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**COLLEGE SAVINGS**

PLANS OF MARYLAND

**MARYLAND'S 529 PLANS**

**MARYLAND PREPAID COLLEGE TRUST**

**MARYLAND COLLEGE INVESTMENT PLAN**



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*Governor*



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W. Gary Dorsch  
*Term began November 1, 2004*

# COLLEGE SAVINGS

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PLANS OF MARYLAND

October 2004

Dear Friends,

This past year has been another one of substantial growth for the **College Savings Plans of Maryland**. With Section 529 college savings plans growing in popularity nationwide, it is no surprise that the two plans offered by the State of Maryland – the **Maryland Prepaid College Trust** and the **Maryland College Investment Plan** – have increased their assets and surpassed \$850 million in college savings assets by June 30, 2004.

With the acceleration of college costs over the past several years, Maryland families are increasingly choosing to invest in their children's future. Participation in the **College Savings Plans of Maryland** stands at more than 79,000 accounts representing approximately 70,000 beneficiaries. These families have chosen to be better prepared to pay for their children's college expenses.

- The **Maryland Prepaid College Trust** backed by the security of the Legislative Guarantee met its goal and opened approximately 3,500 new accounts by June 30, 2004. Families of more than 22,000 children are now enrolled in the Prepaid College Trust and almost 2,000 students are already using/eligible to use their tuition benefits at colleges nationwide.
- The **Maryland College Investment Plan**, managed and distributed by T. Rowe Price, opened for enrollment in December 2001 and achieved \$559 million in assets by June 30, 2004.

The College Savings Plans of Maryland stands ready to serve as an educational resource for all Maryland families on saving for college. We encourage you to invite us to make a presentation at your school, church, temple, civic organization and anywhere that people gather who are interested in making a difference in the future of their children's educations.

The Board and staff continue our commitment to ensure that the **College Savings Plans of Maryland** continues to offer a range of "Smart Choices" for Maryland families. Our mission is to help you with one of the most important life goals: saving for the college education of our children.

Sincerely,

*The Board*  
College Savings Plans of Maryland

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# COLLEGE SAVINGS PLANS OF MARYLAND - FEATURES AND BENEFITS

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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 **Maryland Prepaid College Trust** (sometimes referred to as Prepaid College Trust or Trust), families can choose to lock in future college tuition at today's prices, backed by a Maryland legislative guarantee. Or, by using the **Maryland College Investment Plan** (sometimes referred to as College Investment Plan or Plan), managed and distributed 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 benefits, 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, as long as the funds are used for eligible college expenses;\*\*
- Maryland State income deduction of contributions to either or both plans, up to \$2500 annually per account or beneficiary depending on the 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** accepted approximately 3,500 new enrollments in the past year, to bring the total number of accounts to approximately 22,000. The **College Investment Plan** continues to outpace our expectations. By June 30, 2004 assets in excess of \$559 million were invested on behalf of 49,000 beneficiaries. By June 30, 2004 the two plans together had total assets of more than \$990 million.

Online enrollment is available for either plan at [www.collegesavingsmd.org](http://www.collegesavingsmd.org). This feature proves to be especially popular for new enrollments in the **Prepaid College Trust**, with more than 45% of this year's new enrollments being completed online. Complete information on both plans is available on our web site, along with quarterly performance updates for the **College Investment Plan**, account maintenance forms and our state of the art college investment calculator. Visit our website frequently as more information continues to be added on a regular basis.

\* *Enrolling in the College Savings Plans of Maryland is an important decision for you and your family. Please read our entire enrollment kit before deciding to enroll. Enrollment and account maintenance fees may apply.*

\*\**Please note that federally tax-free distributions will lapse in 2010 unless renewed by Congress.*

## MARKET COMMENTARY

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Market performance has a direct effect on the overall performance of investments in the **College Savings Plans of Maryland**. The following is designed to provide a summary of market performance for the twelve months ended June 30, 2004.\*

### STOCKS ADVANCE

For the 12 months ended June 30, 2004, U.S. stocks put together an impressive rally. Improving economic conditions fueled by low interest rates and federal tax cuts were the key to the market's performance. The period began with the strongest quarter of U.S. economic growth in 20 years, and it ended with a solid rebound in employment growth. The economy's surge led the Federal Reserve, which had remained inactive throughout the period, to raise short-term interest rates on June 30. It was the Fed's first rate hike in more than four years.

The better economic environment led to strong corporate profit growth, which in turn boosted stock prices sharply during the second half of 2003 and early 2004. However, the market's rally cooled off in the last few months of the period sparked by investors' concerns about rising interest rates, soaring oil prices, terrorism, and increased violence in Iraq.

Nonetheless, all of the major stock indexes posted strong gains for the one-year period (see the accompanying chart on page 3). Small- and mid-cap stocks led the market's advance, outpacing larger-company issues, while value stocks outperformed growth across all market capitalizations. Foreign stocks posted better returns than the domestic market thanks to a weaker dollar and the strong performance of many Asian markets.

### BONDS MIXED AS RATES RISE

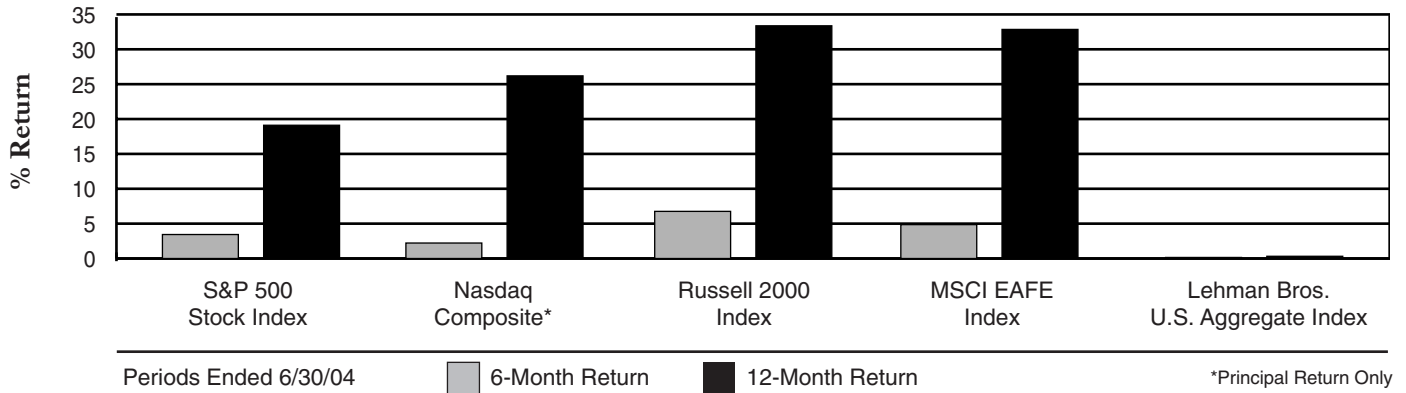
What was good for stocks was not so good for bonds. The stronger economy, coupled with rising commodity prices and healthy job growth, pushed interest rates higher across the board during the 12-month period. The sharpest increases in bond yields occurred at the beginning and end of the period. Rising bond yields generally result in falling bond prices.

However, certain segments of the bond market gained ground during the period, allowing the broad bond market index to break even for the 12-month period. High-yield corporate bonds, whose fortunes are typically tied to the stock market, produced double-digit gains. Mortgage-backed securities also posted positive results as rising rates led to less mortgage refinancing activity. Treasury and government bonds, which have the greatest interest-rate sensitivity, suffered the most severe losses during the period.

### MARKET UNCERTAINTIES

Due to market uncertainties, the overall market value of the investments in the **Prepaid College Trust** and investments in the **College Investment Plan** are likely to be highly volatile and could be subject to wide fluctuations in response to factors such as regulatory or legislative changes, worldwide political uncertainties, and general economic conditions, including inflation and unemployment rates. All of these factors are beyond our control and may cause the overall value of the investments in the **Prepaid College Trust** and investments in the **College Investment Plan** to decrease regardless of our performance. Any decrease in value could result in an actual or actuarial (unrealized) loss.

*\* This discussion is not a comprehensive discussion of all stock market performance. It is also not intended to be a comprehensive discussion of risks associated with the College Savings Plans of Maryland.*



Source: T. Rowe Price Investment Services

### Global Market Returns

## COLLEGE COSTS CONTINUE TO INCREASE SIGNIFICANTLY\*

As an investor in the **College Savings Plans of Maryland**, you know about the convenience and tax advantages provided by Section 529 college savings plans. In addition, saving early for college can help you fend off rapidly escalating college expenses.

### COLLEGE COSTS RISE SHARPLY

The costs of higher education have been growing at an incredibly high rate in recent years. According to the College Board, the average cost (tuition and fees, plus room and board) of a four-year private college for the 2003–04 school year was just under \$27,000, which represents a 6% increase over the previous year. The average cost of a four-year public university rose 10%—including a 14% tuition hike—to nearly \$11,000. Keep in mind that these figures do not include books, supplies, and other expenses, which can run an additional \$2,000 to \$3,000 a year.

These numbers reflect an alarming trend in college education costs. On an inflation-adjusted basis, tuition and fees at the average four-year private college have increased by 5% in each of

the past three years; the last time that happened was 1984 to 1986. This year's 13% inflation-adjusted increase in public four-year college tuition, following an 8% rise last year, was the highest in more than three decades. Specifically, public college and university tuition has been impacted by strained state budgets, which have led to cutbacks in education funding.

As the price tag on a college education climbs higher and higher, students are growing more reliant on financial aid. The College Board reports that 60% of all undergraduates receive some form of financial assistance. However, the majority of this aid comes via student loans. Education loan volume grew 147% over the past decade. As a result, more than half of all college graduates are saddled with debt as they enter the workforce.

It's no wonder, then, that Section 529 savings plans are becoming increasingly popular; today, more than \$40 billion is invested in Section 529 plans, up from \$10 billion at the end of 2001. Contributing regularly to a Section 529 college savings plan can help you overcome the upward spiral of college expenses and reduce or eliminate the need for student loans.

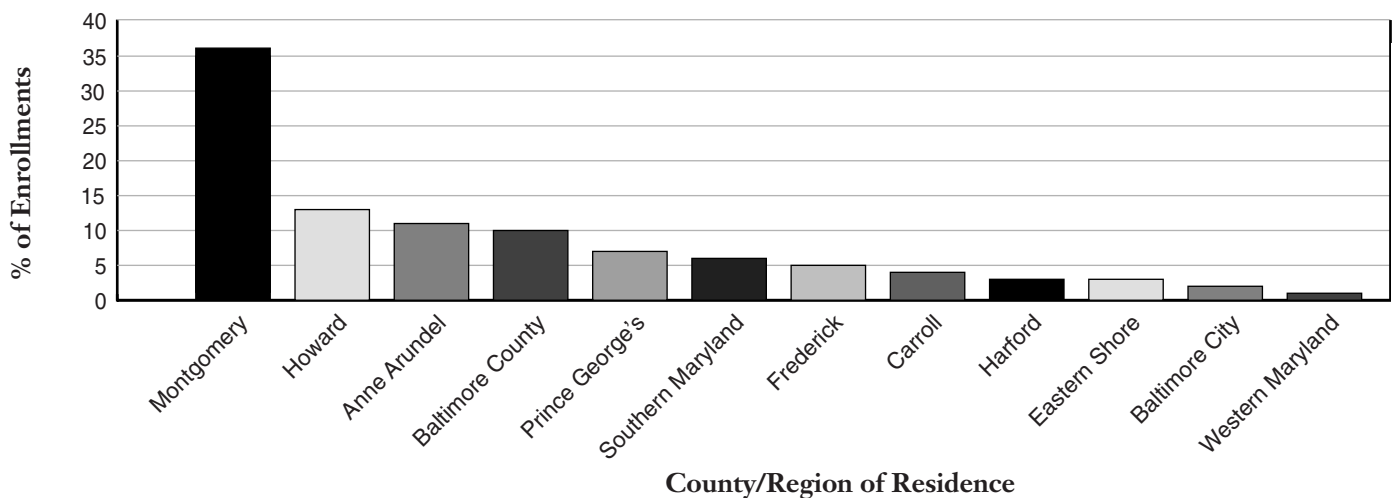
*\* All statistical information provided has been prepared by the College Board in their 2004 report.*

# MARYLAND PREPAID COLLEGE TRUST

## PROFILE OF NEW PREPAID COLLEGE TRUST ENROLLMENTS

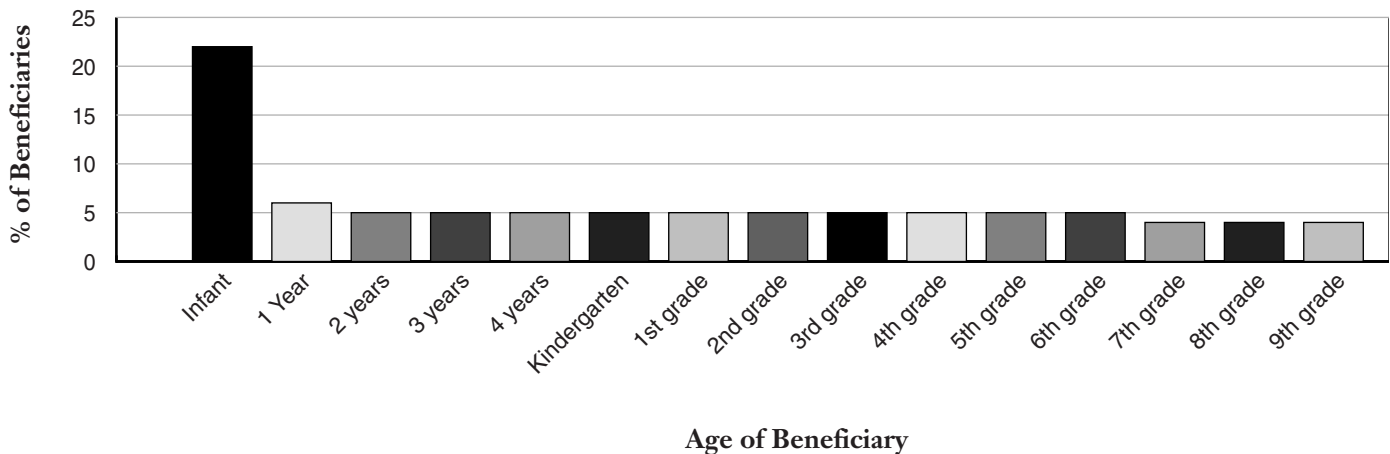
### Enrollment by County

Of the approximately 3,500 new enrollments that were received in the last year, Montgomery County residents produced the largest number of participants, generating over 36% of all new enrollments. Howard County was the second largest source of new enrollments and Baltimore and Anne Arundel Counties generated approximately the same number of new enrollments and were the third and fourth largest sources, as illustrated by the following chart:



### Age of Beneficiaries at Time of Enrollment

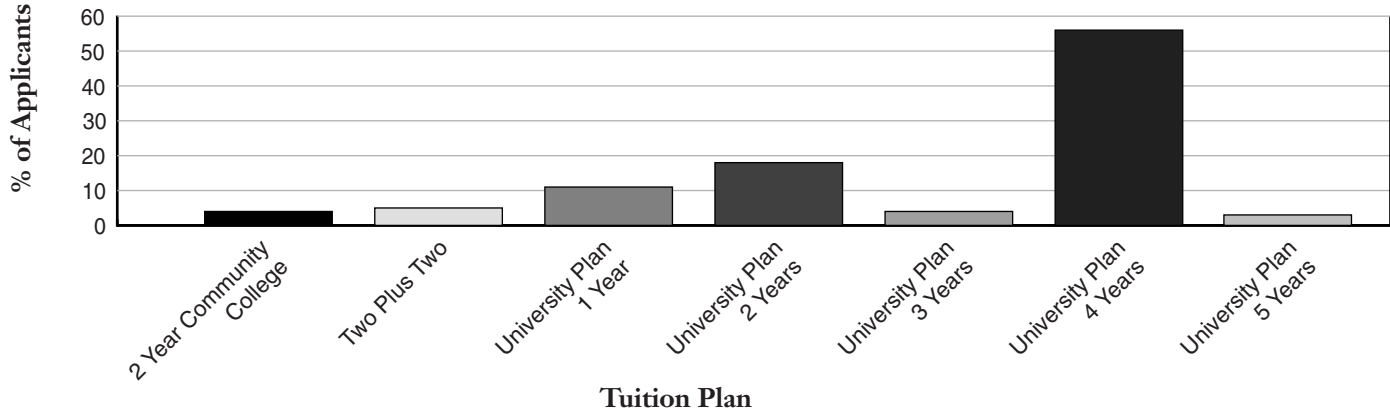
The infant category provided the largest single age group of new enrollments in 2003-04. However, the majority of all new enrollments comes from children that are in their elementary and early middle school years. The average age of all children enrolled this year in the Prepaid College Trust is about 8 years old.





## Tuition Plan Selected

The overwhelming majority of new enrollments were for the 4-year University Plan, as illustrated below:



## MORE STUDENTS USE PREPAID COLLEGE TRUST TUITION BENEFITS AT COLLEGES NATIONWIDE

The fourth “class” of students enrolled in the Prepaid College Trust is eligible to enter college this fall and use tuition benefits at colleges and universities across the country. More than 1,400 students are eligible to use benefits for Fall 2004. This includes approximately 370 students who began using benefits over the past two years. As of September 2004, 1,257 (or 87%) of eligible beneficiaries have decided to use their tuition benefits this fall. About 54% of these students are choosing to attend Maryland public colleges, while 46% are choosing to attend a wide variety of out-of-state public and private colleges across the country. The remaining 194 (or 13% of eligible beneficiaries) have decided to defer using their tuition benefits.

## ACTUARIAL SOUNDNESS REPORT

The summary of the actuarial valuation of PricewaterhouseCoopers LLP and Richard M. Kaye & Associates dated September 29, 2004 appears on page 7. The purpose of the actuarial valuation is to assess the future value of the Trust’s assets and its liabilities, and is discounted to reflect their present value. The most significant change from Fiscal Year 2003 is that the Prepaid College Trust is 85% funded as of June 30, 2004, an improvement over last year when the Prepaid College Trust was 82% funded. Although the funding percentage increased, the total actuarial deficit as of June 30, 2004 was \$75 million as compared to \$70 million as of June 30, 2003. This increase reflects an increase in the total assets held in the Trust at June 30, 2004, primarily as a result of new enrollments, continued payments by existing account holders, and investment growth.

Two of the most important factors that influenced the change in the actuarial valuation include:

- 1- The Prepaid College Trust's investments earned an overall return of 13.2% during fiscal year 2004, as compared with our stated goal of 7.65%. The earnings above our goal had a positive effect on the actuarial valuation, which means that these additional earnings reduced the actuarial deficit from what it would have been otherwise.
- 2- Our projections for future tuition increases are higher for the period of 2005-2007 than they were for the fiscal year 2003 actuarial valuation. This reflects our current anticipation of higher tuition increases for the next few years and is consistent with University System of Maryland and industry projections. This year's actuarial valuation study includes our projection that in-state tuition at Maryland public colleges will increase by an average of 10% for 2005, 8% annually for 2006 and 2007, and then increase by a 6% annual average thereafter. Our projection for annual increases in mandatory fees remains at 10%. For fiscal year 2003, our projection for the actuarial valuation was that tuition would increase by 11% for 2004, then increases at a 6% annual average thereafter. This year's higher projection for future tuition had a negative effect on the actuarial valuation, which means that it increased the actuarial deficit from what it would have been otherwise.

September 29, 2004

Ms. Nancy Kopp, Board Chair  
c/o College Savings Plans of Maryland  
217 East Redwood Street  
Suite 1350  
Baltimore, Maryland 21202

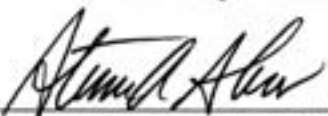
PricewaterhouseCoopers LLP in conjunction with Richard M. Kaye & Associates, has performed an actuarial valuation of the Maryland Prepaid College Trust as of the June 30, 2004. The valuation compares the value of the assets of the prepaid program to the value of expected future tuition payments to beneficiaries. The following pages summarize the actuarial valuation of the trust fund as of June 30, 2004.

A comparison of the assets and liabilities of the trust fund shows that as of June 30, 2004 there is a deficit of \$75,061,598. The funded status of the program is presently 85%, compared to 82% one year ago.

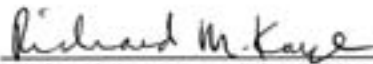
The actuarial valuation was performed based upon generally accepted actuarial principles, and tests were performed as considered necessary to ensure the accuracy of the results. We certify that the amounts presented in the following pages have been appropriately determined according to the actuarial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

Respectfully submitted,

PricewaterhouseCoopers LLP



Steven A. Skov, ACAS, MAAA  
Principal Consultant  
PricewaterhouseCoopers LLP



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

# MARYLAND PREPAID COLLEGE TRUST

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the **Prepaid College Trust's** financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2004. This discussion is designed to provide a general overview of the **Prepaid College Trust** operations and the College Savings Plans of Maryland management's analysis of its financial statements. The discussion should be read in conjunction with the **Prepaid College Trust's** financial statements and notes, which begin on page 14. Inquiries may be directed to the Prepaid College Trust at [www.collegesavingsmd.org](http://www.collegesavingsmd.org) or by delivering your request to 217 E. Redwood Street, Suite 1350, Baltimore, MD 21202.

### Prepaid College Trust Financial Statements

We have prepared the Prepaid College Trust financial statements in accordance with standards issued by the Governmental Accounting Standards Board (GASB). Financial Statements provide information about the activities of the Prepaid College Trust as a whole and present a long-term view of the Prepaid College Trust's finances.

### Financial Highlights

- The Prepaid College Trust's assets continued to increase significantly as a result of receiving payments in fiscal year 2004 from the more than 4,700 enrollments accepted during the fiscal year 2003 enrollment period. Lump sum and down payments for these accounts were due on August 1, 2003. The receipt of those payments created a significant cash inflow. While payments for the approximately 3,500 new enrollments in fiscal year 2004 were not required to begin until fiscal year 2005, many account holders elected to make early payments, which also contributed to the increase in Prepaid College Trust assets for fiscal year 2004.

#### Contract Receipts from Participants *(in thousands)*

Fiscal Year Ended June 30, 2004

\$78,806

Fiscal Year Ended June 30, 2003

\$57,661

- Each account holder enters into a contract with the Trust for the prepayment of tuition at eligible colleges and universities. Each contract is for a specified amount of tuition benefits, which become available based on the enrollment years purchased and after the contract has matured for at least three years. The Prepaid College Trust receives the entire enrollment fee for enrollments to the Prepaid College Trust and one half of the enrollment fee received from College Investment Plan account holders. A reduced enrollment fee is available in certain cases.

We use the enrollment fees to pay the administrative expenses of the College Savings Plans of Maryland. Enrollment fees and administrative expenses of the College Savings Plans of Maryland are accounted for in the financial statements of the Trust. Total revenues for tuition contracts and expenses for tuition benefits decreased due to the decreased level of new enrollments. Additionally, revenues from enrollment fees also decreased due a reduced number of new enrollments and a continued trend of an increase in the number of participants paying a reduced enrollment fee for additional years and a lower number of new accounts opened in the College Investment Plan.

The following chart shows the total dollar amount of enrollment fees paid to the Prepaid College Trust and the Board's one-half portion of the enrollment fees paid to the College Investment Plan as of the end of each of the fiscal years ended June 30, 2004 and June 30, 2003.

	<u>Enrollment Fees</u> (in thousands)	
	<u>FISCAL YEAR ENDED JUNE 30, 2004</u>	<u>FISCAL YEAR ENDED JUNE 30, 2003</u>
Prepaid College Trust	\$ 258	\$ 289
College Investment Plan	636	754
Total	<u>\$ 894</u>	<u>\$ 1,043</u>

- During fiscal year 2004 the Prepaid College Trust continued to invest the contract payments received from account holders into its diversified mutual fund portfolio.

The following chart shows the total dollar amount invested by asset class as of the end of each of the fiscal years ended June 30, 2004 and June 30, 2003.

	<u>Mutual Funds</u> (in thousands)	
	<u>FISCAL YEAR ENDED JUNE 30, 2004</u>	<u>FISCAL YEAR ENDED JUNE 30, 2003</u>
S&P Index	\$ 38,330	\$ 46,077
Short Term Bond	20,709	18,838
Small Cap Growth	38,472	24,397
Intermediate Term Bond	63,595	29,307
Large Cap Value	42,380	30,787
Large Cap Growth	38,182	- *
International	12,599	- *
Total investments	<u>\$ 254,267</u>	<u>\$ 149,406</u>

\* Large Cap Growth and International asset classes were added to the Prepaid College Trust Statement of Investment Policy during Fiscal Year 2004.

## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

### Statement of Net Assets Deficiency

The Statement of Net Assets Deficiency presents the assets, liabilities, and net assets of the Prepaid College Trust as of June 30, 2004. Net assets are defined as total assets less total liabilities. This statement, along with all of the Prepaid College Trust's financial statements, is prepared using the accrual basis of accounting. Under this method of accounting revenues and assets are recognized when the enrollment materials are received in good order (including the payment of the required enrollment fee), benefit distributions and refunds are recognized when paid and expenses and liabilities are recognized when incurred, regardless of when cash is exchanged.

The following chart presents the condensed statement of net assets deficiency as of June 30, 2004 and June 30, 2003.

<i>(in millions)</i>	<u>As of June 30, 2004</u>	<u>As of June 30, 2003</u>
<b>Assets</b>		
Current	\$ 297.4	\$ 209.2
Non current	133.4	118.3
Total	<u>430.8</u>	<u>327.5</u>
<b>Liabilities</b>		
Current	9.4	6.2
Non current	496.3	390.1
Total	<u>505.7</u>	<u>396.3</u>
<b>Net Assets Deficiency</b>		
Restricted	(75.2)	(69.1)
Invested in capital assets	.3	.3
Total	<u>\$ (74.9)</u>	<u>\$ (68.8)</u>

The Prepaid College Trust classifies assets and liabilities 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 85.5% of current assets. Tuition contracts receivable represent 99.8% of the non current assets.

Current liabilities consist of accounts payable and accrued expenses. The current portion of the Prepaid College 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.

For the fiscal year ended June 30, 2004, the net assets of the Prepaid College Trust decreased by \$6.1 million. This was due primarily to two factors. The first and most significant was the negative effect of higher than projected increases in tuition at the University System of Maryland. Since these increases in tuition were not included in the calculations used to generate contract pricing for the 2003-2004 enrollment period and the previous actuarial valuation, net assets were negatively impacted. The second factor, which offset the decrease, was the positive effect of the Trust earning 5.7% more than our projected return on investments of 7.5%.

### **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 Prepaid College Trust and the expenses, gains and losses incurred by the Prepaid College Trust.

Operating revenues consist of tuition contract revenue and administrative fees, both of which are generated by 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 from investments.

The chart below presents the condensed Statement of Revenues, Expenses and Changes in Net Assets for the fiscal years ended June 30, 2004 and June 30, 2003:

<i>(in millions)</i>	<u>Fiscal Year Ended June 30, 2004</u>	<u>Fiscal Year Ended June 30, 2003</u>
<b>Operating revenues</b>		
Tuition contracts	\$ 79.7	\$ 81.3
Administrative fees	<u>2.8</u>	<u>2.3</u>
Total	82.5	83.6
<b>Operating expenses</b>		
Tuition benefits	114.6	130.6
Administrative expenses	<u>1.8</u>	<u>1.9</u>
Total	<u>116.4</u>	<u>132.5</u>
Operating loss	(33.9)	(48.9)
<b>Non Operating revenues/expenses</b>		
Change in unrealized investment gain	20.8	7.2
Change in realized gain on investments	2.1	3.1
Investment income	<u>4.9</u>	<u>0.2</u>
Total	<u>27.8</u>	<u>10.5</u>
Change in Net Assets	<u>\$ (6.1)</u>	<u>\$ (38.4)</u>

For the fiscal year ended June 30, 2004, the Prepaid College Trust reported an operating loss of \$33.9 million. This loss is comprised of two components: tuition benefit expenses exceeding tuition contract revenue by \$34.9 million and net administrative revenue (administrative fees minus administrative expenses) of \$1.0 million. This loss was offset by the unrealized investment gain, a realized gain on investments and other investment income, resulting in a decrease in net assets of \$6.1 million.

### Statement of Cash Flows

The Statement of Cash Flows presents cash flows by category: operations, investing, capital and related financing, and non-capital and related financing. We also present the net cash provided by or used by the Prepaid College Trust by category.

The condensed Statement of Cash Flows for the fiscal years ended June 30, 2004 and June 30, 2003 is presented below:

<i>(in millions)</i>	<u>Fiscal Year Ended June 30, 2004</u>	<u>Fiscal Year Ended June 30, 2003</u>
Cash provided (used) by:		
Operating activities	\$ 72.3	\$ 54.1
Investing activities	(77.0)	(60.1)
Capital and related financing activities	(0.1)	(0.1)
Non-capital and related financing activities	<u>-</u>	<u>0.2</u>
Net change in cash	\$ (4.8)	\$ (5.9)
Cash and cash equivalents, Beginning of Year	<u>6.4</u>	<u>12.3</u>
Cash and cash equivalents, End of Year	<u>\$ 1.6</u>	<u>\$ 6.4</u>

Increases in cash during the year were due primarily to contract payments made by account holders. These increases were offset by decreases in cash from the Prepaid College Trust's investing activities, as described above.

## **BUDGETARY CONTROL AND FINANCIAL OVERSIGHT**

The Prepaid College Trust is administered by the College Savings Plans of Maryland, an independent State agency that does not receive an appropriation from the State of Maryland. The Board, however, in accordance with the enabling legislation for the Prepaid College Trust, prepares and submits an annual budget to the Maryland General Assembly for informational purposes. In accordance with its fiduciary obligations, each quarter, the Board reviews a comparison of actual and budgeted expenses in connection with its administration of the College Savings Plans of Maryland.

## **ECONOMIC FACTORS**

Long-term variances in projections, particularly for tuition and investment return, can affect the Prepaid College Trust's financial position. The Board and its actuarial consultants and investment advisors review these projections at least annually.

This review includes prior trends in tuition increases and investment performance. Specifically the Board reviewed the weighted average tuition for Maryland in-state students at 4-year public universities, which increased 9.9% for the 2003-2004 academic year and 19.9% for the 2002-2003 academic year. The Board also reviewed the rate of return on the Prepaid College Trust's investments, which was 13.2% for fiscal year 2004 and 7.51% for fiscal year 2003.

As part of the Board's review of these trends, it consults with its investment advisor and actuaries and thoroughly reviews various potential scenarios when developing future projections that it believes to be reasonable. This year's projections were used in developing the Soundness Report as of June 30, 2004 and were also used in calculating contract prices for the 2004-2005 enrollment period.

While both the Soundness Report and contract prices are based on many projections, two key projections are those for future tuition increases and investment returns. Key projections selected by the Board for tuition include average annual tuition increases of 10% for 2005, 8% from 2005 to 2006 and 2006 to 2007, and 6% for years thereafter, with mandatory fee annual increases of 10%. The Board selected a projected 7.65% annual rate of return for the Soundness Report and used a slightly more conservative 7.5% rate of return to calculate contract prices. The Board believes that these key projections, while subject to sudden and unexpected changes in the future, are reasonable.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

The Prepaid College Trust had no significant capital asset additions during the fiscal year ended June 30, 2004. The Prepaid College Trust continued to repay its outstanding loan balance due to the State. During the fiscal year ended June 30, 2004 the Prepaid College Trust made a payment on the loan in the amount of \$120,000. At June 30, 2004, the remaining loan balance was \$280,000.



### Report of Independent Auditors

To the College Savings Plans of  
Maryland Board

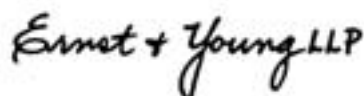
We have audited the accompanying Statement of Net Assets Deficiency of the Maryland Prepaid College Trust (the Trust), as of June 30, 2004, and the related Statement of Revenues, Expenses and Changes in Net Assets Deficiency and the Statement of Cash Flows for the year then ended. These financial statements 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, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 8 through 12 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.



November 30, 2004

# MARYLAND PREPAID COLLEGE TRUST

## STATEMENT OF NET ASSETS DEFICIENCY

As of June 30, 2004 (amounts in thousands)

### ASSETS

	TUITION AND INVESTMENTS	ADMINISTRATION/ OPERATING	TOTAL
Current assets:			
Cash and cash equivalents	\$ 1,540	\$ 102	\$ 1,642
Investments, at fair value	254,267	0	254,267
Tuition contracts receivable	41,416	0	41,416
Accounts receivable	0	78	78
Total current assets	297,223	180	297,403
Non current assets:			
Capital assets, net	0	251	251
Tuition contracts receivable, net of current portion	133,100	0	133,100
Total non current assets	133,100	251	133,351
Total assets	430,323	431	430,754

### LIABILITIES

Current liabilities:			
Accrued tuition benefits	8,782	0	8,782
Accounts payable and accrued expenses	0	431	431
Loans payable to Maryland Higher Education			
Commission	0	130	130
Other liabilities	0	42	42
Total current liabilities	8,782	603	9,385
Non current liabilities:			
Loans payable to Maryland Higher Education			
Commission, net of current portion	0	150	150
Accrued tuition benefits, net of current portion	496,160	0	496,160
Total non current liabilities	496,160	150	496,310
Total liabilities	504,942	753	505,695

### NET ASSETS DEFICIENCY

Restricted:			
Tuition and investments (deficit)	(75,174)	0	(75,174)
Administration	555	(573)	(18)
Total restricted	(74,619)	(573)	(75,192)
Invested in capital assets	0	251	251
Total net assets deficiency	<u>\$ (74,619)</u>	<u>\$ (322)</u>	<u>\$ (74,941)</u>

See accompanying notes to financial statements

# MARYLAND PREPAID COLLEGE TRUST

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS DEFICIENCY For the Fiscal Year Ended June 30, 2004 *(amounts in thousands)*

	TUITION AND INVESTMENTS	ADMINISTRATION/ OPERATING	TOTAL
<b>Operating revenues:</b>			
Tuition contracts	\$ 79,725	\$ 0	\$ 79,725
Management fee	0	1,866	1,866
Maryland College Investment Plan fees	0	636	636
Enrollment and other fees	0	258	258
Total operating revenues	<u>79,725</u>	<u>2,760</u>	<u>82,485</u>
<b>Operating Expenses:</b>			
Tuition benefits	114,635	0	114,635
Salaries, wages and benefits	0	634	634
Technical and special fees	0	27	27
Communication	0	148	148
Travel	0	7	7
Marketing	0	308	308
Contractual services	0	380	380
Supplies	0	23	23
Equipment	0	40	40
Fixed charges	0	69	69
Depreciation	0	101	101
Other expenses	0	6	6
Total operating expenses	<u>114,635</u>	<u>1,743</u>	<u>116,378</u>
Operating income (loss)	(34,910)	1,017	(33,893)
<b>Non operating revenues:</b>			
Change in unrealized gain on investments	20,783	0	20,783
Change in realized gain on investments	2,158	0	2,158
Investment income	4,856	1	4,857
Total non operating revenues	<u>27,797</u>	<u>1</u>	<u>27,798</u>
<b>Transfer to restricted reserve</b>			
	<u>555</u>	<u>(555)</u>	<u>0</u>
Change in net assets	(6,558)	463	(6,095)
Total net assets deficiency, beginning of year	<u>(68,061)</u>	<u>(785)</u>	<u>(68,846)</u>
Total net assets deficiency, end of year	<u><u>\$ (74,619)</u></u>	<u><u>\$ (322)</u></u>	<u><u>\$ (74,941)</u></u>

*See accompanying notes to financial statements*

# MARYLAND PREPAID COLLEGE TRUST

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## STATEMENT OF CASH FLOWS For the Fiscal Year Ended June 30, 2004 *(amounts in thousands)*

Cash flows from operating activities:	
Receipts from participants	\$ 78,806
Receipts from Maryland College Investment Plan enrollment fees	636
Payments of previously received Maryland College Investment Plan enrollment fees	(784)
Payments to:	
Employees	(659)
Marketing	(330)
Contract vendors	(539)
Communication	(151)
Universities and participants	(4,460)
Other operating expenses	(199)
Net cash provided by operating activities	<u>72,320</u>
Cash Flows from Investing Activities:	
Investment income	7,026
Purchase of investments	<u>(83,981)</u>
Net cash used by investing activities	<u>(76,955)</u>
Cash Flows from Capital and related Financing Activities:	
Repayment of Maryland Higher Education Commission loan	(120)
Purchase of capital assets	<u>(36)</u>
Net cash used by capital financing activities	<u>(156)</u>
Net Decrease in cash and cash equivalents	(4,791)
Cash and cash equivalents, Beginning of Year	<u>6,433</u>
Cash and cash equivalents, End of Year	<u>\$ 1,642</u>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	(33,893)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation expense	101
Change in assets and liabilities:	
Accounts payable	32
Loan payable to Maryland Higher Education Commission	(120)
Other liabilities	(16)
Accounts receivable	(57)
Tuition contracts receivable	(3,221)
Accrued tuition benefits payable	<u>109,494</u>
Net cash provided by operating activities	<u>\$ 72,320</u>
Non-cash Transactions:	
Unrealized gain on investments	<u>\$ 20,783</u>

*See accompanying notes to financial statements*

# MARYLAND PREPAID COLLEGE TRUST

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## NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2004

### 1. ORGANIZATION AND PURPOSE

The purpose of the Maryland Prepaid College Trust (Trust) is to provide a means for payment of the cost of tuition and mandatory fees in advance of enrollment at an eligible institution of higher 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 mandatory 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 U.S. military duty. The contract benefits are based on in-state tuition 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 Trust is a program of the College Savings Plans of Maryland, a component unit and independent agency of the State of Maryland, authorized by the Maryland Annotated Code (Code), Education Article, Section 18, Subtitle 19. The College Savings Plans of Maryland Board (Board) directs the Trust. The Board consists of ten members; five of which are ex-officio members. The ex-officio members are the Comptroller of the State of Maryland, the Treasurer of the State of Maryland, the Secretary of the Maryland Higher Education Commission, the Maryland State Superintendent of Schools and the Chancellor of the University System of Maryland. The five remaining members are public members appointed by the Governor of the State of Maryland.

By law, the Trust's funds are not considered moneys of the State and may not be deposited into the Maryland State Treasury. Funds remaining in the Trust at the end of any fiscal year remain in the Trust rather than reverting to the State General Fund. For this reason the trust net assets are classified as restricted.

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. Based on information contained within the Actuarial Soundness Report dated September 29, 2004 and issued by PricewaterhouseCoopers LLP and Richard M. Kaye & Associates, as of June 30, 2004, the Governor would be required to include an amount in his budget for the 2021 fiscal year. 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 made by an account holder to the Trust may be deducted from Maryland State income in an amount up to \$2,500 for each contract annually. Beginning January 1, 2002 earnings on contributions are tax free for federal and State purposes, when used toward eligible qualified higher education expenses. The federal exemption expires in 2010 unless an act of Congress extends it.

## 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. An enterprise fund focuses on the flow of economic resources (such as cash and investments) 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 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 net assets are classified as restricted regardless of whether the Trust reports a net asset deficiency. It 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.

The Trust utilizes a columnar presentation to segregate the reporting of those activities pertaining to tuition prepayments, obligations and investments from those activities that pertain to the administration and operation of the Trust.

### Revenue Recognition

The Prepaid College Trust records revenue for tuition contracts in the year the contracts are entered into with the account holder. Tuition contracts receivable is recorded at the present value of future expected contract payments. The Prepaid College Trust uses a 7.5% discount rate, which is based on the anticipated rate of return on investments over the life of the prepaid contract. The Trust recognizes revenue for enrollment fees when an enrollment fee is received and accepted by the Board.

### Investments

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

### Tuition Contracts Receivable

Tuition contracts receivable at the statement of net assets deficiency date represents management's best estimate of the present value of future contract payments. This is calculated by using a 7.5% discount rate.

## 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 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.

The College Savings Plans of Maryland and its Board, individually and collectively, are insured under a Directors and Officers liability insurance policy. The amount of the coverage is \$1,000,000 per annum.

There have been no significant reductions in insurance coverage from the prior year. The amount of settlements has not exceeded insurance coverage in the past three fiscal years. In addition, there have never been any insurance claims against the Trust.

## 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 Maryland State Treasurer and overnight investments with original maturities of 90 days or less. Cash deposits of the Trust are made in accordance with the Code, 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, 2004, the carrying amount of the Trust's cash and cash equivalents was \$1,641,884. The bank balance totaled \$1,650,180 and pooled cash maintained by the State Treasurer totaled \$102,248. Of the bank balance, \$65,779 represents deposits covered by federal depository insurance and \$1,584,401 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 Maryland Prepaid College Trust Statement of Investment Policy), required by Education Article §18-1906 of the Code, allows the Trust to purchase investments including domestic and international equities, investment grade bonds, and other governmental agency instruments, as well as money market deposits based on the comprehensive investment plan's specified portfolio allocation.

The comprehensive 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, 2004 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 June 30, 2004, the Trust's investment balances in mutual funds were as follows (*amounts in thousands*):

	<u>COST</u>	<u>FAIR VALUE</u>	<u>UNREALIZED GAIN (LOSS)</u>
Common Stock Funds	\$ 152,073	\$ 169,963	\$ 17,890
Bond Funds	85,314	84,304	( 1,010)
	<u>\$ 237,387</u>	<u>\$ 254,267</u>	<u>\$ 16,880</u>

#### 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004 was as follows (*amounts in thousands*):

	<u>BEGINNING BALANCE</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>ENDING BALANCE</u>
Capital assets being depreciated				
Computers	\$ 105.3	\$ 41.7	\$ (5.3)	\$ 141.7
Furniture	10.6	0.7	-	11.3
Equipment	9.1	-	-	9.1
Software	52.6	4.6	-	57.2
Perpetual Software License	495.2	-	-	495.2
Total capital assets at historical cost	<u>672.8</u>	<u>47.0</u>	<u>(5.3)</u>	<u>714.5</u>
Less accumulated depreciation for:				
Computers	92.2	26.2	(5.3)	113.1
Furniture	4.9	1.1	-	6.0
Equipment	5.5	1.5	-	7.0
Software	52.5	1.5	-	54.0
Perpetual Software License	212.2	70.8	-	283.0
Total accumulated depreciation	<u>367.3</u>	<u>101.1</u>	<u>(5.3)</u>	<u>463.1</u>
Capital assets, net	<u>\$ 305.5</u>	<u>\$ ( 54.1)</u>	<u>\$ -</u>	<u>\$ 251.4</u>



## 5. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

At June 30, 2004, accounts payable and accrued expenses consisted of the following (*amounts in thousands*):

Due to vendors	\$ 407
Salaries and employee benefits	<u>24</u>
Total	<u>\$ 431</u>

## 6. LOANS PAYABLE

The Trust was granted loans in 1998, 1999 and 2000 totaling \$650,000 from the Maryland Higher Education Commission (MHEC), of which \$370,000 has been repaid as of June 30, 2004. The loans are non-interest bearing. During the 2000 legislative session, the Maryland 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 the MHEC loans classified as long-term loans payable for the year ended June 30, 2004 is \$150,000. MHEC loan payable activity for the year ended June 30, 2004 was as follows (*amounts in thousands*):

<u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>JUNE 30, 2004</u>	<u>AMOUNT DUE WITHIN ONE YEAR</u>
\$ 400	\$ -	\$ (120)	\$ 280	\$ 130

## 7. OTHER LIABILITIES

At June 30, 2004, other liabilities consisted of the following (*amounts in thousands*):

Compensated Absences	\$ 34
Workers' Compensation	<u>8</u>
Total	<u>\$ 42</u>

## 8. PENSION AND POST RETIREMENT 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 (System) and are also entitled to certain healthcare benefits upon retirement. The 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 Code. 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 fiscal years ended June 30, 2004, 2003 and 2002. These contributions amounted to \$21,236, \$22,895 and \$19,624 for the fiscal fiscal years ended June 30, 2004, 2003 and 2002, 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.

## 9. 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 Maryland State and local taxation in accordance with Education Article, Section 18, Subtitle 19 of the Code, which established the Trust in 1997.

## 10. ACCRUED TUITION BENEFITS

The Trust's actuaries independently determine the Trust's actuarial present value of future tuition contract 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), tuition component for Maryland public universities and community colleges is projected to increase 10% for 2005 academic year, 8% for 2006 and 2007 academic years and 6% per annum thereafter, and the mandatory fee component is projected to increase 10% per annum.

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

**Enrollment of Trust Beneficiaries.** It is assumed that contract 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 head count information that was used to determine the 2004-2005 academic year WAT with a 6% bias load added.

**Bias Load.** A bias load of 6% is assumed 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. The bias load is used to more accurately project the effect of the Trust's assumption that a disproportionate number of beneficiaries will attend more expensive colleges.

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

Changes in accrued tuition contract benefits payable for the fiscal year ended June 30, 2004 are as follows (*amounts in thousands*):

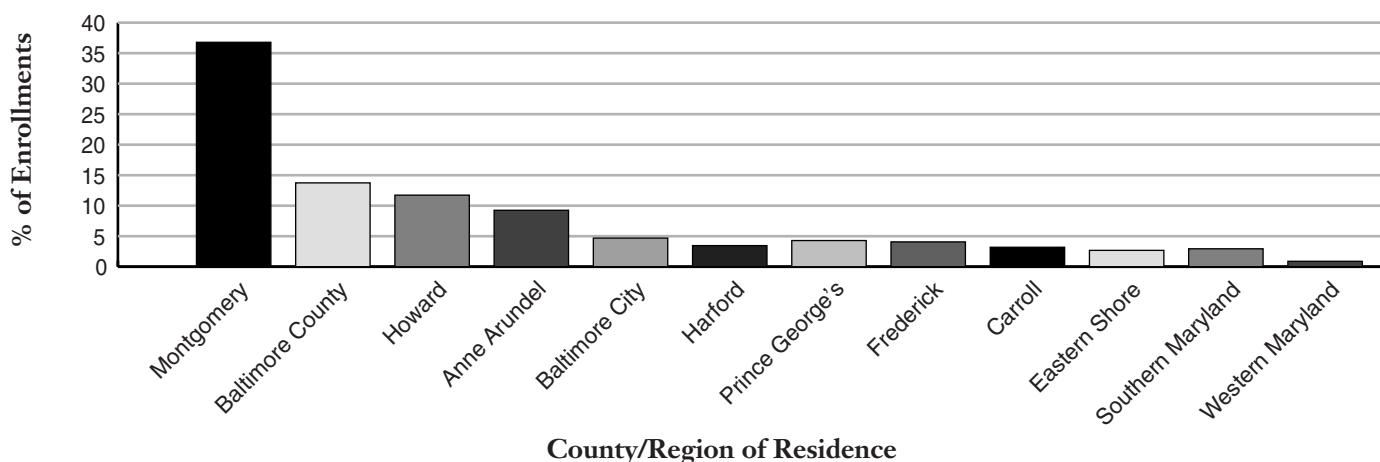
<u>JULY 1, 2003</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>JUNE 30, 2004</u>	<u>AMOUNT DUE WITHIN ONE YEAR</u>
<u>\$ 395,448</u>	<u>\$ 113,954</u>	<u>\$ 4,460</u>	<u>\$ 504,942</u>	<u>\$ 8,782</u>

# MARYLAND COLLEGE INVESTMENT PLAN

## PROFILE OF NEW COLLEGE INVESTMENT PLAN ENROLLMENTS

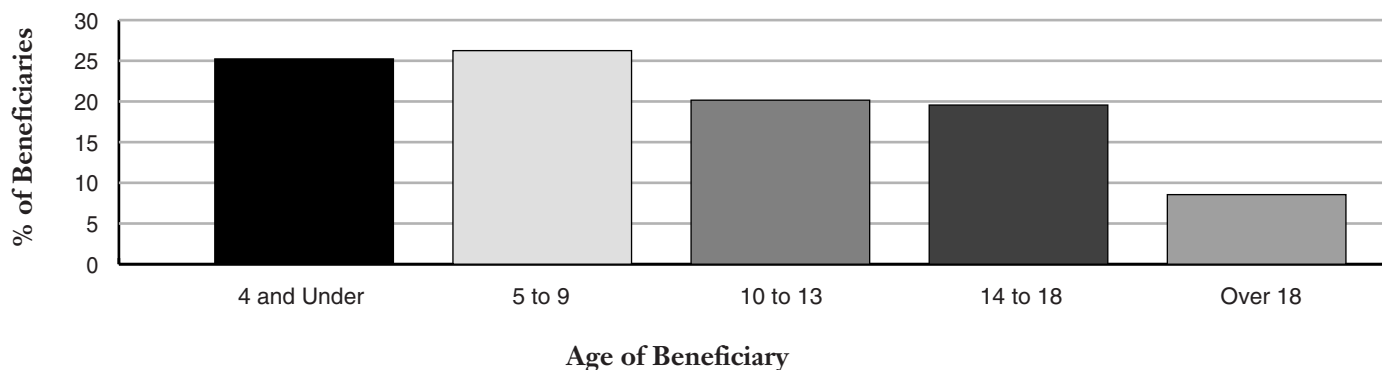
### Enrollment by County

Of the 32,778 account holders in the College Investment Plan as of June 30, 2004, participation has been concentrated in the larger counties like Montgomery, Baltimore, and Howard. However, participation from other parts of the State continues to grow. The following chart shows the counties and regions of residence for the College Investment Plan participants.



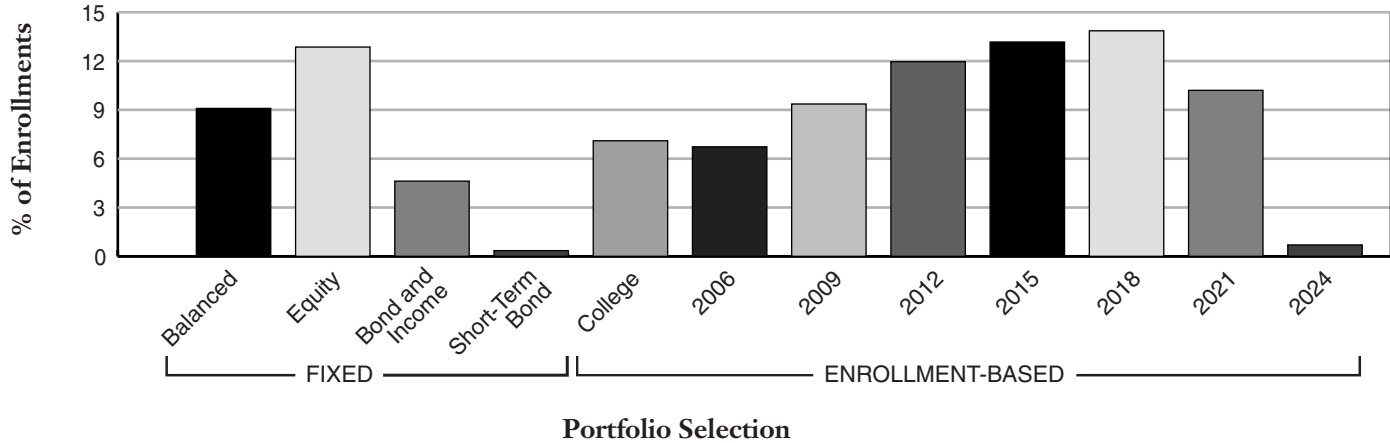
### Age of Beneficiaries at Time of Enrollment

The College Investment Plan has experienced a broad distribution of accounts for beneficiaries among a wide range of age groups. The trend indicates that Maryland families are starting to save for beneficiaries at an earlier age. More than 50% of all beneficiaries are under 9 years of age, with nearly half of those age 4 or under at the time enrollment. The College Investment Plan permits beneficiaries of any age. More than 8% of all beneficiaries are over 18 years of age, as shown in the chart below.



## Investment Portfolio Selected

Trends in investment selection show that the Enrollment-Based Portfolios, with investment mixes that automatically adjust over time, are a popular choice in the College Investment Plan. Portfolio 2024 and the Short-Term Bond Portfolio were introduced on October 31, 2003 and therefore, have lower levels of participation. As shown below, participants have chosen a well-diversified selection of portfolios.



## SYSTEMATIC INVESTING

Over 35% of accounts in the College Investment Plan are funded by the automatic monthly contribution feature. Automatic monthly contributions are made by automatically debiting a bank account or making an after tax payroll deduction.

## STUDENTS ALREADY USING ACCOUNTS TOWARD COLLEGE EXPENSES

Since the College Investment Plan launched in December 2001, most account holders have been focused on creating and contributing to accounts. However, since July 1, 2003, distributions have been taken for 2,377 unique beneficiaries totaling approximately \$15.6 million. 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. Account holders are not required to advise the College Investment Plan of the intended use of any distributions taken from their accounts. Therefore, we are unable to specify the percentage of such distributions actually used to pay eligible higher education expenses.

# MARYLAND COLLEGE INVESTMENT PLAN

## MANAGEMENT'S DISCUSSION AND ANALYSIS

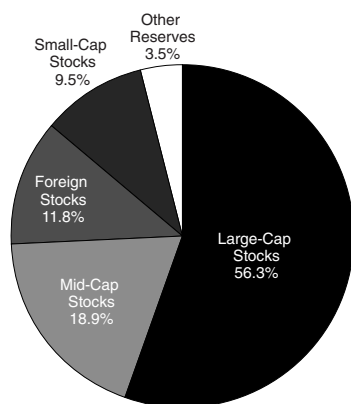
Our discussion and analysis of the College Investment Plan's financial performance provides an overview of its financial activities for the fiscal year ended June 30, 2004. This discussion is designed to provide a general overview of the College Investment Plan operations and the Board's insight into its financial statements. This discussion was prepared by the College Savings Plans of Maryland and should be read in conjunction with the Maryland College Investment Plan's financial statements and notes, which begin on page 35. Inquiries may be directed to the College Investment Plan at [www.collegesavingsmd.org](http://www.collegesavingsmd.org) or by delivering your request to 217 E. Redwood Street, Suite 1350, Baltimore, MD 21202.

### College Investment Plan Financial Statements and Other Financial Information

The College Investment Plan financial statements were prepared in accordance with standards issued by GASB. The financial statements contained in this Annual Report 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 statements are presented as Supplementary Information beginning on page 40.

### Financial Highlights By Portfolio - as of June 30, 2004

ASSET CLASS ALLOCATION



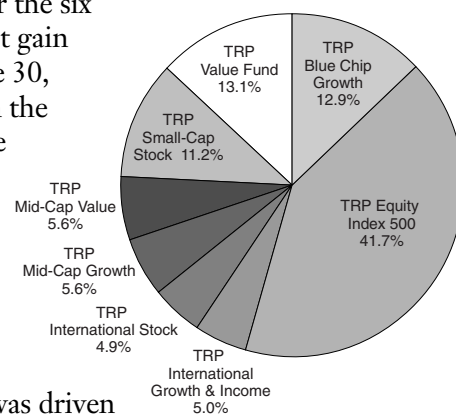
### PORTFOLIO 2024

Portfolio 2024 posted a good positive return for the six months ended June 30, 2004, and a double-digit gain from its inception on October 31, 2003, to June 30, 2004. Results for both periods were in line with the performance of the portfolio's benchmark, since results were within 0.10% of the benchmark.

Every component of the portfolio gained 15% or more during the past 12 months. The mid- and small-cap components of the portfolio posted the best absolute results, although the small-cap holdings trailed their benchmark as the rally in the small-cap sector was driven by more speculative investments. The portfolio's

international stock holdings also produced strong returns, but they trailed the broad foreign stock indexes. Relative underperformance in the small-cap and international sectors contributed to the slight underperformance versus the benchmark over the 6-month period.

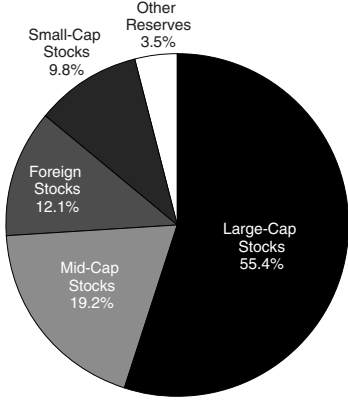
MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORTFOLIO 2024	4.23%	N. A.
Weighted Benchmark*	4.28%	N. A.

**ASSET CLASS ALLOCATION**



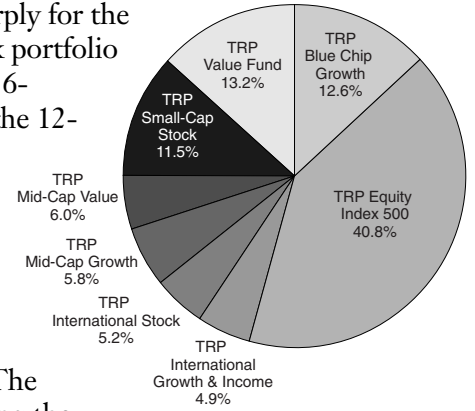
**PORTFOLIO 2021**

Portfolio 2021 posted a good positive return for the six months ended June 30, 2004, and rose sharply for the 12 months ended June 30, 2004. The all-stock portfolio performed in line with the benchmark for the 6-month period, but trailed the benchmark for the 12-month period.

Each stock component within the portfolio posted double-digit gains over the past year, led by mid- and small-cap holdings; however the small-cap holdings trailed their benchmark as the rally in the small-cap sector was driven by more speculative investments. The portfolio's value stocks also fared well, reflecting the

outperformance of value shares over growth. Although the portfolio's international segment posted strong returns, it lagged the major foreign stock indexes. Relative underperformance in the small-cap and international sectors contributed to underperformance versus the benchmark over the last 12 months.

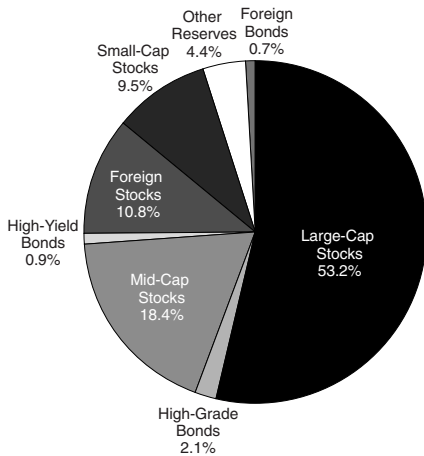
**MUTUAL FUND ALLOCATION**



**Performance Comparison as of 6/30/04**

	6 MONTHS	12 MONTHS
PORTFOLIO 2021	4.18%	21.89%
Weighted Benchmark*	4.28%	23.22%

**ASSET CLASS ALLOCATION**



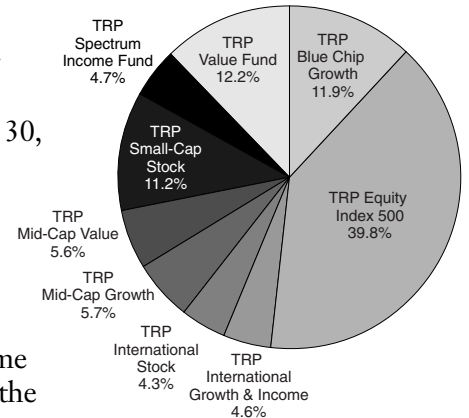
**PORTFOLIO 2018**

Portfolio 2018 posted a good positive return for the six months ended June 30, 2004, and a double-digit gain for the 12 months ended June 30, 2004. The portfolio, which consists almost exclusively of stocks, outperformed its benchmark for the six months but lagged for the 12-month period.

During the past 12 months, smaller-cap stocks outpaced large-cap issues, while value shares came out ahead of growth. This pattern held true for the portfolio as well — the best performers were the

smaller-cap and value-oriented components. Despite very strong absolute returns, the small-cap holdings trailed their benchmark as the rally in the small-cap sector was driven by more speculative investments. Over the last 12 months, the portfolio's international holdings posted solid returns but lagged the broader international stock indices. Relative underperformance in the small-cap and international sectors contributed to underperformance versus the benchmark over the last 12 months. A small fixed-income position was added to the portfolio during the past year and contributed positively to performance, but was not sufficient to offset the underperformance of the portfolio's small-cap and international holdings.

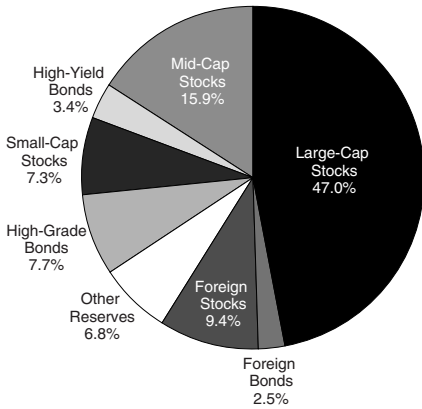
**MUTUAL FUND ALLOCATION**



**Performance Comparison as of 6/30/04**

	6 MONTHS	12 MONTHS
PORTFOLIO 2018	4.18%	21.65%
Weighted Benchmark*	4.12%	22.71%

### ASSET CLASS ALLOCATION

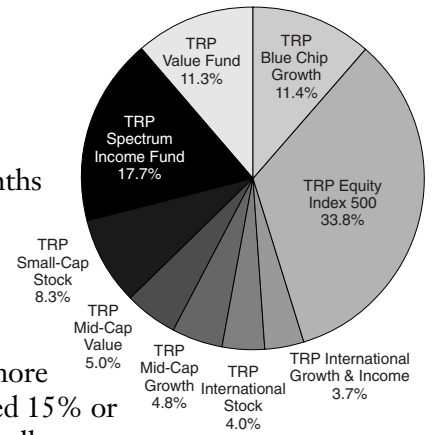


### PORTFOLIO 2015

Reflecting its heavy weighting in stocks, Portfolio 2015 posted a good positive return for the six months ended June 30, 2004, and a strong return for the 12 months ended June 30, 2004. In addition, both the 6- and 12-month results surpassed the returns of the portfolio's benchmark.

In the portfolio's equity portion, which made up more than 80% of the portfolio, every component gained 15% or more over the 12-month period. The mid- and small-cap segments of the portfolio posted the best results, reflecting the market leadership of smaller-company stocks. Despite rising interest rates, the portfolio's fixed-income component also produced positive results and was a primary reason the portfolio outperformed its benchmark.

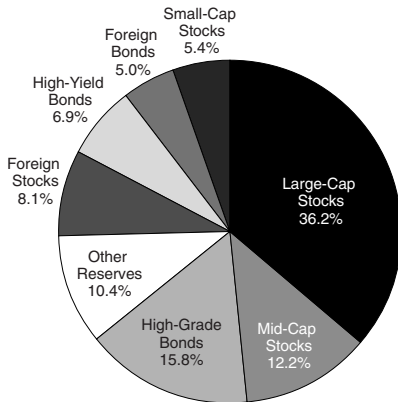
### MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORTFOLIO 2015	3.53%	19.15%
Weighted Benchmark*	3.42%	18.78%

### ASSET CLASS ALLOCATION

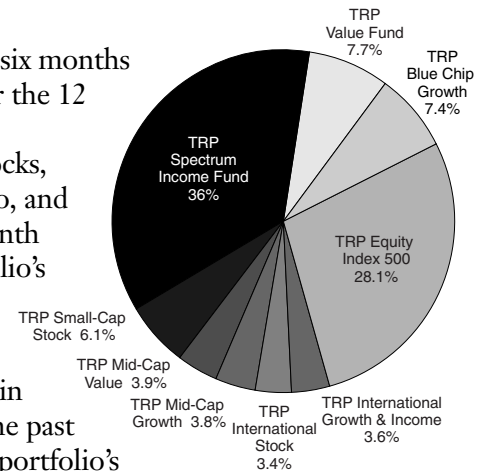


### PORTFOLIO 2012

Portfolio 2012 posted a positive return for the six months ended June 30, 2004 and double-digit gains for the 12 months ended June 30, 2004. The portfolio's performance reflected the strong returns in stocks, which made up more than 60% of the portfolio, and modest gains in bonds. Both the 6- and 12-month results outpaced the performance of the portfolio's benchmark.

The stock market's overall performance was reflected in each of the stock components within the portfolio posting double-digit gains over the past year, led by mid- and small-cap holdings. The portfolio's value stocks also fared well, reflecting the outperformance of value shares over growth. The fixed-income portion contributed the most to the portfolio's overall outperformance of its benchmark. Exposure to high-yield corporate bonds and foreign bonds, which are not included in the selected benchmark, enhanced relative performance.

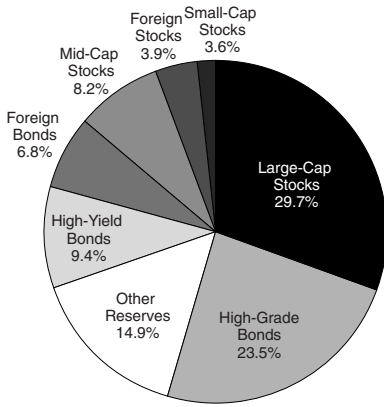
### MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORTFOLIO 2012	2.94%	16.65%
Weighted Benchmark*	2.71%	15.09%

### ASSET CLASS ALLOCATION

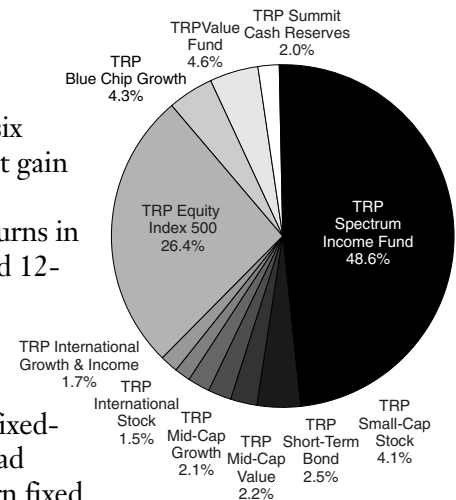


### PORTFOLIO 2009

Portfolio 2009 posted a positive return for the six months ended June 30, 2004, and a double-digit gain for the 12 months ended June 30, 2004. The portfolio's performance reflected the strong returns in stocks and slight gains in bonds. Both the 6- and 12-month results topped the performance of the portfolio's benchmark.

The main reason the portfolio outperformed its benchmark over the past 12 months was its fixed-income position, which made up approximately half of the portfolio. Broad diversification, such as exposure to high-yield corporate bonds and foreign fixed income securities, enhanced performance relative to the benchmark. The performance of the portfolio's equity holdings reflected the double-digit returns of the overall market, with smaller-cap and value oriented shares posting the biggest gains.

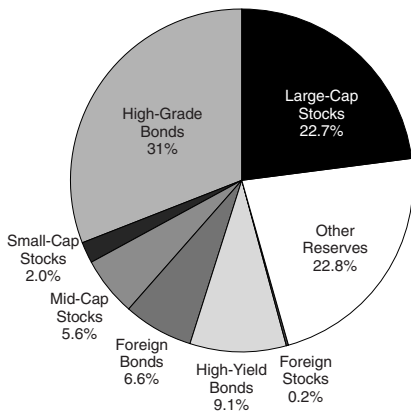
### MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORTFOLIO 2009	2.20%	13.48%
Weighted Benchmark*	1.95%	10.61%

### ASSET CLASS ALLOCATION

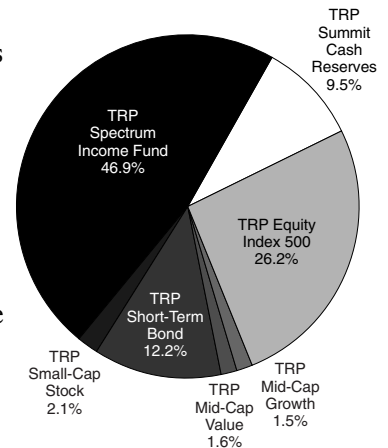


### PORTFOLIO 2006

Portfolio 2006 posted gains for the six and 12 months ended June 30, 2004, reflecting the positive performance of bonds, stocks, and cash. In addition, the portfolio outperformed its benchmark for both the 6- and 12-month periods.

The portfolio's fixed-income holdings, which made up about two-thirds of the portfolio during the past year, contributed most to the outperformance relative to the weighted benchmark. Broad diversification and exposure to sectors not included in the selected benchmark contributed favorably to results. These sectors included high-yield corporate bonds, which were the top performers in the bond market, and international bonds. The portfolio's equity component posted a double-digit gain for the 12 months, mirroring the performance of the broad stock market. Toward the end of the period, some of the portfolio's fixed-income holdings were shifted into cash to position the portfolio for rising short-term interest rates.

### MUTUAL FUND ALLOCATION

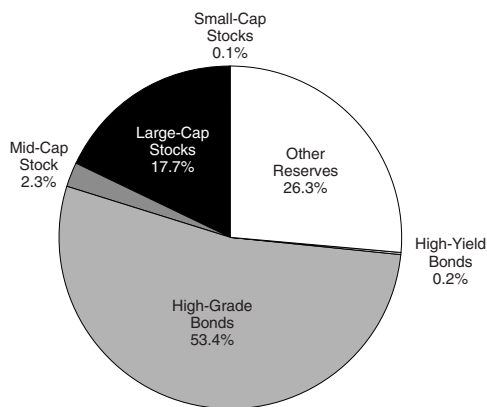


### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORTFOLIO 2006	1.55%	9.90%
Weighted Benchmark*	1.27%	6.81%



### ASSET CLASS ALLOCATION

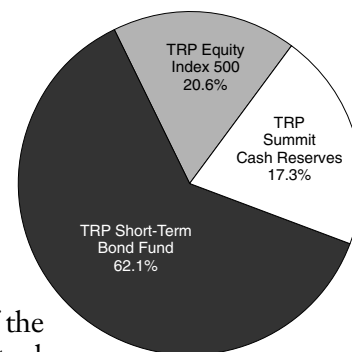


### PORTFOLIO FOR COLLEGE

The Portfolio for College posted positive returns for the six and 12 months ended June 30, 2004. Results for both the 6- and 12-month periods lagged the returns of the portfolio's benchmark.

This conservatively positioned portfolio invested 80% of its assets in short-term bonds for much of the one-year period. The remainder was invested in stocks, which posted double-digit gains during the period. Near the end of the period, a portion of the fixed income holdings were shifted from short-term bonds to cash to protect against rising interest rates.

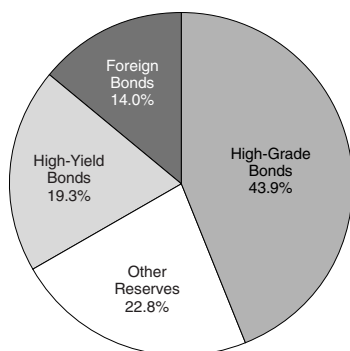
### MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
PORT. FOR COLLEGE	0.52%	4.21%
Weighted Benchmark*	0.72%	4.57%

### ASSET CLASS ALLOCATION

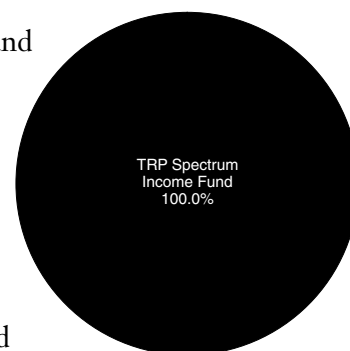


### BOND AND INCOME PORTFOLIO

Despite a rising interest rate environment, the Bond and Income Portfolio posted positive results for the six and 12 months ended June 30, 2004. The portfolio outperformed its benchmark, the Lehman Brothers U.S. Aggregate Index, for both the 6- and 12-month periods.

Diversification was the key to the portfolio's outperformance of its benchmark. The portfolio's exposure to non-benchmark investments such as high-yield corporate bonds — the best performers in the bond market over the past year — and dividend-paying stocks provided a strong boost to performance. These segments of the portfolio have a low correlation to interest-rate fluctuations and tend to perform well when the economy strengthens. In addition, the portfolio reduced its interest-rate sensitivity in the last six months by increasing the portfolio's allocation to short-term bonds, which helped limit the negative impact of rising rates.

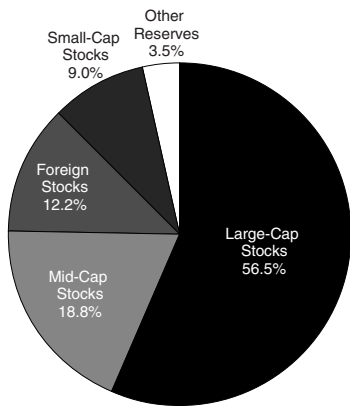
### MUTUAL FUND ALLOCATION



### Performance Comparison as of 6/30/04

	6 MONTHS	12 MONTHS
BOND & INCOME PORTFOLIO	0.60%	6.23%
Weighted Benchmark*	0.15%	0.32%

**ASSET CLASS ALLOCATION**

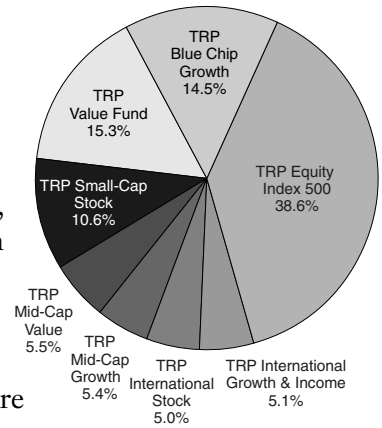


**EQUITY PORTFOLIO**

The Equity Portfolio posted a modestly positive return for the six months ended June 30, 2004, and a double-digit return for the 12 months ended June 30, 2004. Results for the last six months were in line with the performance of the portfolio's benchmark, but the portfolio lagged the benchmark for the 12-month period.

Every component of the portfolio gained 15% or more during the past 12 months, with the mid- and small-cap components of the portfolio posting the best results. Despite very strong absolute returns, the small-cap holdings trailed their benchmark as the rally in the small-cap sector was driven by more speculative investments. The portfolio's international stock holdings also produced strong returns, but they trailed the broad foreign stock indexes. Relative underperformance in the small-cap and international sectors contributed to underperformance versus the benchmark over the last 12 months.

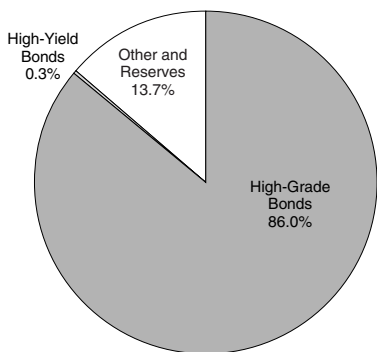
**MUTUAL FUND ALLOCATION**



**Performance Comparison as of 6/30/04**

	6 MONTHS	12 MONTHS
EQUITY PORTFOLIO	4.17%	21.75%
Weighted Benchmark*	4.21%	23.00%

**ASSET CLASS ALLOCATION**

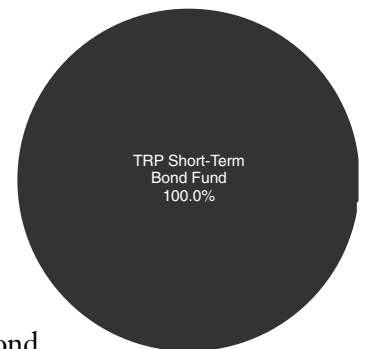


**SHORT-TERM BOND PORTFOLIO**

The Short-Term Bond Portfolio underperformed its benchmark for the six months ended June 30, 2004 and from its inception on October 31, 2003. Results for the 6-month period slightly lagged the returns of the portfolio's benchmark, the Lehman Brothers 1- to 3-Year Government/Credit Index.

The portfolio's performance reflected rising short-term bond yields. The two-year Treasury note yield climbed from 1.8% as of October 31, 2003, to 2.7% on June 30, 2004. A stronger economy and the Federal Reserve's first interest rate increase in four years pushed short-term bond yields higher. The portfolio's emphasis on corporate bonds and mortgage-backed securities boosted results, while its Treasury and government bond holdings detracted from performance.

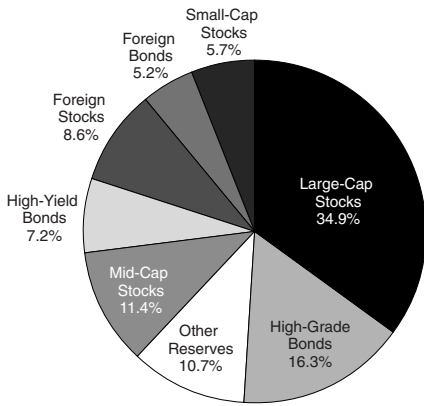
**MUTUAL FUND ALLOCATION**



**Performance Comparison as of 6/30/04**

	6 MONTHS	12 MONTHS
SHORT-TERM BOND PORTFOLIO	-0.10%	N.A.
Weighted Benchmark*	0.04%	N.A.

**ASSET CLASS ALLOCATION**



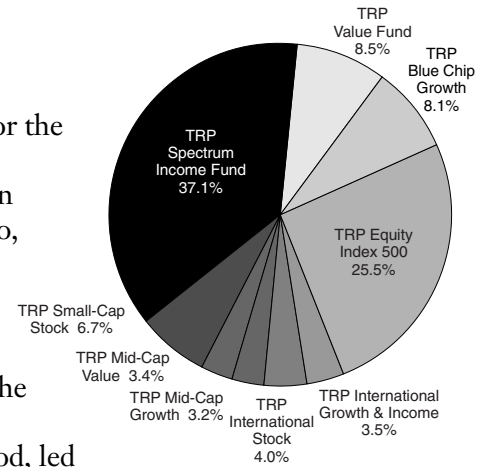
**BALANCED PORTFOLIO**

The Balanced Portfolio posted positive returns for the six and 12 months ended June 30, 2004. The portfolio's performance reflected strong returns in stocks, which made up about 60% of the portfolio, and modest gains from bonds. Both the 6- and 12-month results outpaced the performance of the portfolio's benchmark.

The equity portion of the portfolio contributed the most to absolute performance — each stock

component in the portfolio posted double-digit gains during the one-year period, led by mid- and small-cap holdings. However, the portfolio's fixed-income portion was the main reason the portfolio outperformed its benchmark. Significant weightings in high-yield corporate bonds and foreign bonds enhanced relative performance, while an increased position in short-term bonds during the last six months helped limit the negative impact of rising interest rates.

**MUTUAL FUND ALLOCATION**



**Performance Comparison as of 6/30/04**

	6 MONTHS	12 MONTHS
BALANCEDPORT.	2.83%	15.64%
Weighted Benchmark*	2.60%	13.65%

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

# MARYLAND COLLEGE INVESTMENT PLAN

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## ANALYSIS OF FINANCIAL POSITION AND RESULTS OF OPERATIONS

### Statement of Fiduciary Net Assets

The Statement of Fiduciary Net Assets presents the assets, liabilities, and net assets of the College Investment Plan as of June 30, 2004. This statement, along with the College Investment Plan's Statement of Changes in Fiduciary Net Assets, is prepared using the accrual basis of accounting. Under this method of accounting, revenues and assets are recognized when enrollment materials are received in good order (including the payment of the required enrollment fee), distributions from an account 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 College Investment Plan increased by \$237 million. This was due to the addition of approximately 14,300 new accounts as well as the additional investments made into existing Plan accounts.

The College Investment Plan Statement of Fiduciary Net Assets includes assets, liabilities and net assets. We classify assets as current and non current. Current assets consist primarily of investments. Of these amounts, investments comprise in excess of 99% of current assets. Non current assets are less than 1% of all assets and are detailed in the Portfolio Financial Statements contained in the Supplementary Information.

Net assets consist primarily of contributions to accounts and investment earnings, net of distributions from accounts.

### 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 College Investment Plan. The purpose of this statement is to present the account contributions and increases or decreases in the fair value of investments of the College Investment Plan and the payments or distributions made by the Plan.

Additions are the result of contributions to accounts in the College Investment Plan. Deductions are those payments or distributions made from accounts.

## **Portfolio Financial Statements**

The Statement of Net Assets by Portfolio, the Statement of Operations and Changes in Net Assets and the Financial Highlights are included in this Annual Report as supplementary statements. These statements contain certain information for each of the portfolios within the College Investment Plan as of June 30, 2004.

The Statement of Net Assets by Portfolio details the investments and net assets for each portfolio. This statement also contains information regarding the investments in the underlying mutual funds for each of the portfolios. Net assets consist of account contributions and investment earnings and losses, net of distributions from accounts.

The Statement of Operations and Changes in Net Assets reports the investment income and the realized and unrealized gains and losses for each portfolio. This statement also includes information regarding account contributions and distributions from accounts for each portfolio. An account holder's interest in a portfolio is represented as a number of units.

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

## **BUDGETARY CONTROL AND FINANCIAL OVERSIGHT**

The College Investment Plan is administered by the College Savings Plans of Maryland, an independent State agency that does not receive an appropriation from the State of Maryland. The Board, however, in accordance with the enabling legislation for the College Investment Plan, prepares and submits an annual budget to the Maryland General Assembly for information purposes. In accordance with its fiduciary obligations, each quarter, the Board reviews a comparison of actual and budgeted expenses in connection with its administration of the College Savings Plans of Maryland.

## Report of Independent Auditors

To the College Savings Plans of  
Maryland Board

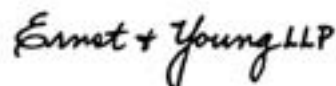
We have audited the accompanying statement of fiduciary net assets of the Maryland College Investment Plan (the Plan) and the individual portfolio statements of net assets (the Portfolios), as of June 30, 2004, and the related statement of changes in fiduciary net assets and portfolio statements of operations and changes in net assets and financial highlights for the year then ended. These financial statements and financial highlights are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits 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 and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and financial highlights. Our procedures included confirmation of investments owned as of June 30, 2004 by correspondence with the transfer agent of the underlying mutual funds. 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Maryland College Investment Plan and each of the respective portfolios constituting the Maryland College Investment Plan, as of June 30, 2004, and the changes in the Plan's financial position and the Portfolio's results of operations, changes in net assets and financial highlights for the year then ended in conformity with accounting principles generally accepted in the United States.

Management's discussion and analysis on pages 25 through 33 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.



August 25, 2004

A Member Practice of Ernst & Young Global

# MARYLAND COLLEGE INVESTMENT PLAN

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## STATEMENT OF FIDUCIARY NET ASSETS As of June 30, 2004

(amounts in thousands)

### ASSETS

Current assets:

Investments, at fair value	\$559,226
Other assets	<u>301</u>
Total current assets	<u>559,527</u>
 TOTAL ASSETS	 559,527

### LIABILITIES

Current liabilities:

Other liabilities	<u>586</u>
 TOTAL LIABILITIES	 <u>586</u>

### NET ASSETS

Restricted held in trust for:

Individuals and organizations	<u>558,941</u>
 TOTAL NET ASSETS	 <u><u>558,941</u></u>

*See accompanying notes to financial statements*

# MARYLAND COLLEGE INVESTMENT PLAN

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## STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS For the Fiscal Year Ended June 30, 2004

(amounts in thousands)

### Additions:

#### Contributions:

Account holders	\$204,422
Seed money contributions	<u>200</u>
Total Contributions	204,622

#### Investment income:

Net increase in fair value of investments	53,391
Net investment income	<u>6,449</u>
Total Investment income	59,840

### Deductions:

Payments in accordance with trust agreements	27,562
Redemption of seed investment	<u>207</u>
Total Deductions	<u>27,769</u>

Net additions to Net Assets \$236,693

Net assets, Beginning of year 322,248

Net assets, End of year \$558,941

*See accompanying notes to financial statements*



# MARYLAND COLLEGE INVESTMENT PLAN

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## NOTES TO FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2004

### 1. ORGANIZATION AND PURPOSE

The Maryland College Investment Plan (Plan) was established under the Maryland College Investment Trust (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 trust for individual investors. The College Savings Plans of Maryland Board (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 eight enrollment-based and four fixed investment portfolios (individually, a Portfolio and collectively, the Portfolios). Each Portfolio invests in predetermined underlying equity, fixed-income, and/or money market mutual funds (Underlying Mutual Funds) managed by Price Associates or T. Rowe Price International, Inc., a wholly owned subsidiary of Price Associates. Each Portfolio commenced operations on November 26, 2001 except Portfolio 2024 and the Short-Term Bond Portfolio, both of which commenced operations on October 31, 2003.

The Maryland General Assembly passed House Bill 11, which created the Plan, during the 2000 legislative session. The Plan is a separate program, authorized by the Maryland Annotated Code, Education Article, Section 18, Subtitle 19A. The Board administers the Plan. The Board consists of ten members, five of which are ex-officio members. The ex-officio members are the Comptroller of the State of Maryland, the Treasurer of the State of Maryland, the Secretary of the Maryland Higher Education Commission, the Maryland State Superintendent of Schools and the Chancellor of the University System of Maryland. The five remaining members are public members appointed by the Governor of the State of Maryland.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Preparation

The accompanying Plan financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, which require the use of estimates. 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.

#### Units

Each investor'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 account holder 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.

## Investment Income and Transactions

Income and capital gain distributions from the Underlying Mutual Funds are recorded on the ex-dividend date and are automatically reinvested. Investment transactions in shares of the Underlying Mutual Funds are accounted for on the trade date. Realized gains and losses are reported on the identified cost basis.

### 3. INVESTMENTS

The Plan is not restricted in its investments by legal or contractual provisions. Investments are stated at fair value as provided in GASB Statement No. 31. The Plan currently invests solely in mutual funds, which are valued at each Underlying Mutual Fund's closing net asset value per share on the date of valuation. Unrealized appreciation/depreciation on investments due to changes in fair value is recognized in the Plan's operations each year.

The Plan's investments in mutual funds expose it to market risk in the form of equity price risk – that is, the potential future loss of value that would result from a decline in the fair values of the Underlying Mutual Funds. Each Underlying Mutual Fund and its underlying net assets are also subject to market risk that may arise from changes in equity prices, credit ratings, foreign currency exchange rates, and interest rates. The Plan's investments in mutual fund shares are not subject to classification by credit risk.

At June 30, 2004, the Plan held the following aggregate investments in the Underlying Mutual Funds:

<i>In thousands</i>	AGGREGATE COST	UNREALIZED GAIN/(LOSS)	AGGREGATE FAIR VALUE
<b>Domestic stock funds</b>			
T. Rowe Price Blue Chip Growth Fund	\$ 40,781	\$ 5,388	\$ 46,169
T. Rowe Price Equity Index 500 Fund	152,916	18,009	170,925
T. Rowe Price Mid-Cap Growth Fund	15,596	5,166	20,762
T. Rowe Price Mid-Cap Value Fund	17,756	3,538	21,294
T. Rowe Price Small-Cap Stock Fund	32,004	6,954	38,958
T. Rowe Price Value Fund	40,613	7,213	47,826
Total domestic stock funds	299,666	46,268	345,934
<b>International stock funds</b>			
T. Rowe Price International Growth & Income Fund	14,916	2,846	17,762
T. Rowe Price International Stock Fund	14,352	3,311	17,663
Total international stock funds	29,268	6,157	35,425
<b>Domestic bond funds</b>			
T. Rowe Price Short-Term Bond Fund	32,452	(230)	32,222
<b>Blended asset funds</b>			
T. Rowe Price Spectrum Income Fund	127,388	6,329	133,717
<b>Money market funds</b>			
T. Rowe Price Summit Cash Reserves Fund	11,928	-	11,928
Total Investments in Mutual Funds	<u>\$ 500,702</u>	<u>\$ 58,524</u>	<u>\$ 559,226</u>

#### 4. TAX EXEMPT STATUS

The Plan is exempt from federal taxation in accordance with Section 529 of the Internal Revenue Code and is exempt from Maryland State and local taxation in accordance with Maryland law. Accordingly, the Plan makes no provision for income taxes.

#### 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, recordkeeping and account servicing, administrative, distribution and marketing, custodial, and certain other services to the Plan. 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.

Each Portfolio pays a program fee to Price Associates at a rate of up to 0.38% of the Portfolio's average daily net assets. The fee is accrued daily and paid monthly. Program fees payable by the Portfolios at June 30, 2004 totaled \$298,873. In addition, each Portfolio indirectly bears its pro-rata share of the fees and expenses of the Underlying Mutual Funds in which it invests.

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 recordkeeping and related account holder (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.

Price Associates has agreed to limit the ratio of the Plan's direct and indirect expenses to average net assets (Plan's effective expense ratio) to 1.05% per year. For purposes of the limitation, expenses include the program fee charged to the Portfolios as well as the effect of the weighted average expense ratios of the Underlying Mutual Funds in which the Portfolios invest. Expenses in excess of the limit are borne by Price Associates (expense waivers) in the form of reduced program fees paid by each Portfolio to Price Associates. Expense waivers are allocated to the Portfolios on the basis of relative average net assets and are subject to later repayment by the Portfolios to the extent that repayment would not cause the Plan's effective expense ratio to exceed the 1.05% limit. Pursuant to this limit, the cumulative amount of program fees waived by Price Associates subject to future repayment by the Portfolios was \$4,059 as of June 30, 2004.

The staff of the College Savings Plans of Maryland administers Price Associates' management of the Plan in accordance with applicable laws and regulations, Board policy, and the Board's contract with Price Associates. Employees of the Board prepare, review and obtain Board approval of all Plan disclosure documents, prepare, review and approve all marketing initiatives in accordance with the approved marketing plan, and oversee the implementation and employee training of operational procedures. The College Savings Plans of Maryland coordinates several contracts between the College Savings Plans of Maryland Board and its service providers for services to both the Maryland Prepaid College Trust and the Plan. The College Savings Plans of Maryland Board receives compensation for services that the Board and its staff render on behalf of the Plan, in the amount of one-half of enrollment fees charged by the Plan to account holders. Administrative services performed by the College Savings Plans of Maryland Board and the staff of the College Savings Plans of Maryland are accounted for in the financial statements of the Prepaid College Trust.

# SUPPLEMENTARY INFORMATION

## MARYLAND COLLEGE INVESTMENT PLAN Fiscal Year Ended June 30, 2004

Amounts in thousands, except net asset value per unit

Statements of Net Assets	PORTFOLIO 2024*			PORTFOLIO 2021		
	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE
<b>Investments at value</b>						
T. Rowe Price Blue Chip Growth Fund	12.9%	10	\$ 296	12.6%	186	\$ 5,450
T. Rowe Price Equity Index 500 Fund	41.7%	31	959	40.8%	576	17,693
T. Rowe Price International Growth & Income Fund	5.0%	11	116	4.9%	198	2,131
T. Rowe Price International Stock Fund	4.9%	10	113	5.2%	192	2,246
T. Rowe Price Mid-Cap Growth Fund	5.6%	3	129	5.8%	55	2,533
T. Rowe Price Mid-Cap Value Fund	5.6%	6	130	6.0%	118	2,596
T. Rowe Price Short-Term Bond Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Small-Cap Stock Fund	11.2%	8	257	11.5%	166	4,986
T. Rowe Price Spectrum Income Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Summit Cash Reserves Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Value Fund	13.1%	14	302	13.2%	272	5,721
Total Investments at value	100.0%		2,302	100.0%		43,356
Other Assets Less Liabilities	0.0%		(1)	0.0%		(22)
<b>NET ASSETS</b>	100.0%		\$ 2,301	100.0%		\$ 43,334
Composition of Net Assets:						
Paid-in capital			\$ 2,203			\$ 37,700
Retained earnings			\$ 98			\$ 5,634
Units Outstanding			207.3			3,619.8
<b>NET ASSET VALUE PER UNIT</b>			\$11.10			\$11.97
Investments at cost			\$2,212			\$ 37,883

\*Reflects activity from commencement of portfolio operations on October 31, 2003 through June 30, 2004.

PORTFOLIO 2018			PORTFOLIO 2015			PORTFOLIO 2012			PORTFOLIO 2009			PORTFOLIO 2006		
PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE
11.9%	276	\$ 8,082	11.4%	273	\$ 7,991	7.4%	185	\$ 5,417	4.3%	91	\$ 2,654	0.0%	-	\$ -
39.8%	878	26,973	33.8%	769	23,638	28.1%	664	20,403	26.4%	530	16,293	26.2%	382	11,749
4.6%	291	3,137	3.7%	238	2,566	3.6%	244	2,621	1.7%	101	1,084	0.0%	-	-
4.3%	251	2,938	4.0%	238	2,791	3.4%	210	2,448	1.5%	78	907	0.0%	-	-
5.7%	83	3,864	4.8%	73	3,356	3.8%	59	2,746	2.1%	28	1,276	1.5%	15	693
5.6%	173	3,802	5.0%	158	3,468	3.9%	130	2,844	2.2%	61	1,342	1.6%	33	722
0.0%	-	-	0.0%	-	-	0.0%	-	-	2.5%	332	1,579	12.2%	1,153	5,488
11.2%	253	7,592	8.3%	194	5,830	6.1%	149	4,473	4.1%	85	2,552	2.1%	32	968
4.7%	272	3,169	17.7%	1,062	12,336	36.0%	2,247	26,108	48.7%	2,587	30,065	46.9%	1,810	21,027
0.0%	-	-	0.0%	-	-	0.0%	-	-	2.0%	1,208	1,208	9.5%	4,251	4,252
12.2%	395	8,301	11.3%	377	7,921	7.7%	265	5,563	4.6%	135	2,834	0.0%	-	-
100.0%		67,858	100.0%		69,897	100.0%		72,623	100.1%		61,794	100.0%		44,899
0.0%		(30)	0.0%		(37)	0.0%		(35)	(0.1)%		(32)	0.0%		(22)
100.0%		\$67,828	100.0%		\$69,860	100.0%		\$72,588	100.0%		\$61,762	100.0%		\$ 44,877
		\$58,685			\$ 61,099			\$63,592			\$54,352			\$ 40,186
		\$ 9,143			\$ 8,761			\$ 8,996			\$7,410			\$ 4,691
		5,668.8			5,816.5			5,923.1			4,927.1			3,611.8
		\$11.97			\$12.01			\$12.26			\$12.54			\$12.43
		\$59,034			\$ 61,747			\$64,643			\$56,003			\$ 41,597

# SUPPLEMENTARY INFORMATION

## MARYLAND COLLEGE INVESTMENT PLAN Fiscal Year Ended June 30, 2004

Amounts in thousands

Statements of Net Assets	PORTFOLIO FOR COLLEGE			BOND & INCOME PORTFOLIO		
	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE
<b>Investments at value</b>						
T. Rowe Price Blue Chip Growth Fund	0.0%	-	\$ -	0.0%	-	\$ -
T. Rowe Price Equity Index Fund	20.6%	250	7,670	0.0%	-	-
T. Rowe Price International Growth & Income Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price International Stock Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Mid-Cap Growth Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Mid-Cap Value Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Short-Term Bond Fund	62.1%	4,857	23,121	0.0%	-	-
T. Rowe Price Small-Cap Stock Fund	0.0%	-	-	0.0%	-	-
T. Rowe Price Spectrum Income Fund	0.0%	-	-	100.1%	1,914	22,236
T. Rowe Price Summit Cash Reserves Fund	17.4%	6,469	6,469	0.0%	-	-
T. Rowe Price Value Fund	0.0%	-	-	0.0%	-	-
Total investments at value	100.1%		37,260	100.1%		22,236
<b>Other Assets Less Liabilities</b>	(0.1)%		(21)	(0.1)%		(13)
<b>NET ASSETS</b>	<b>100.0%</b>		<b>\$37,239</b>	<b>100.0%</b>		<b>\$ 22,223</b>
Composition of Net Assets:						
Paid-in capital			\$ 35,340			\$ 19,034
Retained earnings			\$ 1,899			\$ 3,189
Units Outstanding			3,202.5			1,648.9
<b>NET ASSET VALUE PER UNIT</b>			<b>\$11.63</b>			<b>\$13.48</b>
Investments at cost			\$36,382			\$20,652

SHORT-TERM BOND PORTFOLIO*			EQUITY PORTFOLIO			BALANCED PORTFOLIO			TOTAL		
PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE	PERCENT OF NET ASSETS	SHARES	VALUE
0.0%	-	\$ -	14.5%	417	\$ 12,212	8.1%	139	\$ 4,067	8.3%	1,577	\$ 46,169
0.0%	-	-	38.7%	1,064	32,712	25.5%	418	12,835	30.6%	5,562	170,925
0.0%	-	-	5.1%	404	4,341	3.5%	164	1,766	3.2%	1,651	17,762
0.0%	-	-	5.0%	362	4,224	4.0%	171	1,996	3.2%	1,512	17,663
0.0%	-	-	5.4%	98	4,525	3.2%	35	1,640	3.7%	449	20,762
0.0%	-	-	5.5%	214	4,686	3.4%	78	1,704	3.8%	971	21,294
100.0%	427	2,033	0.0%	-	-	0.0%	-	-	5.8%	6,769	32,221
0.0%	-	-	10.6%	298	8,929	6.7%	112	3,371	7.0%	1,299	38,958
0.0%	-	-	0.0%	-	-	37.2%	1,616	18,776	23.9%	11,508	133,717
0.0%	-	-	0.0%	-	-	0.0%	-	-	2.1%	11,928	11,929
0.0%	-	-	15.3%	615	12,909	8.5%	204	4,275	8.5%	2,277	47,826
100.0%		2,033	100.1%		84,538	100.1%		50,430	100.1%		559,226
0.0%		(1)	(0.1)%		(45)	(0.1)%		(26)	(0.1)%		(285)
100.0%	\$	2,032	100.0%	\$	84,493	100.0%	\$	50,404	100.0%	\$	558,941
	\$	2,038		\$	73,231		\$	44,010		\$	491,470
	\$	(6)		\$	11,262		\$	6,394		\$	67,471
		202.6			7,053.9			3,963.9			
		\$10.03			\$11.98			\$12.72			
		\$2,056			\$73,439			\$45,054			\$ 500,702

\*Reflects activity from commencement of portfolio operations on October 31, 2003 through June 30, 2004.

# SUPPLEMENTARY INFORMATION

## MARYLAND COLLEGE INVESTMENT PLAN Fiscal Year Ended June 30, 2004

Amounts in thousands

<b>Statements of Operations and Changes in Net Assets</b>	PORTFOLIO 2024*	PORTFOLIO 2021	PORTFOLIO 2018	PORTFOLIO 2015	PORTFOLIO 2012
<b>Operations</b>					
Net investment income					
Income distributions from underlying funds	\$ 7	\$ 258	\$ 483	\$ 756	\$ 1,142
Expenses					
Program fee	3	112	188	195	208
Shareholder servicing fee	5	164	246	235	216
Shareholder servicing fee reimbursed by underlying funds	(5)	(164)	(246)	(235)	(216)
Program fee recaptured by Program Manager	-	3	4	4	4
Total expenses	3	115	192	199	212
Net investment income	4	143	291	557	930
Net realized and unrealized gain (loss)					
Net realized gain (loss)					
Sale of underlying funds	3	(85)	(266)	(294)	(524)
Capital gain distributions from underlying funds	1	90	159	174	195
Net realized gain (loss)	4	5	(107)	(120)	(329)
Change in unrealized gain (loss)	90	5,311	8,963	8,135	7,424
Net realized and unrealized gain (loss)	94	5,316	8,856	8,015	7,095
Increase (decrease) in net assets from operations	98	5,459	9,147	8,572	8,025
<b>Unit Transactions</b>					
Participant contributions	2,224	19,605	25,167	26,111	25,518
Seed money contribution from trust	100	-	-	-	-
Participant distributions	(14)	(1,320)	(1,550)	(1,992)	(1,888)
Redemption of trust's seed investment	(107)	-	-	-	-
Increase (decrease) in net assets from unit transactions	2,203	18,285	23,617	24,119	23,630
<b>NET ASSETS</b>					
Increase (decrease) during period	2,301	23,744	32,764	32,691	31,655
Beginning of period	-	19,590	35,064	37,169	40,933
End of period	\$ 2,301	\$ 43,334	\$ 67,828	\$ 69,860	\$ 72,588
<b>Unit information (number of units)</b>					
Units outstanding, beginning of period	-	1,994.3	3,563.9	3,686.2	3,894.5
Units issued	218.6	1,741.8	2,244.2	2,306.0	2,190.9
Units redeemed	(11.3)	(116.3)	(139.3)	(175.7)	(162.3)
Units outstanding, end of period	207.3	3,619.8	5,668.8	5,816.5	5,923.1

\* Reflects activity from commencement of portfolio operations on October 31, 2003 through June 30, 2004



PORTFOLIO 2009	PORTFOLIO 2006	PORTFOLIO FOR COLLEGE	BOND AND INCOME PORTFOLIO	SHORT-TERM BOND PORTFOLIO *	EQUITY PORTFOLIO	BALANCED PORTFOLIO	TOTAL
\$ 1,279	\$ 1,090	\$ 786	\$ 881	\$ 20	\$ 543	\$ 841	\$ 8,086
179	135	119	75	3	241	144	1,602
171	128	138	94	3	231	166	1,797
(171)	(128)	(138)	(94)	(3)	(231)	(166)	(1,797)
4	3	3	2	-	5	3	35
183	138	122	77	3	246	147	1,637
1,096	952	664	804	17	297	694	6,449
170	(228)	(175)	(24)	-	(334)	(104)	(1,861)
187	110	-	105	-	183	140	1,344
357	(118)	(175)	81	-	(151)	36	(517)
4,247	2,421	774	317	(23)	11,787	4,462	53,908
4,604	2,303	599	398	(23)	11,636	4,498	53,391
5,700	3,255	1,263	1,202	(6)	11,933	5,192	59,840
21,012	14,652	13,697	6,536	2,260	28,075	19,565	204,422
-	-	-	-	100	-	-	200
(1,833)	(2,349)	(6,563)	(4,662)	(222)	(2,656)	(2,513)	(27,562)
-	-	-	-	(100)	-	-	(207)
19,179	12,303	7,134	1,874	2,038	25,419	17,052	176,853
24,879	15,558	8,397	3,076	2,032	37,352	22,244	236,693
36,883	29,318	28,842	19,147	-	47,142	28,160	322,248
\$61,762	\$44,876	\$37,239	\$22,223	\$2,032	\$84,494	\$50,404	\$558,941
3,337.0	2,591.3	2,584.4	1,508.3	-	4,791.8	2,558.8	
1,744.0	1,214.4	1,192.1	496.2	234.6	2,497.2	1,613.4	
(153.9)	(193.9)	(574.0)	(355.6)	(32.0)	(235.1)	(208.3)	
4,927.1	3,611.8	3,202.5	1,648.9	202.6	7,053.9	3,963.9	

**MARYLAND COLLEGE INVESTMENT PLAN**  
**Fiscal Year Ended June 30, 2004**

For a unit outstanding throughout the period \*

	PORTFOLIO 2024**	PORTFOLIO 2021	PORTFOLIO 2018	PORTFOLIO 2015	PORTFOLIO 2012	PORTFOLIO 2009	PORTFOLIO 2006	PORTFOLIO FOR COLLEGE	BOND & INCOME PORTFOLIO	EQUITY PORTFOLIO	SHORT-TERM BOND PORTFOLIO**	BALANCED PORTFOLIO
<b>NET ASSET VALUE</b>												
Beginning of period	\$10.00	\$ 9.82	\$ 9.84	\$10.08	\$10.51	\$11.05	\$11.31	\$11.16	\$12.69	\$ 9.84	\$10.00	\$11.00
Investment activities	0.04	0.05	0.06	0.12	0.19	0.27	0.31	0.23	0.51	0.05	0.17	0.21
Net investment income <sup>1</sup>	1.06	2.10	2.07	1.81	1.56	1.22	0.81	0.24	0.28	2.09	(0.14)	1.51
Net realized and unrealized gain (loss)	1.10	2.15	2.13	1.93	1.75	1.49	1.12	0.47	0.79	2.14	0.03	1.72
Total from investment activities												
<b>NET ASSET VALUE</b>												
<b>End of period</b>	<b>\$11.10</b>	<b>\$ 11.97</b>	<b>\$11.97</b>	<b>\$12.01</b>	<b>\$12.26</b>	<b>\$12.54</b>	<b>\$12.43</b>	<b>\$11.63</b>	<b>\$13.48</b>	<b>\$11.98</b>	<b>\$10.03</b>	<b>\$12.72</b>

**Ratios <sup>†</sup>**

<b>Total Return</b>	<b>11.00%</b>	<b>21.89%</b>	<b>21.65%</b>	<b>19.15%</b>	<b>16.65%</b>	<b>13.48%</b>	<b>9.90%</b>	<b>4.21%</b>	<b>6.23%</b>	<b>21.75%</b>	<b>0.30%</b>	<b>15.64%</b>
Ratio of expenses to average net assets	0.36% <sup>3</sup>	0.37%	0.36%	0.36%	0.37%	0.37%	0.36%	0.37%	0.36%	0.36%	0.36%	0.36% <sup>3</sup>
Ratio of net investment income to average net assets	0.44% <sup>3</sup>	0.46%	0.57%	1.03%	1.63%	2.23%	2.55%	2.03%	3.87%	0.45%	2.30%	2.75% <sup>3</sup>
Portfolio turnover rate	7.4% <sup>3</sup>	0.3 %	0.2%	0.4%	0.3%	0.4%	1.1%	1.9%	9.1%	1.0%	30.9%	1.2% <sup>3</sup>

**Supplemental information (Unaudited)**

Annualized weighted-average expense ratio of the underlying mutual funds in which each portfolio invests <sup>2</sup>	0.69%	0.69%	0.69%	0.70%	0.70%	0.68%	0.61%	0.50%	0.75 %	0.71%	0.55%	0.72%
Effective Expense Ratio	1.05%	1.06%	1.05%	1.06%	1.07%	1.05%	0.97%	0.87%	1.11%	1.07%	0.91%	1.08%
Net Assets, end of period (in thousands)	\$2,301	\$43,334	\$67,828	\$69,860	\$72,588	\$61,762	\$44,877	\$37,239	\$22,223	\$84,493	\$2,032	\$50,404

\* Per unit amounts were calculated based on average units outstanding during the fiscal year.

\*\* Reflects activity from commencement of portfolio operations on October 31, 2003 through June 30, 2004.

† Ratios reflect the activity of each portfolio, and do not include the activity of the underlying funds in which each portfolio invests.

1 Recognition of the portfolios' net investment income is affected by the timing of dividend declarations by the underlying funds in which the portfolios invest.

2 Reflects the indirect expense impact to the portfolio from its investment in the underlying funds, based on the actual expense ratio of each underlying fund weighted for the portfolio's relative average investment therein.

3 Annualized.

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

**COLLEGE SAVINGS**  
PLANS OF MARYLAND

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