets, End of year	$158,035

See accompanying notes to financial statements

Notes to Financial Statements
Year Ended June 30, 2002

1. ORGANIZATION AND PURPOSE

The Maryland College Investment Plan (the Plan) was established under the Maryland College Investment Trust (the Trust) to allow investors to save for qualified higher education expenses on a tax-advantaged basis in accordance with the provisions of Section 529 of the Internal Revenue Code. The Plan is a private purpose trust fund, used to account for resources legally held in a trust for individual investors. The Maryland Higher Education Investment Board serves as trustee for the Trust, and T. Rowe Price Associates, Inc. (Price Associates or the program manager) serves as the program manager. The Plan is marketed directly to investors without sales charges, and offers seven enrollment-based and three static investment portfolios (collectively, the portfolios). Each portfolio invests in predetermined underlying equity, fixed-income, and/or money market mutual funds managed by Price Associates (the underlying mutual funds), and each commenced operations on November 26, 2001.

The Maryland General Assembly created the Plan during the 2000 legislative session. The Plan is a separate program, which is authorized by the Maryland Code Annotated Education Article, Section 18, Subtitle 19A. The Maryland Higher Education Investment Board (the Board) directs the Trust. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus and Basis of Accounting

The financial statements of the Plan use an economic resources measurement focus and the accrual basis of accounting whereby revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

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 Plan 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.

3. INVESTMENTS

The Plan, which is authorized by the Annotated Code of Maryland, is not restricted in its investments by legal or contractual provisions. Investments are stated at fair value as provided in GASB Statement No. 31. Unrealized appreciation/depreciation on investments due to changes in fair value is recognized in the Plan's operations each year.

The Plan's investments as of June 30, 2002 are not subject to classification by credit risk because the Plan owns units of mutual funds rather than specific securities, which by their nature are not subject to risk categorization. All such investments are valued at the mutual fund's closing net asset value per share on the date of valuation. Each participant's beneficial interest in the net assets of a portfolio is represented by units, an unlimited number of which are authorized.

Contributions to and distributions from the Plan are recorded upon receipt of participant instructions in good order, based on the next determined net asset value per unit. Net investment income and net realized gains accumulate in the net asset value of each portfolio and are not separately distributed to participants. Income and capital gain distributions from the underlying mutual funds are recorded on the ex-dividend date. Investment transactions in shares of the underlying mutual funds are accounted for on the trade date. Realized gains and losses are reported the identified cost basis.

The fair value of investments in mutual funds by type at June 30, 2002 are as follows:

Amount in thousands

	Cost	Fair Value	Unrealized Gain(Loss)
T. Rowe Price Blue Chip Growth Fund			
Domestic Stocks	$ 14,457	$ 12,359	$ (2,098)
Foreign Stocks	479	409	(70)
Cash	30	26	(4)
Total	14,966	12,794	(2,172)
T. Rowe Price Equity Index 500 Fund			
Domestic Stocks	$ 52,370	$ 45,978	$ (6,392)
Foreign Stocks	1,244	1,093	(151)
Cash	487	427	(60)
Total	54,101	47,498	(6,603)
T. Rowe Price International Stock Fund			
Foreign Stocks	$ 11,161	$ 10,866	$ (295)
Cash	216	210	(6)
Total	11,377	11,076	(301)
T. Rowe Price Mid-Cap Growth Fund			
Domestic Stocks	$ 10,906	$ 9,951	$ (955)
Foreign Stocks	451	411	(40)
Cash	510	466	(44)
Total	11,867	10,828	(1,,039)
T. Rowe Price Short-Term Bond Fund			
Domestic Bonds	$ 4,266	$ 4,259	$ (7)
Foreign Bonds	106	106	-
U.S. Treasuries and other Gov. Obligations	1,819	1,815	(4)
Cash	423	423	- -
Total	6,614	6,603	(11)
T. Rowe Price Small-Cap Stock Fund			
Domestic Stocks	$ 10,540	$ 10,217	$ (323)
Foreign Stocks	140	136	(4)
Cash	1,018	986	(32)
Total	11,698	11,339	(359)
T. Rowe Price Spectrum Income Fund			
Domestic Stocks	$ 4,970	$ 4,976	$ 6
Domestic Bonds	10,732	10,745	13
Foreign Bonds	6,410	6,418	8
U.S. Treasuries and other Gov. Obligations	11,812	11,828	16
Cash	2,089	2,091	2
Total	36,013	36,058	45

T. Rowe Price Summit Cash Reserves Fund			
Domestic Com'l Paper& Mid Term Notes	$ 5,377	$ 5,377	$ -
Foreign Certificates of Deposit	1,789	1,789	-
Domestic Certificates of Deposit	384	384	-
Foreign Com'l Paper& Mid Term Notes	351	351	-
Cash	270	270	-
Total	8,171	8,171	-
T. Rowe Price Value Fund			
Domestic Stocks	$ 13,736	$ 12,791	$(945)
Foreign Stocks	369	344	(25)
Cash	649	605	(44)
Total	14,754	13,740	(1,014)
Total Investments	$169,561	$158,107	$(11,454)

	Cost	Fair Value	Unrealized Gain (Loss)
Mutual Funds	$ 169,561	$ 158,107	$ (11,454)

4. TAX EXEMPT STATUS

The Plan is exempt from federal taxation in accordance with Section 529 of the Internal Revenue Code. Additionally, the Plan is exempt from State and local taxation in accordance with House Bill 11, which established the Plan.

5. RELATED PARTIES

Price Associates is a wholly owned subsidiary of T. Rowe Price Group, Inc. Price Associates and its wholly owned subsidiaries provide investment management, record keeping and account servicing, administrative, distribution and marketing, custodial, and certain other services to the Plan. Each portfolio pays an all-inclusive program fee to Price Associates equal to up to 0.38% of the portfolio's average daily net assets. The fee is accrued daily and paid monthly. In addition, each portfolio indirectly bears its pro-rata share of the fees and expenses of the underlying mutual funds in which it invests.

Price Associates and its wholly owned subsidiaries also serve as investment manager for each of the underlying mutual funds, and certain officers and directors of Price Associates and its subsidiaries are also officers and directors of the underlying mutual funds.

The portfolios pay no investment management fees; however, Price Associates receives asset-based management fees from the underlying mutual funds in which the portfolios invest. The costs associated with record keeping and related unitholder servicing for the portfolios are passed to each underlying mutual fund in proportion to the average daily value of its shares owned by the portfolios. The impact of portfolio-related costs borne by the underlying mutual funds is reflected in the valuations of the underlying mutual funds, which, in turn, affect the net asset values of the portfolios.

The staff of the Maryland Higher Education Investment Board supports T. Rowe Price's management of the Plan in accordance with applicable laws and regulations, Board policy and the Board's contract with T. Rowe Price. Employees of the Board review and obtain Board approval of all Plan disclosure documents, review and approve all marketing initiatives in accordance with the approved marketing plan, and oversee the implementation and employee training of operational procedures. The Maryland Prepaid College Trust coordinates several contracts between the Board and its service providers for services for both the Trust and the Plan. The Board receives compensation, in the amount of one-half of the Plan's enrollment fees, for services that the Board and their staff render on behalf of the Plan.

Supplementary Information
Portfolio Financial Schedules

Maryland College Investment Plan
June 30, 2002

Schedule of Assets and Liabilities by Portfolio	Portfolio 2021	Portfolio 2018	Portfolio 2015	Portfolio 2012	Portfolio 2009
Assets					
Investments at cost	$ 8,770	$ 17,989	$ 19,959	$ 21,107	$ 18,785
Investments at fair value	$ 7,907	$ 16,264	$ 18,225	$ 19,572	$ 17,773
Other assets	5	68	18	19	30
Total assets	7,912	16,332	18,243	19,591	17,803
Liabilities					
Total liabilities	9	75	26	27	38
NET ASSETS	**$ 7,903**	**$ 16,257**	**$ 18,217**	**$ 19,564**	**$ 17,765**
Composition of Net Assets:					
Paid-in capital	$ 8,765	$ 17,974	$ 19,907	$ 20,991	$ 18,618
Retained earnings (deficit)	(862)	(1,717)	(1,690)	(1,427)	(853)
NET ASSET VALUE PER UNIT	**$ 9.90**	**$ 9.91**	**$ 10.04**	**$ 10.23**	**$ 10.49**

Portfolio of Investments

	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value
T. Rowe Price Blue Chip Growth Fund	40	$ 965	83	$ 1,991	85	$ 2,037	74	$ 1,791	44	$ 1,056
T. Rowe Price Equity Index Fund	121	3,223	250	6,641	249	6,612	228	6,053	179	4,771
T. Rowe Price International Stock Fund	80	851	165	1,747	165	1,741	135	1,428	120	1,267
T. Rowe Price Mid-Cap Growth Fund	25	875	51	1,801	51	1,811	43	1,531	29	1,017
T. Rowe Price Short-Term Bond Fund	-	-	-	-	-	-	-	-	-	-
T. Rowe Price Small-Cap Stock Fund	38	933	78	1,912	78	1,925	66	1,625	37	909
T. Rowe Price Spectrum Income Fund	-	-	-	-	177	1,879	489	5,192	726	7,715
T. Rowe Price Summit Cash Reserves Fund	-	-	-	-	-	-	-	-	-	-
T. Rowe Price Value Fund	60	1,060	123	2,172	126	2,220	111	1,952	59	1,038
Total Investments, at fair value		$ 7,907		$ 16,264		$ 18,225		$ 19,572		$ 17,773

Amounts in thousands, except net asset value per unit

	Portfolio 2006	Portfolio for College	Bond Portfolio	Equity Portfolio	Balanced Portfolio	TOTAL
5	$ 16,458	$ 16,405	$ 7,179	$ 27,713	$ 15,197	$ 169,562
3	$ 15,763	$ 15,994	$ 7,190	$ 25,078	$ 14,341	$ 158,107
0	102	32	2	39	50	365
3	15,865	16,026	7,192	25,117	14,391	158,472
38	108	43	5	49	57	437
55	$ 15,757	$ 15,983	$ 7,187	$ 25,068	$ 14,334	$ 158,035
18	$ 16,276	$ 16,234	$ 7,024	$ 27,694	$ 15,065	$ 168,548
53)	(519)	(251)	163	(2,626)	(731)	(10,513)
49	$ 10.65	$ 10.83	$ 11.28	$ 9.91	$ 10.46	

Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value	Shares	Value
056	12	$ 277	-	$ -	-	$ -	147	$ 3,541	47	$ 1,136	532	$ 12,794
771	151	4,006	107	2,859	-	-	366	9,748	135	3,585	1,786	47,498
267	30	316	-	-	-	-	255	2,700	97	1,026	1,047	11,076
017	13	441	-	-	-	-	72	2,529	23	823	307	10,828
-	-	-	1,390	6,603	-	-	-	-	-	-	1,390	6,603
909	19	472	-	-	-	-	109	2,687	36	876	461	11,339
715	782	8,309	-	-	677	7,190	-	-	544	5,773	3,395	36,058
-	1,639	1,639	6,532	6,532	-	-	-	-	-	-	8,171	8,171
038	17	303	-	-	-	-	220	3,873	64	1,122	780	13,740
.773		$ 15,763		$ 15,994		$ 7,190		$ 25,078		$ 14,341		$ 158,107

Maryland College Investment Plan
For the Fiscal Year Ended June 30, 2002

hedule of Operations and Changes in Net Assets	Portfolio 2021	Portfolio 2018	Portfolio 2015	Portfolio 2012
erations				
Net investment income				
Income distributions from underlying funds	$ 17	$ 34	$ 71	$ 136
Program fee expense	13	26	29	30
Net investment income	4	8	42	106
Net realized and unrealized gain (loss)				
Net realized gain (loss)				
Sale of underlying funds	(3)	(1)	1	2
Capital gain distributions from underlying funds	-	1	1	-
Net realized gain (loss)	(3)	-	2	2
Change in unrealized gain (loss)	(863)	(1,725)	(1,734)	(1,535)
Net realized and unrealized gain (loss)	(866)	(1,725)	(1,732)	(1,533)
Increase (decrease) in net assets from operations	(862)	(1,717)	(1,690)	(1,427)
it Transactions *				
Units issued				
Participant contributions	9,410	18,720	20,607	21,687
Units redeemed				
Participant distributions	(645)	(746)	(700)	(696)
Increase in net assets from unit transactions	8,765	17,974	19,907	20,991
T ASSETS				
Increase during period	7,903	16,257	18,217	19,564
Beginning of period	-	-	-	-
End of period	$ 7,903	$ 16,257	$ 18,217	$ 19,564
nit information (number of units)				
Units outstanding, beginning of period	-	-	-	-
Units issued	857	1,708	1,879	1,975
Units redeemed	(59)	(68)	(64)	(63)
Units outstanding, end of period	798	1,640	1,815	1,912

Amounts in thousands

Portfolio 2009	Portfolio 2006	Portfolio for College	Bond Portfolio	Equity Portfolio	Balanced Portfolio	TOTAL
$ 187	$ 202	$ 183	$ 160	$ 51	$ 147	$ 1,188
27	24	24	11	41	22	247
160	178	159	149	10	125	941
(1)	(2)	1	3	(2)	(1)	(3)
-	-	-	-	1	1	4
(1)	(2)	1	3	(1)	-	1
(1,012)	(695)	(411)	11	(2,635)	(856)	(11,455)
(1,013)	(697)	(410)	14	(2,636)	(856)	(11,454)
(853)	(519)	(251)	163	(2,626)	(731)	(10,513)
19,287	16,979	17,540	7,806	28,139	15,647	175,822
(669)	(703)	(1,306)	(782)	(445)	(582)	(7,274)
18,618	16,276	16,234	7,024	27,694	15,065	168,548
17,765	15,757	15,983	7,187	25,068	14,334	158,035
-	-	-	-	-	-	-
$ 17,765	**$ 15,757**	**$ 15,983**	**$ 7,187**	**$ 25,068**	**$ 14,334**	**$ 158,035**
-	-	-	-	-	-	-
1,755	1,543	1,594	708	2,571	1,423	16,013
(61)	(64)	(119)	(71)	(41)	(53)	(663)
1,694	1,479	1,475	637	2,530	1,370	15,350

Maryland College Investment Plan
November 26, 2001 through June 30, 2002

For a unit outstanding throughout the period

Financial Highlights	Portfolio 2021	Portfolio 2018	Portfolio 2015	Portfolio 2012	Portfolio 2009	Portfolio 2006	Portfolio for College	Bond Portfolio	Equity Portfolio	Balanced Portfolio
NET ASSET VALUE #										
Beginning of period	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00	$ 11.00
Investment activities ^										
Net investment income	0.01	0.01	0.04	0.08	0.15	0.18	0.16	0.32	0.01	0.13
Net realized and unrealized gain (loss) †	(1.11)	(1.10)	(1.00)	(0.85)	(0.66)	(0.53)	(0.33)	(0.04)	(1.10)	(0.67)
Total from investment activities	(1.10)	(1.09)	(0.96)	(0.77)	(0.51)	(0.35)	(0.17)	0.28	(1.09)	(0.54)
NET ASSET VALUE										
End of period	$ 9.90	$ 9.91	$ 10.04	$ 10.23	$ 10.49	$ 10.65	$ 10.83	$ 11.28	$ 9.91	$ 10.46
Ratios *										
Total Return	(10.00%)	(9.91%)	(8.73%)	(7.00%)	(4.64%)	(3.18%)	(1.55%)	2.55%	(9.91%)	(4.91%)
Ratio of expenses to average net assets ‡	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%	0.38%
Ratio of net investment income to average net assets ‡	0.10%	0.12%	0.57%	1.33%	2.25%	2.81%	2.50%	4.93%	0.09%	2.09%
Portfolio turnover rate ‡	9.8%	6.8%	6.6%	6.5%	14.7%	9.1%	7.7%	23.7%	4.2%	17.3%
Supplemental Information										
Annualized weighted average expense ratio of the underlying mutual funds in which each portfolio invests	0.68%	0.68%	0.69%	0.70%	0.71%	0.66%	0.47%	0.80%	0.69%	0.73%

^ Per unit values have been calculated based on average units outstanding during the period.

† The amounts may be inconsistent with each portfolio's aggregate gains and losses because of the timing of unit transactions in relation to fluctuating market values for the investment portfolio.

* Ratios reflect the activity of each portfolio, and do not include the activity of the underlying funds in which the portfolios invest.

‡ Annualized.

The net asset value per unit (NAV) is calculated at the close of the New York Stock Exchange on each day the exhange is open for business. Each portfolio NAV is computed by dividing the value of its net assets by the number of portfolio units outstanding. A Portfolio's investments in the underlaying mutual funds are valued at each underlying mutual fund's closing net asset value per share on the date of the valuation.

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