

ANNUAL REPORT SUMMARY

Helping to Make College Dreams Affordable

Since our inception in 1998 with the launch of the **Maryland Prepaid College Trust**, our goal has remained the same: to help make college more affordable for Maryland families.

We have made many significant strides. In 2001, we launched the **Maryland College Investment Plan** and now offer two Plans, the **Prepaid College Trust** and the **College Investment Plan**. Both Plans provide a variety of smart choices to allow families to save in advance for a college education.

As of June 30, 2006, the Plans had combined invested assets in excess of \$1.4 billion for approximately 93,000 beneficiaries. More than \$309 million was contributed to the Plans during the fiscal year ended June 30, 2006 to help families prepare for future college costs. More families are using their accounts as well, with approximately \$50 million in combined distributions from the two Plans.

While we are pleased with the sustained growth in the Plans, we know that there are many more families who have college dreams for their children and could benefit from getting a head start on college savings. You – our current participants – are one of the best ways that families learn about our Plans. We hope that you will continue to be an advocate for college savings with your family and friends.

We are pleased to present our first Annual Report Summary, which includes an overview of the past year, provides financial highlights of each Plan, discusses recent significant events, and affirms our commitment to helping Maryland families save for college with easy, affordable, tax advantaged options. We also recommend that you read our Comprehensive Annual Report. This Report contains the audited financial statements of both Plans and more detailed information about the Plans.

Thank you for choosing to invest in the **College Savings Plans of Maryland**.

Sincerely,

College Savings Plans of Maryland Board

2006 Snapshot

6/30/06

Prepaid College Trust

Contributions
\$70 million

Investments
\$437 million

Beneficiaries
24,088

Funded Status
103%

College Investment Plan

Contributions
\$297 million

Investments
\$1 billion

Beneficiaries
69,194

Average
Account Size
\$11,317

Robert L. Ehrlich, Jr.
Governor

Michael S. Steele
Lt. Governor

College Savings Plans of Maryland Board

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State Treasurer

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State Superintendent of Schools

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Chancellor
University System of Maryland

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Board Secretary and Public Member

W. Gary Dorsch
Public Member

William Donald Schaefer
State Comptroller

T. Eloise Foster
Public Member

Read the 2006
Comprehensive
Annual Report
by visiting
collegesavingsmd.org
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NEW DEVELOPMENTS ADD MORE INCENTIVES TO SAVE FOR COLLEGE

Lower Fees and Portfolio Enhancements for the College Investment Plan

On July 1, 2006, the **College Savings Plans of Maryland** began a new contract with T. Rowe Price for a base term of seven years. With this new contract, participants are now realizing fee reductions and portfolio enhancements to the **College Investment Plan**. Based on the projected cost of a \$10,000 investment over 10 years, these fee reductions would result in an average savings of \$200 - \$300, helping investors to accumulate more money for future college savings. With these fee reductions, the **College Investment Plan** is now positioned among the lowest cost, directly-marketed, in-state 529 plans in the country.

Portfolio enhancements include the introduction of a low-cost equity index portfolio, the Total Equity Market Index Portfolio. We also introduced Portfolio 2027, a new portfolio that follows the natural evolution of the Enrollment-Based Portfolios, since Portfolio 2006 has been moved into the Portfolio for College.

Financial Aid Treatment for the Prepaid College Trust is Now the Same as for the College Investment Plan

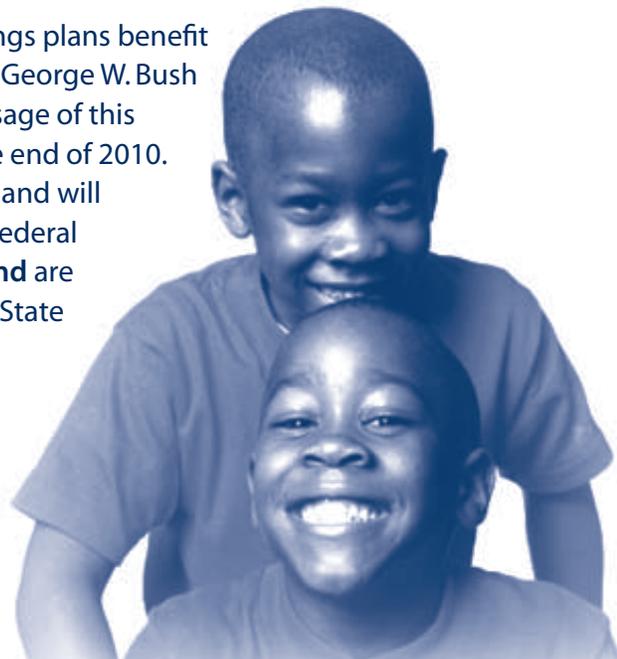
Provisions included in the Higher Education Reconciliation Act that positively affect the Federal financial aid treatment of prepaid tuition accounts such as the **Prepaid College Trust** became effective on July 1, 2006.

For families of college-age students, **Prepaid College Trust** accounts are to be reported on the FAFSA (Free Application for Federal Student Aid) using the "Account Value". Account Values are available for all **Prepaid College Trust** Account Holders by accessing the account online at collegesavingsmd.org.

College Investment Plan accounts will continue to be reported on the FAFSA as in the past at their current market value and will be counted as a parental asset if owned by the parent. More details are posted on our website.

Congress Makes Federal Tax Exemption Permanent for Section 529 College Savings Plans.

Millions of families in Internal Revenue Code Section 529 college savings plans benefit from new Federal tax legislation that went into effect when President George W. Bush signed the Pension Protection Act on August 17, 2006. Before the passage of this legislation, the tax exempt status for 529 plans was set to expire at the end of 2010. This new law clarifies Federal tax treatment of earnings in these plans and will provide families with the assurance of knowing that they will realize Federal tax-free earnings when funds in the **College Savings Plans of Maryland** are used for eligible college expenses. Maryland law already provides for State tax-free earnings for the **College Savings Plans of Maryland**, as well as a generous Maryland state income deduction of up to \$2,500 annually per account or beneficiary, depending on the Plan chosen.



FUTURE DIRECTION

At the **College Savings Plans of Maryland**, we continue to strive to help more Maryland families save for college so that they are better prepared to meet future college costs and are also able to reduce or avoid dependence on burdensome college loans.

We are extremely pleased with recent developments at the Federal level that make the tax exemption permanent and equalize the financial aid treatment of 529 prepaid and investment plans. We are also pleased that the new contract with T. Rowe Price offers significant fee reductions and portfolio enhancements that make it one of the most competitive 529 plans in the country among directly-sold, in-state plans.

Looking to the future, we plan to continue to offer a range of college savings options that are among the best in the nation in terms of quality investment choices, competitive fees, ease of use, and affordability.

We appreciate your commitment to saving for college with the **College Savings Plans of Maryland**.

FINANCIAL HIGHLIGHTS - MARYLAND PREPAID COLLEGE TRUST

Additions to Net Assets

The **Prepaid College Trust** allows families to lock in payments that are based in part on current tuitions at Maryland public colleges. The Board invests those payments and commits to pay future tuition benefits when students attend college, whether they attend a Maryland public college or nearly any other public or private, 2- or 4-year college in the country.

Total assets of the Trust continued to increase as a result of contributions from new and existing Account Holders, which exceeded \$70 million for this fiscal year. An additional \$55 million was invested according to the Trust's Investment Policy and more than \$11 million was paid in tuition benefits for nearly 2,300 beneficiaries.

For the fiscal year ended June 30, 2006, net assets of the Trust increased by \$42.4 million. This increase was due primarily to two factors. The first and most significant factor was the positive effect of having lower than expected increases in tuition for the current year at the University System of Maryland. Since the lower increases in tuition were not included in the calculation for contract pricing for the 2005-2006 enrollment period, net assets were positively impacted. Secondly, the Trust's rate of return on investments of 8.0% for the fiscal year ended June 30, 2006 exceeded our projected return of 7.65%.

"The Prepaid College Trust invests your scheduled payments, in order to pay future tuition benefits."

Condensed Statement of Net Assets at fiscal years' end

(In millions)	<u>2006</u>	<u>2005</u>
Assets		
Current	\$496.4	\$403.1
Non-current	<u>123.6</u>	<u>128.6</u>
Total	620.0	531.7
Liabilities		
Current	34.6	16.2
Non-current	<u>569.4</u>	<u>541.9</u>
Total	604.0	558.1
Net Assets		
Unrestricted	15.9	(26.5)
Invested in capital assets	<u>.1</u>	<u>.1</u>
Total	<u>\$16.0</u>	<u>\$ (26.4)</u>

Maryland Prepaid College Trust - Investment Earnings and Actuarial Status

Net Investment Gain

During the fiscal year ended June 30, 2006, the Trust continued to invest contract payments received into its diversified investment portfolio. The investment balances as of June 30, 2006 and 2005 are shown at right.

The overall rate of return of the Trust's assets for the fiscal year was 8.0%. This exceeds the stated goal in our Investment Policy of 7.65%. It is important to note, however, that investment returns do not determine the amount of your tuition benefits. Your tuition benefits are specified in your Contract. However, investment return is one of several important measures that are used to measure the Trust's financial soundness.

Investments (in thousands) at fiscal years' end

	<u>2006</u>	<u>2005</u>
Large Cap Value	\$65,988	\$51,282
S&P 500 Index	44,268	40,757
Large Cap Growth	42,869	37,922
Small Cap Core	44,153	43,821
Small Cap Value	45,984	33,903
Intermediate Term Bond	122,875	91,638
Short Term Bond	21,843	16,109
International	35,619	26,284
Emerging Markets	8,933	4,596
Total Investments	<u>\$432,532</u>	<u>\$346,312</u>

“The Trust’s Funded Status – the difference between the tuition benefits promised and the assets needed to pay those tuition benefits – is one way to measure the Trust’s financial health.”

Prepaid College Trust Builds Actuarial Surplus

Each year, an actuarial valuation of the **Prepaid College Trust** is conducted. The purpose of this valuation and resulting Soundness Report is to assess the future value of the Trust's assets compared to its future liabilities, which are discounted to reflect their present value.

The most significant change from the past year is the elimination of the Trust's actuarial deficit. As of June 30, 2006, the Trust was 103% funded, with an actuarial surplus of \$16.0 million, which is an improvement over the last fiscal year, when the Trust was 95% funded, with an actuarial deficit of \$26.5 million as of June 30, 2005.

There are two primary reasons for this improvement. In both cases, the positive effect on the actuarial valuation resulted in the elimination of the actuarial deficit and the creation of an actuarial surplus.

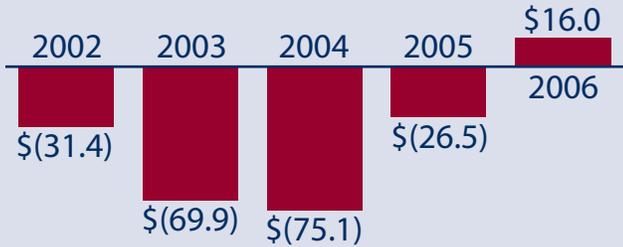
First, the Weighted Average Tuition at Maryland's public colleges increased by 1.5% for the 2006-2007 academic year, compared to our estimate used for the prior year's actuarial valuation of 7%.

Second, the **Prepaid College Trust's** investments produced an overall return of 8.0% during the fiscal year, as compared with the stated goal of 7.65%.

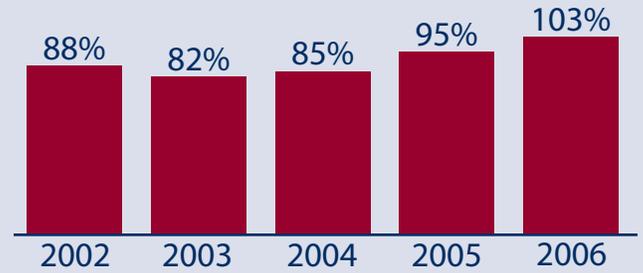
The key measures of soundness for the past five fiscal years are included in the charts below:

Actuarial Surplus/(Deficit)

(\$ million)



Funded Ratio



More Students Continue to Use Tuition Benefits at Colleges Nationwide

There are a total of 3,287 students eligible to use benefits for the Fall 2006 semester, of whom approximately 70% had claimed their Fall benefits as of October 12, 2006. Of the 2,292 students who have claimed their tuition benefits for this Fall semester, approximately 49% are attending Maryland public colleges, while 51% are attending a wide variety of private and out-of-state colleges across the country.

Total tuition benefits paid during each of the past five fiscal years are as follows:

\$ in millions



FINANCIAL HIGHLIGHTS - MARYLAND COLLEGE INVESTMENT PLAN

Additions to Net Assets

The **College Investment Plan**, managed and distributed by T. Rowe Price, offers families the opportunity to choose from 13 different investment options (as of July 1, 2006) ranging from conservative to aggressive with no sales commissions or loads. Account Holders also choose how much they wish to invest, starting with as little as \$25 per month with automatic monthly contributions.

As of June 30, 2006, Account Holders in the **College Investment Plan** contributed nearly \$240 million for the fiscal year. In addition, Account Holders utilized their investment by taking more than 7,300 distributions that totaled nearly \$40 million. These factors, along with the performance of the investment portfolios, accounted for an increase of 31% in invested assets.

Market Commentary

Market performance has a direct effect on the overall performance of investments in the **College Investment Plan**. The following is designed to provide a summary of market performance for the 12 months ended June 30, 2006.

Stocks enjoyed further gains - U.S. stocks remained on an upward trajectory during the 12 months ended June 30, 2006. In general, the stock market drew support from a healthy U.S. economy and surprisingly strong corporate earnings growth. With the exception of a slowdown in late 2005—resulting from the devastating Gulf Coast hurricanes—the economy continued to expand at a solid clip during the 12-month period. The favorable economic backdrop provided a lift to corporate earnings—the S&P 500 Index extended its streak of double-digit profit growth to 16 consecutive quarters.

Bonds lost ground - The factors benefiting stocks worked against the U.S. bond market, which declined modestly for the 12-month period ending June 30, 2006. A strong economy and rising energy prices led the Federal Reserve to extend its program of short-term interest rate increases. The Federal Reserve raised rates eight times in 12 months, for a total of 17 rate hikes in the past two years. By the end of the period, the federal funds rate was 5.25%, its highest level since March 2001.

Investment Earnings by Portfolio

The investment returns for each Portfolio are listed at the top of the next page. Please read the Comprehensive Annual Report for explanations of performance vs. benchmark for each individual Portfolio.



“\$1.02 billion was invested in the College Investment Plan as of June 30, 2006.”



Performance Comparison as of June 30, 2006

<u>Portfolio</u>	<u>1 year Return</u>	<u>Weighted Benchmark*</u>	<u>Annualized Since Inception Return</u>	<u>Weighted Benchmark*</u>	<u>Inception Date</u>
Portfolio 2024	11.0%	11.8%	11.3%	12.0%	10/31/03
Portfolio 2021	11.2	11.8	6.0	6.8	11/26/01
Portfolio 2018	10.0	10.0	5.7	6.3	11/26/01
Portfolio 2015	8.8	8.2	5.5	5.6	11/26/01
Portfolio 2012	7.3	5.9	5.6	5.2	11/26/01
Portfolio 2009	5.4	3.9	5.6	4.7	11/26/01
Portfolio for College	3.5	4.0	2.6	3.0	11/26/01
Equity Portfolio	11.2	11.7	6.0	6.7	11/26/01
Balanced Portfolio	7.9	6.8	6.6	6.1	11/26/01
Bond & Income Portfolio	2.3	(0.8)	6.7	4.3	11/26/01
Short-Term Bond Portfolio	1.5	1.9	1.4	1.8	10/31/03

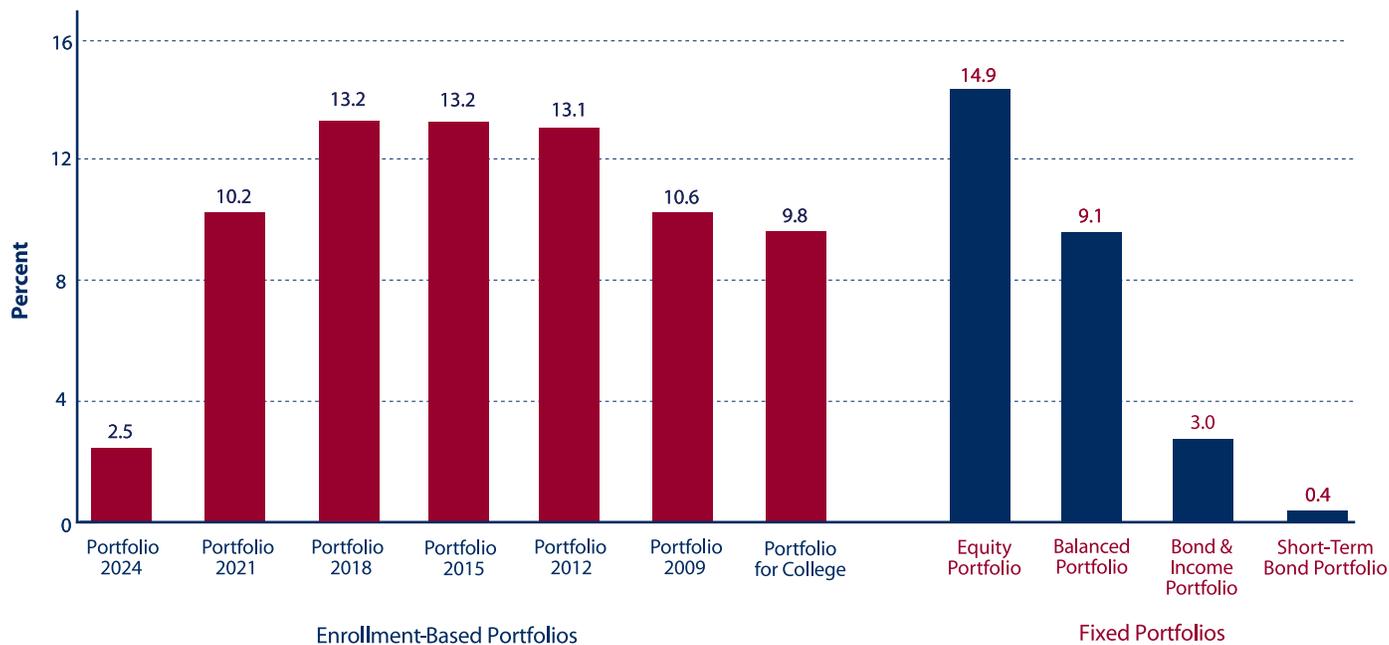
Performance Comparison as of May 31, 2006

Portfolio 2006	3.7	3.5	4.8	4.0	11/26/01
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* Benchmark performance inception date for Portfolio 2024 and the Short-Term Bond Portfolio is October 31, 2003. Benchmark performance inception date for all other portfolios is November 30, 2001.

Asset Distribution by Portfolio

Since the inception of the College Investment Plan in 2001, total amounts invested in the enrollment-based portfolios have exceeded total amounts invested in the fixed portfolios. Assets in enrollment-based portfolios comprise approximately 73% of total Plan assets as of June 30, 2006. The relative distribution of assets invested by Portfolio as of June 30, 2006 is shown below.



ANNUAL REPORT SUMMARY

for Account Holders

For the Fiscal Year Ended June 30, 2006

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