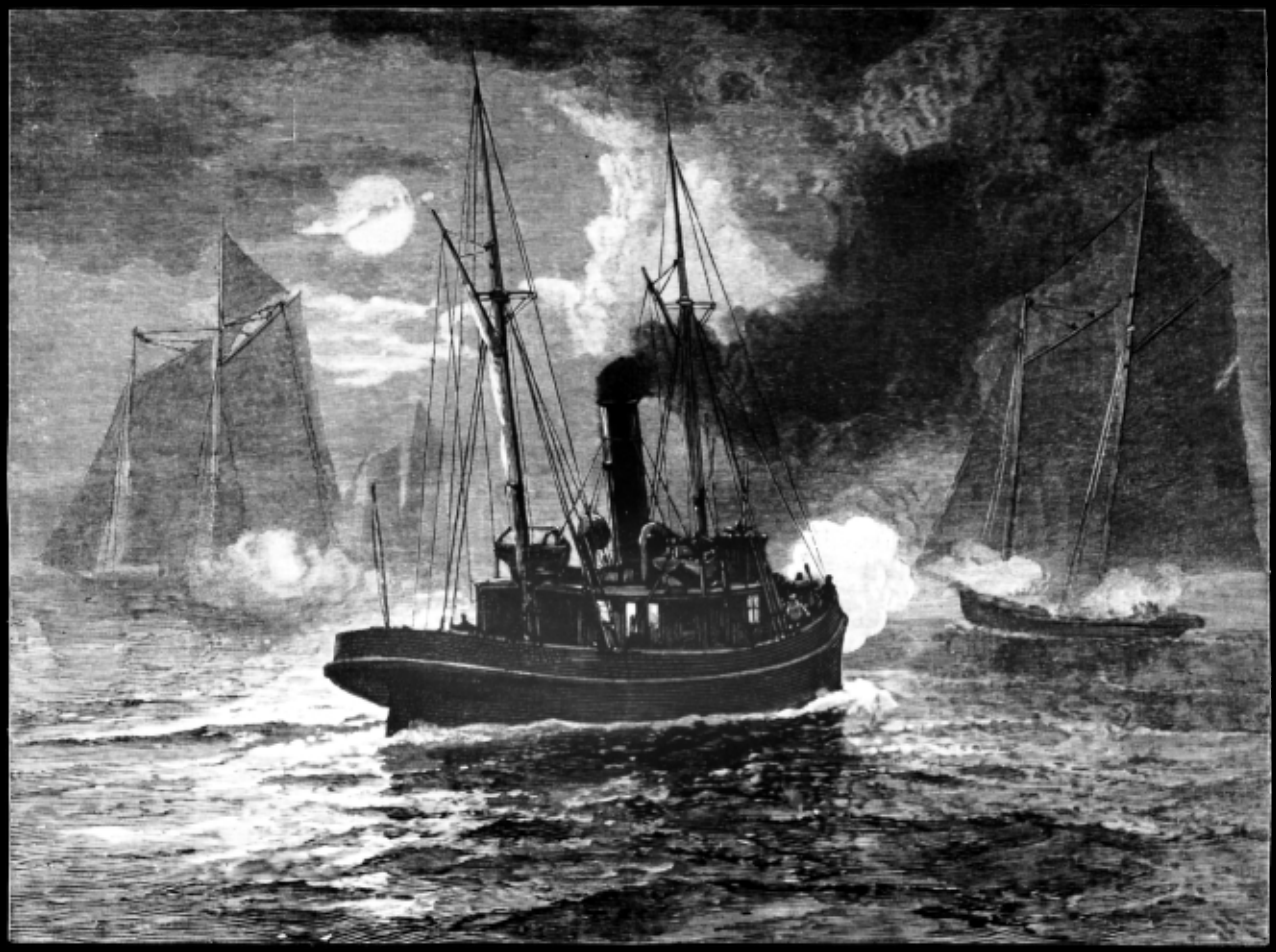
150th Anniversary Year



MARYLAND 2002

Comprehensive Annual Financial Report

for the fiscal year ended June 30, 2002

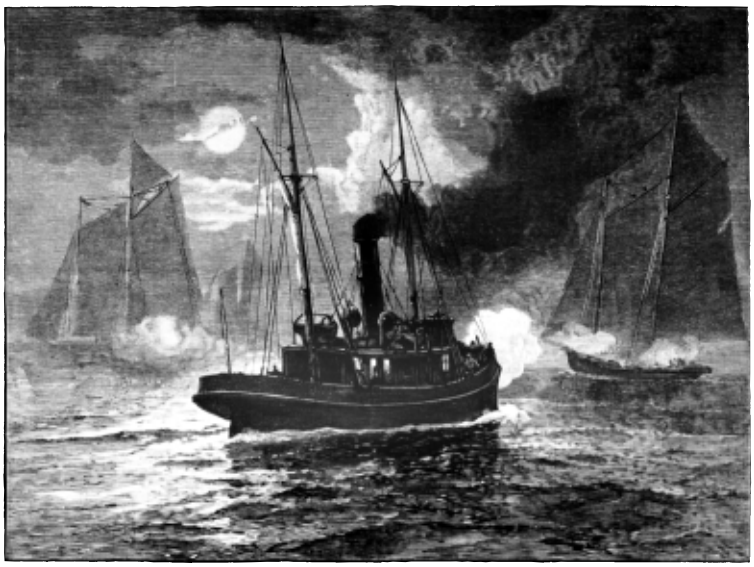
COMPTROLLER of MARYLAND

Serving the People

1852 *for 150 years* 2002

William Donald Schaefer

About the Cover



The Comptroller was empowered by the General Assembly to play a critical role in settling the bitter and dangerous late 19th century disputes over the Chesapeake Bay's then-abundant oyster crop. Enforcement of an oyster harvesting license requirement by the Comptroller led in 1868 to the creation of the State Oyster Police Force. This engraving captioned, "An Engagement in the Oyster War on the Chesapeake - From a Sketch by F. Cresson Schell" appeared in an 1886 issue of *Harper's Weekly*. The engraving is in the collection of the Maryland State Archives (MSA SC 3914-1-12).

STATE OF MARYLAND
Office of the Comptroller

William Donald Schaefer
Comptroller of Maryland

Stephen M. Cordi
Deputy Comptroller

Gerald Thorpe
Assistant Comptroller

R. Dean Kenderdine
Chief of Staff

Gerald Langbaum, Esquire
Assistant Attorney General

Kenneth H. Smith, Director
Administration and Finance Office

Larry W. Tolliver, Director
Field Enforcement Division

Dr. Charles W. Ehart, Director
Alcohol and Tobacco Tax Division

John T. Salmon, Director
Information Technology Division

Richard A. Carey, Director
Motor Fuel Tax Division

Ellen Coffin, Director
Central Payroll Bureau

Paul Markoff, Director
Office of Internal Audit

Louise L. Hayman, Director
Communications Office

Jeanne Zarnoch, Director
Office of Personnel Services

Linda L. Tanton, Director
Compliance Division

James M. Arnie, Director
Revenue Administration Division

David F. Roose, Director
Bureau of Revenue Estimates

General Accounting Division
John D. Kenney
Director

Accounting Operations and Financial Reporting
Mary F. Leonard
Assistant Director

Reporting Managers:
Rosemary Gorsche
Terrence Kisner
Linda Welch

Administrative Support:
Brenda Brady

Accountants:
George Cherupil
Kenneth Henschen
Basil Lambros
Andrews Philip
Kenneth Thompson
Leon Booker
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Maryland 2002
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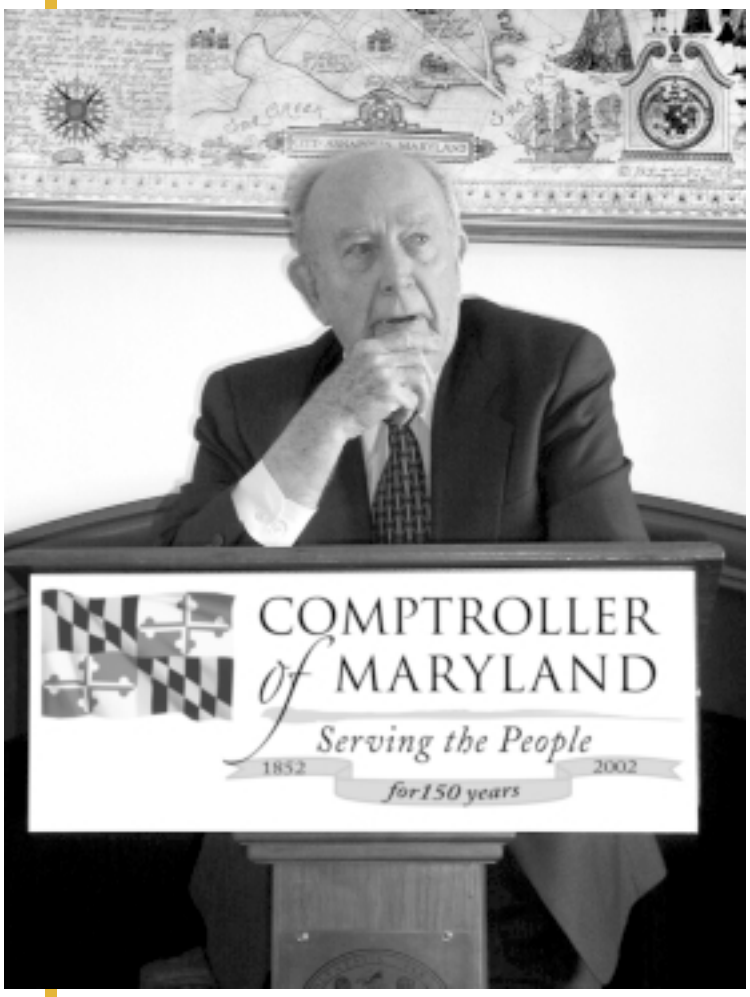

A Message from Comptroller William Donald Schaefer

This has been a special year for the Comptroller of Maryland. We're celebrating 150 years of serving the people of Maryland. Authorized in 1852, this agency is one of state government's oldest, created in turbulent times to provide "general superintendence of the fiscal affairs of the State." For this reason, we are delighted to feature a pictorial review of the events that shaped the history of the state and the Comptroller's Office in this Comprehensive Annual Financial Report.

The evolution of this office has mirrored the development of our state. From a single clerk who assisted the Comptroller in the collection of license fees for peddling and marriages, to the agency of today which forecasts and collects about half of the revenues that provide the services of state government, we have grown with Maryland, employing ever more sophisticated technology and expanding services.

The Office of Comptroller has provided stability and oversight in difficult times, reforming revenue collection in response to such events as the Civil War, the Industrial Revolution, the Great Depression, and two world wars. For 15 decades, the office has participated in providing the infrastructure and services our citizens deserve and expect: transportation, education, public safety, human services, and more.

As the 30th Comptroller of Maryland, I am proud to lead this agency in its 150th anniversary year and into a future that promises to be as progressive as its past.

William Donald Schaefer

1852-2002: 150 Years of Serving the People

'general superintendence of the fiscal affairs of the State'

The Road to Financial Stability is through Controlling the Public Purse

The Origins of the Office of the Maryland Comptroller, 1851-1861

By 1850, the 75-year-old Maryland state government was $14 million in debt. Competing with other eastern states for access to rich western markets, Maryland was spending large amounts of public money on roads, railroads and canals. It was time to create an office that could control the public purse.

The National Road at Fairview Inn near Baltimore

1899 - Fairview Inn - Thomas C. Ruckle
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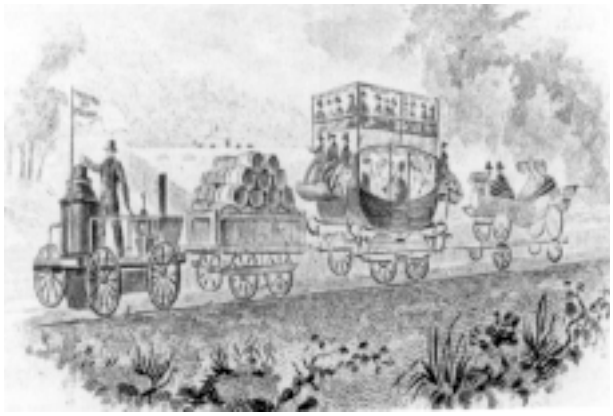
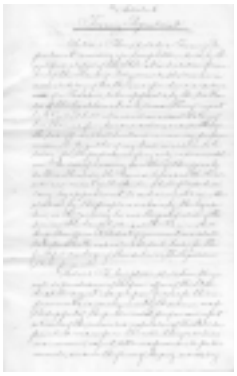


The Baltimore and Ohio Railroad, first in America, soon provided a speedy new link with the riches of the nation's heartland.

Along with lotteries and property taxes, the Comptrollers collected license fees for hunting, peddling and getting married. These revenues provided capital for government operations.

With no central banking system, local banks with their own paper money sprang up everywhere. Bad money and runs on banks were a regular part of business.



The one important reform of the 1851 Maryland Constitution was a new official, elected by the people, to provide a check on the State Treasurer. The Comptroller was to "superintend fiscal affairs…for the support of public credit."

Philip Francis Thomas, Governor (1848-1851), Comptroller (1851-1853)

William Pinkney Whyte, Governor (1872-1874), Comptroller (1854-1856)

Two early Comptrollers were past and future Governors. They and their colleagues worked to provide a climate of economic stability for all Marylanders.

Frequent economic panics and depressions brought lawlessness and violence. The tough port city of Baltimore gained the nickname "Mobtown."

The first Comptroller worked with a single clerk to produce the reports and forms that made a growing government work. In 1858, an official stamp adopted by the General Assembly relieved the Comptroller of the need to sign every form by hand. Still in use today, the motto translates: "Increase and Multiply." The Comptroller's Office is the only state agency with its own official seal.

Finding Ways to Ease a Terrible Situation

The Civil War Era, 1861-1867

224.342– Union Troops on Federal Hill
Copy From Original Owned By The Maryland Historical Society. No Reproduction Without Permission.

Baltimore was a city under martial law in 1861.

The Civil War tragedy left 620,000 young Americans dead.

While the Office of the Comptroller set up shop in Annapolis, the United States descended into chaos. Maryland, split between the industrial North and the agricultural and slave-owning South, was torn apart by civil war. The bloodshed continued for four long years, but Comptrollers helped create reforms that helped Marylanders cope with the tragedy.

A large portion of the eastern and southern part of Maryland and Baltimore identified with the slave-owning culture and provided volunteers to the Confederate armies.

Tens of thousands of Marylanders flocked to the Union cause during the fighting. State war bounties rewarded these veterans for their service to the North.

With a war government that supported the Union, Maryland raised bounties that reimbursed slave owners who freed their slaves and recruited freed slaves for the Union army.

"The State has gone too far in the…distribution of this [bounty] money to both soldiers, ex-slave, and their former owners…to recede. I would therefore respectfully recommend to your favorable consideration (regarding these claims as a just demand on the generosity of the State), the full recognition from the beginning to the close of the war, of all 'volunteers,' 'drafted men,' those who paid 'commutation' (not to join the army), those who furnished 'substitutes,'…and a further bounty of one hundred dollars to the 'former owners of enlisted slaves.'" Comptroller William James Leonard, 1867

Dennis Claude, Comptroller (1861)

Abram Lingan Jarrett, Comptroller (1861-1862)

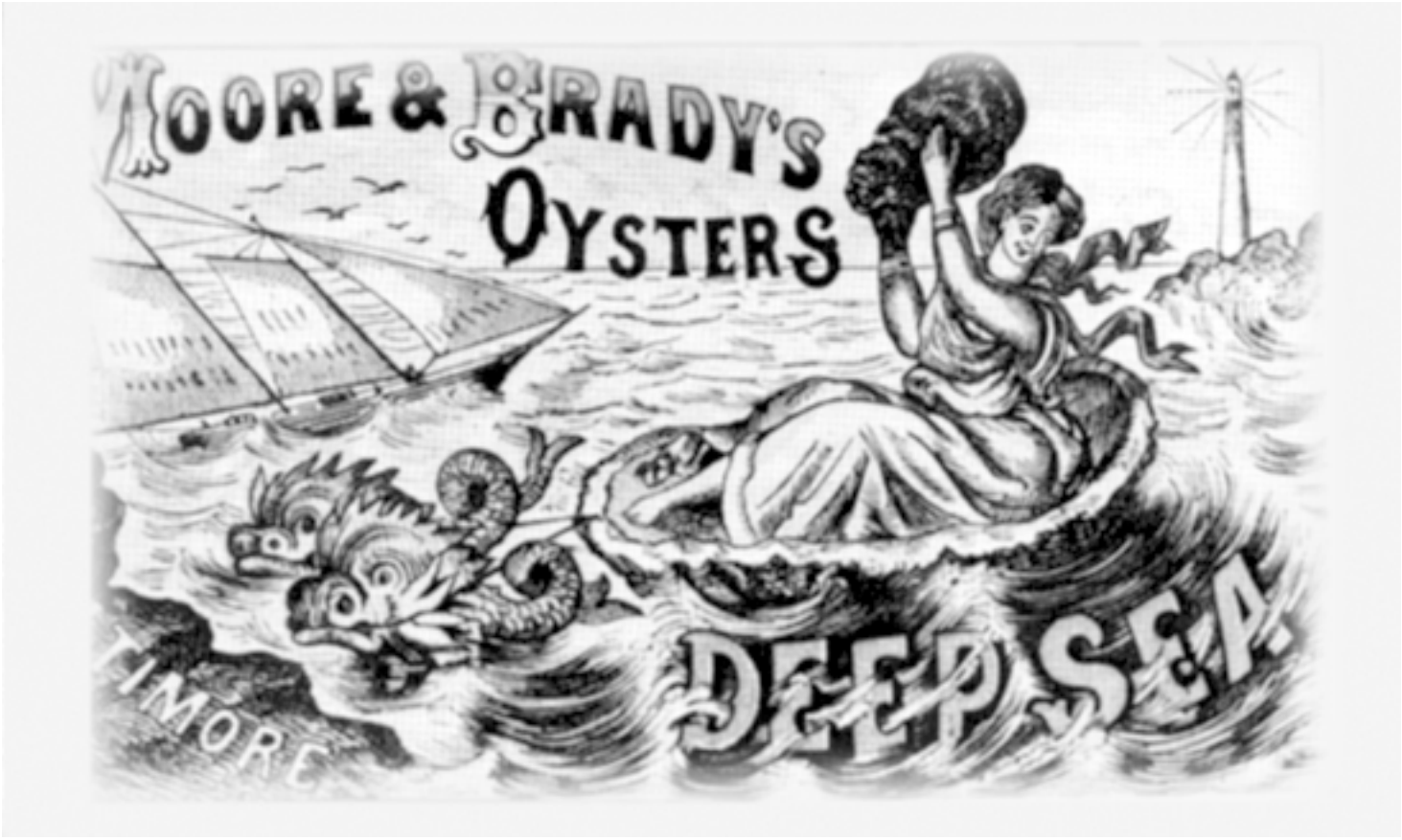
For a few months in 1861, the Civil War brought a crisis to the Comptroller's Office. Dennis Claude, the choice of a Governor who supported the Union, set up shop on State House hill. Newly elected Abram Jarrett, supported by the legislature, had his own office nearby. The courts soon decided in favor of Jarrett, but another Comptroller was in office by early 1862.

The Board of Public Works, unique in American politics, was created by the 1864 War Constitution. The Governor, Treasurer and Comptroller still preside over the "diligent and faithful supervision of all public works in which the state may be interested."

One of the revolutionary reforms of the 1864 Constitution was a commitment to make public education free to everyone.

The Comptroller Increases His Power & Influence

The Gilded Age, 1867-1900



Oysters became one of the most famous products of Maryland as ice-filled railroad cars took Chesapeake seafood to dining tables throughout the eastern United States.

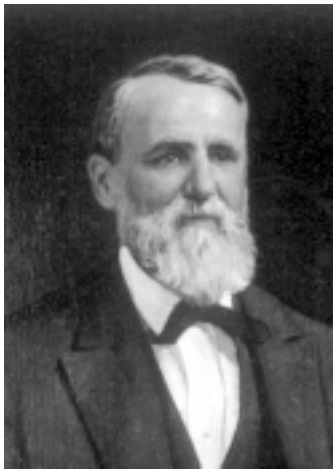
After the worst war in American history, the country rebounded with unbridled prosperity. Mark Twain called the era "the Gilded Age." The pollution and dangerous working conditions in growing factories created new roles for state government. In the last quarter of the 1800s, nine Comptrollers played an active role on the Board of Public Works, taking on issues like farm depressions, privatizing railroads and the future of the oyster industry.

Sooty and smoking factories, spawned by the Industrial Revolution, became the proud symbol of the new prosperity.

The railroad, now a transportation symbol of the age, squabbled with the Maryland government. Formerly publicly funded, railroads fought

In the 1870s and 80s, desperadoes arrived from near and far to plunder the incomparable Chesapeake oyster beds. Shanghais on the docks of Baltimore, murders and piracy were the order of the day. Comptrollers bravely led a state Oyster Police Fleet as it pursued villains who pilfered millions of bushels from the Bay each year.

The Office of the Comptroller nabbed Stevenson Archer, a State Treasurer in the 1890s, for embezzling $132,000. Archer went to jail but never revealed where the stolen money went.



Along with the sprawling factories, the country faced enormous new problems as the rich got richer and poor workers labored with few protections.

New machines increased farm production dramatically, but Maryland government was forced to intervene during a severe farm depression in the 1870s.

The Maryland Comptroller at the Center of Government

The Progressive Era, 1900-1920

In the early 1900s, two social issues that had been simmering for centuries were put in the forefront by reformers. Americans finally gave women the right to vote and, for a time, alcohol was banned. One reform stuck while the other was repealed.

As America entered the 20th century, there was a wave of progressive optimism that set out to reform the excesses of the previous generation. It was the dawn of the age of the automobile. As the role of government grew at home, the country was drawn into the first of the century's savage wars and became a player on the world stage.

The turn of the 20th century was marked by a can-do optimism that involved every level of government.

Millions of dollars in automobile license fees were collected by the Comptroller and used by the state government to improve and pave roads all over Maryland.

A handful of "horseless carriages," playthings of the rich in 1900, became 10,000 automobiles in Maryland by 1914. America had begun its 20th century love affair with the internal combustion engine.

After improvements and an addition to the old State House in the early 1900s, that century's first Comptroller, Dr. Joshua Hering, moved his office into the center of the action as the responsibilities of his office increased dramatically.

"During the war period, the resources of the people of this country will be taxed to their utmost. It is a time of sacrifice…and our greatest and most effective aid should be given to the successful prosecution of the war in which we are engaged. To do this, we should avoid all internal improvements of every kind except those actually necessary and imperative."

Comptroller Hugh McMullen, 1917

Comptroller Hugh McMullen asked Marylanders to put pet projects on hold as the country sent millions of Doughboys to the Great War in Europe.

By 1914, the Maryland Office of the Comptroller was collecting $200,000 a year for license fees from a rapidly growing fleet of automobiles.

Maryland's First Professional Comptroller

A Jazz Age and a Depression, 1920-1940

No period in American history saw such contrasts as the "Roaring 20s" and the "Brother, Can You Spare a Dime" 30s.

Those two eventful decades put demands on the state and federal governments as never before. Led by a popular Governor and a capable Comptroller, Maryland was a national leader in providing assistance to citizens hit hard by the economic emergency of the 1930s.

Governor Albert Ritchie, seen here with President Calvin Coolidge at a colonial celebration in front of the Annapolis Hammond-Harwood House, was a popular politician and a four-term Governor who ran for President. A foe of Prohibition and no fan of big government, Ritchie found himself mobilizing the state government to face the worst depression in the country's history.

In 1933, President Franklin Delano Roosevelt forever changed America, putting people to work with his New Deal programs. President Roosevelt looked to states like Maryland which already had relief programs to cope with spiraling unemployment that hit as much as half of the work force.

William S. Gordy, Jr., became the first truly professional Comptroller to serve in the office. He was Comptroller for 17 years through both Democratic and Republican administrations. Guiding the state's financial affairs through both booms and busts in the economy, Gordy brought an accountant's training to the office and instituted professional techniques to collect larger revenues and more taxes than ever before.

By 1922, less expensive automobiles were flooding the road and the Comptroller's Office instituted a one-cent tax on each gallon of gasoline sold in Maryland. The rate was up to two cents by 1924 and four by 1927. Farmers continued to be the greatest users of gasoline until after World War II.

At first, the Great Depression was less severe in Maryland. The state, ably led by Governor Ritchie and Comptroller Gordy, soon became a national leader in assistance to families hit hard by the deepening crisis. The trick for innovative government programs was inventing ways to pay for them. Even legalized gambling was taxed to provide revenue.

With no direct relief from the federal government, Republican Governor Harry Nice had to enlist the assistance of Comptroller William Gordy to institute Maryland's first income tax for both individuals and corporations. Nice stated that these revenues affected "the very existence of so many of our less fortunate men, women and children, to whom all of us owe a very definite responsibility."

A Political Insider Puts His Stamp on Maryland

War and Peace, 1940-1960

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After two decades of financial ups and downs that tested the strength and commitment of government leaders, the United States was caught up in another World War that mobilized Maryland and the entire country. Victorious American veterans came home to the Baby Boomer generation, suburbanization, consumerism and new prosperity. Marylanders called on their government to provide schools, hospitals and roads. For over three decades, Governor and Comptroller J. Millard Tawes became the symbol of innovative government programs and budgets devised to meet new challenges.

The Second World War unleashed a social revolution as women entered the work force to replace men in the armed service. Women proudly wore the title "Rosie the Riveter," and were soon doing the heavy lifting that made America the greatest war machine in history.

The Bay Bridge was the biggest of hundreds of public projects in the post war era. Built during Governor William Preston Lane's administration, the bridge bears his name.

Except for three years after World War II, J. Millard Tawes was the Maryland Comptroller for two decades of tumultuous events and great change between 1939 and 1959.

A capable political insider, J. Millard Tawes was the only Maryland politician to hold all three Board of Public Works positions: Comptroller, Governor and Treasurer. After retiring as Governor, Tawes continued to serve Maryland both as State Treasurer and as the first Secretary of the Maryland Department of Natural Resources.

From 1945 to 1951, the Maryland state budget increased from $60 million to $219 million. In order to pay for that increase, post war Governor William Preston Lane sacrificed his reelection to institute a controversial 2% sales tax. Governor Lane and his family were hounded by protesters who pelted them with "Pennies for Lane."

Millions of dollars in state grants to Maryland counties and cities made the construction and major improvement of over 200 schools possible in the post war years.

Louis L. Goldstein, Comptroller, 1960-1998

Louis L. Goldstein was the Maryland Comptroller for almost four decades. At his death, he was the longest serving statewide elected official in America. His name was synonymous with the Comptroller's job, and he efficiently managed enormous changes in his office and the state government for more than a generation.

Comptroller Goldstein took time to study every state project and used his important position on the Board of Public Works to administer billions of dollars to fund the roads, schools and hospitals important to Maryland. He often reminded Marylanders of the importance to the national financial community of the state's consistent triple A bond rating.

Comptroller Goldstein and other state leaders began attempts to equalize opportunity and ban discrimination in public contracts during the 1961 legislative session, a decade before the federal government.

The remarkable Mr. Goldstein ably served the people of Maryland during the administrations of six Governors and eight Presidents.

Goldstein was a tireless advocate for Maryland's history, culture and tourism. It was common to see him working the crowds at events throughout the state every weekend. He was the best known spokesman about all things Maryland for decades.

At the dawn of the computer era, the Maryland Office of the Comptroller became an international leader in computerizing its records and providing on-line services for Maryland taxpayers.

Serving People with Innovation and Professionalism

The Office of the Comptroller Today

William Donald Schaefer, Comptroller, 1999-present

Former Governor William Donald Schaefer, a 47-year veteran of public office at the local and state level, is the present Maryland Comptroller. Besides serving on the Board of Public Works, Comptroller Schaefer provides revenue estimates, helps oversee the state retirement and pension system and determines both the state's debt level and its real estate tax rates. He is part of the team that certifies state election results and is a member of at least ten other state government boards and commissions.

From the Annapolis headquarters, Comptroller Schaefer helps oversee the expenditures of Maryland's $ 22 billion annual budget. Taxes collected by the Comptroller constitute approximately half that budget.

Testing the quality of motor fuel is one of the functions of the agency performed by its workforce of 1150.

Emphasis is placed on providing services to taxpayers through a network of 15 offices throughout the state and extensive use of electronic communications.

Comptroller Schaefer receives a citation from the Senate of Maryland recognizing the 150th anniversary of the Office of the Comptroller. Created by the Constitution of 1851, the agency is the fifth oldest in state government.

In addition to forecasting, collecting, and enforcing laws relating to revenues; the agency balances the state's financial accounts, pays its bills, and provides technology services to other state agencies.

COMPTROLLER
of MARYLAND
Serving the People
1852
2002
for 150 years

INTRODUCTORY SECTION

STATE OF MARYLAND
SELECTED STATE OFFICIALS

EXECUTIVE

Parris N. Glendening
Governor

Kathleen Kennedy Townsend
Lieutenant Governor

William Donald Schaefer
Comptroller

J. Joseph Curran, Jr.
Attorney General

Nancy Kopp
Treasurer

JUDICIAL

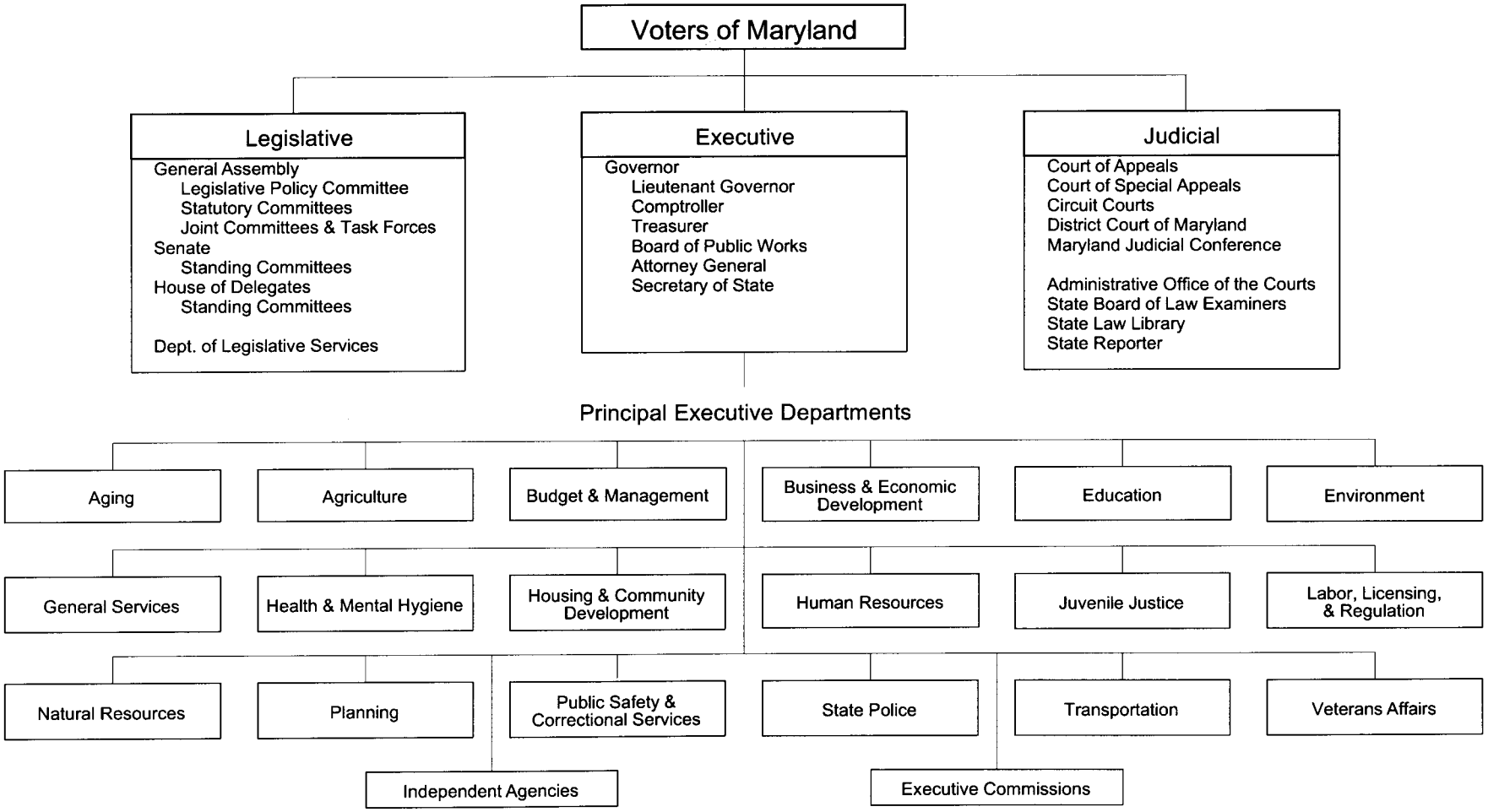
Robert M. Bell
Chief Judge
Court of Appeals of Maryland

LEGISLATIVE

Thomas V. M. Miller, Jr.
President of the Senate
(47 Senators)

Casper R. Taylor, Jr.
Speaker of the House of the Delegates
(141 Delegates)

OVERVIEW OF MARYLAND STATE GOVERNMENT



Organization of Maryland State Government
Maryland State Archives, 16 July 2002

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Maryland

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2001

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

William Donald Schaefer
Comptroller

John D. Kenney
Director
General Accounting Division

Honorable Members of the General
Assembly and the Governor,
State of Maryland:

December 6, 2002

INTRODUCTION

The Comprehensive Annual Financial Report (CAFR) of the State of Maryland, for the fiscal year ended June 30, 2002, submitted herewith, includes financial statements of the State of Maryland as well as information required by Title 2, Section 102 of the State Finance and Procurement Article of the Annotated Code of Maryland. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the Office of the Comptroller.

The CAFR has been prepared in conformance with the Governmental Accounting Standards Board (GASB) statements 34 and 35. The objective of this new reporting model is to provide a clear picture of the government as a single, unified entity as well as providing traditional fund based financial statements.

This report is presented in three sections; introductory, financial, and statistical. The introductory section includes this transmittal letter, the State's organizational chart, and a list of principal officials. The financial section includes Management's Discussion and Analysis, Government-Wide Financial Statements, and Fund Financial Statements for Governmental Funds, Proprietary Funds, Fiduciary Funds and Component Units. The Financial Section also includes the Notes to the Financial Statements, Required Supplementary Information, as well as the report of the independent auditors on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multiyear basis.

Accounting Principles generally accepted in the United States of America require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. Management's Discussion and Analysis can be found immediately following the report of the independent auditors.

The accompanying financial statements include all funds of the State of Maryland (primary government), as well as all component units. Component units are legally separate entities for which the primary government is financially accountable.

Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position and changes in financial position from those of the primary government. Accordingly, the various colleges and universities and the Maryland Stadium Authority are reported as major discretely presented component units, and, the Maryland Industrial Development Financing Authority, the Maryland Food Center Authority, the Maryland Environmental Service and the College Savings Plans of Maryland are combined and presented as non-major component units.

THE MARYLAND ECONOMY

Maryland's economy has experienced difficulties over the past year, as has the national economy. While the State's economy has slowed, however, it continues to outperform the national economy in many respects. Moreover, although by many measures Maryland's economy remains in recession as of this writing, the long-term prospects for the State continue to be, on balance, positive.

The United States' economy fell into recession in March 2001; however, the recession didn't reach Maryland until the end of the third quarter of 2001. Several factors allowed the State to escape the nationwide slowdown as long as it did. The recession predominantly affected the manufacturing industry, but in Maryland manufacturing plays only half as important a role as it does nationally. In addition, government plays a much larger role in Maryland than it does nationwide. With the federal government enjoying its first period of surplus in many years and State and local revenues inflated by cresting capital gains, the government sector of the economy remained strong throughout 2001. Finally, with the highest median household income in the country, Maryland consumers were likely less concerned with their near-term economic prospects, and therefore less likely to restrain spending. These three factors kept the State's economy growing as the national economy contracted.

As 2001 came to a close, the inevitable occurred and the national recession reached Maryland. Growth in employment slowed every month through the autumn, and declined for the first time on a year-over-year basis in December 2001. Nationally, employment growth was 0.3% in 2001, compared to 0.9% for Maryland. Since March of 2002, the national picture has improved nearly every month, with the rate of decline slowing. Maryland's decline, on the other hand, accelerated through the end of the summer and may have just now turned the corner. Even if Maryland's economy has not yet turned the corner, there is still reason to believe that the downturn will not be as severe in the State as it has been nationwide. Moreover, assessments of last year that the recession is likely to affect Maryland much less severely than that of the early 1990s appear to be holding true.

Indeed, forecasts call for Maryland employment to decline by only 0.7% for all of 2002, with national employment falling by 0.9%. Maryland is expected to rebound more strongly in 2003, with growth of 1.2% compared to a national forecast of 0.8%. Unsurprisingly, manufacturing has not fared well over the past year. Some Maryland manufacturers have struggled, cutting back on operations or expansion plans.

While old-line companies such as General Motors, Black & Decker and Northrop Grumman have struggled, high-tech manufacturing firms have had an even worse time of it. The massive over investment in telecommunications equipment in the waning period of the dot-com boom have caused significant layoffs. Depressed conditions in this industry look to remain through 2004. High-tech troubles are not confined to the telecommunications sector; some biotechnology manufacturers have suffered as well. The difficulties of both old and new manufacturers will result in a job decline of 3.3% in 2002, followed by an essentially flat 2003.

The construction sector, which had grown faster than any other Maryland sector save services from 1998 through 2001, will decline more rapidly in 2002. While growth had been boosted by record low mortgage rates and a variety of public and private projects through 2001, the bursting of the dot-com bubble and the recession have caused vacancy rates to rise and, therefore, construction activity to slow. The still-booming housing market has not been enough to offset the slowdown in commercial construction; as a result, the industry will decline by 2.8% in 2002.

As the economy recovers, however, and vacancy rates begin declining again, demand for new office and industrial space will grow. Although the housing market is expected to slow, partly as a result of ever-shrinking amounts of land available for development, these other factors should result in growth of 3.4% in the construction sector in 2003 and 2.4% in 2004.

The hardest hit industry in Maryland in 2002 has been the transportation, communication and public utilities sector. The September 11 atrocities and the general economic conditions have resulted in perhaps lasting structural changes to the passenger air travel market, especially to business travel. As a result, US Airways and Midway Airlines have declared bankruptcy, United Airlines may be close and American Airlines has cut 7,000 employees nationwide and dropped several routes. These airlines have reduced service at the airport, but others, notably Southwest and American Airlines, have filled the gap. Though suffering through the downturn affecting the entire transportation industry, BWI is particularly well-situated.

The different strategies pursued by electric companies in Maryland are now beginning to show results, and they are not all good. Although all the regulated distribution companies are stable, the Maryland-headquartered utility holding companies, which opted to delve into energy trading and merchant energy businesses, are on the ropes, while out-of-state holding companies, which focused on their core distribution functions, are thriving.

Telecommunications companies continue to be battered by a wide range of regulatory changes and falling prices. Utility and communications employment in Maryland reached its zenith in 2001, and then fell off 4.6% in 2002. Employment is expected to further decline by 2% in 2003. In 2004, employment should recover to, or even slightly

ahead of, 2002 levels. Employment growth in this sector is expected to be slow, but steady; the number of jobs is not expected to return to 2001 levels until 2010.

As the third largest employment sector in the State behind services and government, the retail sector is very important to the Maryland economy. The immediate outlook for the retail sector in Maryland is stagnation, due primarily to the fact that consumer spending will slow as the refinancing boom levels off and debt burdens continue to increase. Retailers are expecting a slow holiday season at the end of 2002, a time when some stores rack up 25% or more of their annual sales. However, Maryland continues to grow as a regional distribution center for the mid-Atlantic region, and Prince George's County has been working hard to get retailers to enter or expand in the county. After a decline of 1.1% in 2002, employment in the retail sector is expected to remain stagnant in 2003, before accelerating to robust 2.5% growth in 2004 as consumers resume their spending.

The finance sector has suffered with the economy as a whole, and has also been directly affected by both the plummeting stock market and the ongoing threat of terrorism, among other ills. Investment firms have struggled nationwide as the bear market has persisted for over 30 months.

The insurance sector is currently in a state of suspended animation, as the outcome of the pending sale of CareFirst Blue Cross/Blue Shield to WellPoint Health Networks is not at all certain. Employment in this sector will decline by 0.8% in 2002. As the economy and markets recover, this sector is expected to grow modestly in 2003 and to grow at a robust 2.2% in 2004.

The service sector is the largest in the State, and through the late 1990s was by far the largest engine of employment growth. The national recession brought booming growth to an end, as a result of its impact on the business services sector, the largest component. Employment in businesses declined by 4.6% in 2001, and the loss will increase to 6.7% in 2002. All other components, health services, education services, and professional services, have grown through the recession and will continue to do so, but the sharp decline in business services in 2002 will result in an overall decline of 0.5% for the year. The turnaround may have begun, as temporary help and placement services indicate growing demand. This bodes well for the near-term future of the economy as a whole.

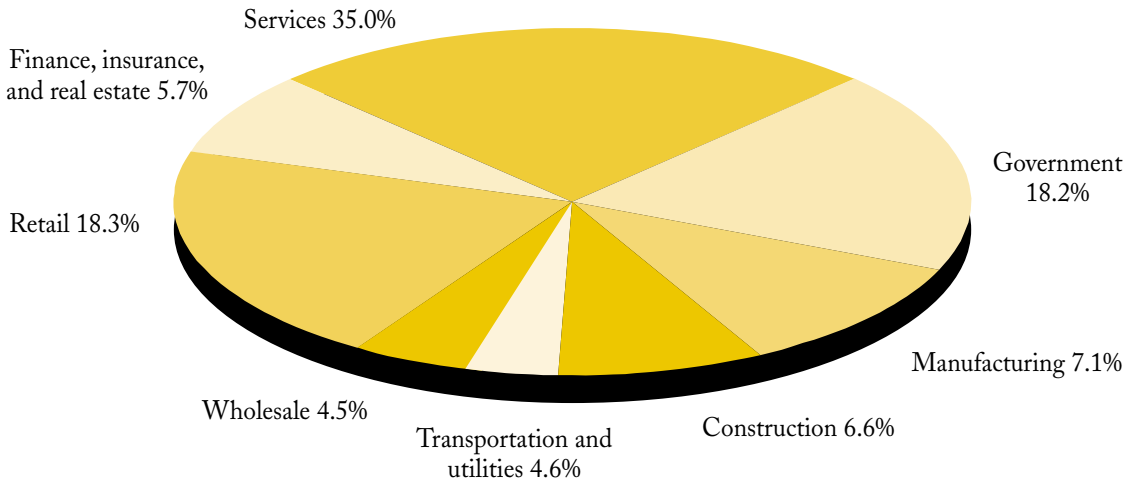
After two nearly flat years in 1999 and 2000, health services grew by a strong 2.5% in recessionary 2001. As six of the State's twenty-five largest employers are in the health services industry, the health of this sector directly affects the health of the State economy. The State is host to three of the top medical research centers worldwide—the National Institutes of Health, Johns Hopkins and the University of Maryland. The largest problem facing hospitals, as well as other health care providers, is the ongoing nursing shortage—an estimated 15% of nursing jobs in the State are unfilled.

Led by 4.5% growth in health services and helped by the resumption of growth in business services, the service sector looks to expand by 1.9% in 2003, followed by 3.9% growth in 2004, when this sector reclaims its recent role as best performing in the State's economy.

Public employment is now 18.2% of all employment in the State, the second largest sector of the economy after services. The proportion of Maryland jobs in the public sector remains higher than the national average of 15.8%. Total

EMPLOYMENT BY SECTOR — 2002 FORECAST

Total jobs 2,451,500



Source: Bureau of Revenue Estimates of Maryland State Comptroller's Office, June 30, 2002.

growth in government employment is expected to be 1.8% for 2002, with federal, state and local government employment all contributing to the increase. The outlook is not quite so bright, however, as growth will slow in 2003 and 2004.

Local government employment will continue to grow. Education accounts for roughly half of local government employment, and demand for teachers remains strong. The growth in local employment has been constrained by the inability to construct classrooms and hire qualified teachers as rapidly as required. Direct intergovernmental transfers from the State to local governments amount to over $3.5 billion annually, but local governments may feel pressure on their budgets as State tax revenues slow and the possibility of reduced transfers from the State increases.

Likewise, State employment has continued to grow, but growth will slow in the coming years. The fiscal year 2003 budget authorized 903 additional State positions, bringing the total to 82,951. The position increases are primarily in the judiciary where the State assumed responsibility for law clerks and standing masters in the circuit courts. There were also substantial increases in higher education and transportation. These three areas comprise 70% of the increase in authorized positions. In September the Governor announced a "hard" hiring freeze, though with exceptions. It is currently expected that State employment will increase only very slightly in 2003 and 2004, though the situation is very fluid.

Federal spending and civilian employment are expected to grow by more than 2.5% annually in the near future. As commonly predicted last year, all attempts to balance the federal budget have been abandoned as spending has increased for security, military operations, and economic stimulus programs. Furthermore, Republicans have promised to make the tax cuts enacted in 2001 permanent if they gain control of Congress. While this lack of fiscal control is damaging to the federal coffers, assuming the benefits of the tax cuts and spending continues to fall disproportionately in the national capital area, it is good for Maryland's economy and State budget.

After several consecutive years of employment growth exceeding 2.5%, the recession resulted in growth in the State of only 0.8% in 2001. As the recession's full impact reaches Maryland in 2002, employment will actually decline by 0.7%. Led by construction, services, and federal and local governments, growth will resume in 2003 at a 1.2% annual rate. As the national economy fully recovers by 2004, with businesses investing again and consumers' concerns about the economy and their jobs recede, employment growth could spring up to 2.5%.

MAJOR INITIATIVES

Due to revenue declines, Governor Parris N. Glendening implemented a cost containment program in the Fall of 2002. Construction projects were put on hold. New hiring was frozen. Operating budgets were reduced. These reduced spending levels were also reflected on the fiscal year 2003 budget that was enacted by the 2002 General Assembly. The new laws enacted by the 2002 General Assembly and signed into law by Governor Glendening focused on improving education, smart growth and mass transit, environmental protection, children and families, and providing safe communities. Although tough budget constraints were put into place, budget growth was concentrated in a few areas. Medicaid incurred the largest increase reflecting larger caseloads and medical inflation. The fiscal year 2003 budget is $227 million over the fiscal year 2002 appropriation in State funds. Included in this amount is $31 million from tobacco settlement funds.

Funding for community services in mental health, developmental disabilities and substance abuse treatment added another combined $78 million increase. Increased funding for education at all levels exceeded $230 million: $164 million for public schools and libraries and $68 million for higher education programs. This included $7.5 million dedicated to enhancements at historically black colleges and universities as part of the State's agreement with the US Department of Education Office of Civil Rights.

Increases in police, public safety and corrections and juvenile justice added $75 million. This included staffing for new adult and juvenile institutions and additional parole and probation officers. A $24 million security package addresses heightened security concerns in the wake of last September's terrorist attacks. This spending is from a combination of State and federal funds.

Increases in environmental protection and smart growth were carefully targeted to continue Maryland's strong land preservation successes, implement the Chesapeake 2000 agreements and improve environmental enforcement and compliance. Significant funding, $128 million, was provided for transit enhancements that support Smart Growth.

As a result of this November's election the people of Maryland have elected Republican Bob Ehrlich as the next Governor of the State. During the upcoming General Assembly Session, the Ehrlich-Steele Administration plans to introduce a fiscally responsible budget that will resolve the current deficit in fiscal year 2003 as well as fiscal year 2004 budgets without increasing sales or income taxes. In addition, the Administration intends to submit legislation and budget initiatives to preserve the State's commitment to local education aid and protecting one of our State's most valuable assets, the Chesapeake Bay.

FINANCIAL INFORMATION

The MD&A provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund and the Special Revenue Fund. Fiduciary activities are excluded from the MD&A.

Internal Controls

The State has issued guidelines to its agencies for establishing effective internal controls. As a recipient of federal assistance, the State is responsible for ensuring compliance with laws and regulations related to such assistance. This compliance is accomplished through the internal control guidelines. Additionally, the State is required to undergo an annual single audit in conformity with the provisions of the Federal Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations." Detail information related to the single audits is included in separate reports.

Budget and Fiscal Policy

The Maryland Constitution requires the Governor to submit to the General Assembly a balanced budget for the following year. The General Assembly cannot increase the budget except in certain organizational units. The budget currently uses a legally mandated budgetary fund structure. Each state agency is provided appropriations at a program level, which is the level at which expenditures cannot legally exceed the appropriations. The State also utilizes an encumbrance system to serve as a tool for managing available appropriations.

Maryland maintains its accounts to conform with generally accepted accounting principles and also to comply with the legally mandated budget. Financial control is generally exercised under the budgetary system.

Proprietary Operations

The State's proprietary operations are comprised of governmental agencies and quasi-governmental agencies providing goods and/or services to the public on a user charge basis. These activities are financed and operated in a manner similar to private business enterprises. They operate with the intent to recover the costs of operations from those directly benefiting from the goods or services.

Fiduciary Funds

Fiduciary fund types include the Pension and Other Employee Benefits Trust Funds, the Investment Trust Fund and the agency funds. The Pension and Other Employee Benefits Trust Funds include the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The State Retirement and Pension System of Maryland was established to provide pension benefits for State employees and employees of 130 participating political subdivisions or other entities within the State. The Maryland Transit Administration Pension Plan was established to provide pension benefits for all Maryland Transit Administration employees covered by a collective bargaining agreement and all management employees who were employed by the Baltimore Transit Company. The Deferred Compensation Plan accounts for participant earnings in accordance with Internal Revenue Code sections 457, 403(b), 401(a), and 401(k). Amounts are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The Investment Trust Fund reflects the transactions, assets, liabilities and fund equities of the Maryland Local Government Investment Pool. The Local Government Investment Pool is maintained to assist eligible participants, as defined by Article 95 and 22 of the Annotated Code of Maryland, by providing an investment medium in which they can invest their idle balances.

The agency funds are custodial in nature. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, the amounts the State invests for political subdivisions on a pooled basis, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

Cash Management and Investments

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise and fiduciary funds and component units are maintained by the State Treasurer on a pooled basis.

The State Treasurer's office invests short-term cash balances on a daily basis in repurchase agreements, U.S. Treasury and agency obligations, and money market accounts. As of June 30, 2002, the State's cash resources for general governmental funds were invested as follows: in repurchase agreements, U.S. Treasury and agency obligations, money market accounts and other. The average yield on maturing investments during the year was 2.9%, as compared to 6.4%

in the prior year. More detailed information concerning cash and investments can be found in Note 4 to the basic financial statements.

Debt Administration

The State Constitution authorizes general obligation long-term borrowing, subject to the approval of the General Assembly and the Board of Public Works. Under constitutional requirements and practice, the General Assembly, by separate enabling act, authorizes a particular loan for a particular project or purpose. Beginning with its 1990 session, the General Assembly annually has enacted a *Maryland Consolidated Capital Bond Act* (the "MCCBL") that consolidates within a single enabling act authorizations for various capital programs administered by State agencies and other projects for local governments or private institutions.

The Board of Public Works (the "Board"), a constitutional body composed of the Governor, the Comptroller, and the Treasurer, by resolution authorizes the issuance of bonds in a specified amount for part or the entire loan authorized by a particular enabling act. Since 1969, the Board has used its statutory authority to issue and sell general obligation bonds authorized by various separate enabling acts on a consolidated basis as a single issue designated as a "State and Local Facilities Loan" of a numerical series indicating the order of sale during a calendar year, the net proceeds being applied to the object or purpose designated in each separate enabling act.

In addition to the General Obligation bonds, there are outstanding Limited Obligation bonds of the Department of Transportation and the Maryland Transportation Authority. Debt service on the Department of Transportation bonds is provided principally from excise taxes levied by statute. Debt service on the Maryland Transportation Authority bonds is payable from revenues of Authority projects.

Additional disclosures about the State's general long-term obligations are provided in Note 13 to the basic financial statements.

Risk Management

The State is involved in legal proceedings, which normally occur in government operations. Such proceedings, in the opinion of the Attorney General, are not likely to have a material adverse impact on the financial position of the State's funds.

The State self-insures toward most claims of risk of loss, including general liability, property and casualty, workers' compensation, environmental and anti-trust liabilities and certain employee health benefits. All funds, agencies and authorities of the State participate in the self-insurance programs. As of June 30, 2002, the State has recorded $266.3 million in liabilities associated with its self-insurance programs.

Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks.

Additional disclosures on the State's risk management activities are provided in Note 14 to the basic financial statements.

OTHER INFORMATION

The statutes of the State require an audit of every unit of the Executive and Judicial branches of government, including the Comptroller of the Treasury's records, by the Legislative Auditor at least every three years. The Legislative Auditor is required to be and is a certified public accountant. The Legislative Auditor makes fiscal, compliance and performance audits of the various agencies and departments of the State and issues a separate report covering each of those audits. Although certain of those reports include presentations of detailed financial data and contain expressions of opinion thereon, the audits are usually not made for that purpose. The primary purpose of the reports is to present the Legislative Auditor's findings relative to the fiscal management of those agencies and departments.

Additionally, my office requires an audit of the State's basic financial statements by a firm of independent auditors selected by an audit selection committee composed of members from the Executive and Legislative branches of State government. This requirement has been complied with, and the opinion of Ernst & Young LLP has been included in the financial section of this report. In addition, Ernst & Young LLP performs audits to meet the requirements of the federal Single Audit Act Amendments of 1996 and the Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; such information being contained in other reports.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Maryland for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2001. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Maryland has received a Certificate of Achievement for the last 22 consecutive years (fiscal years ended 1980-2001). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to the GFOA.

The preparation of the Comprehensive Annual Financial Report on a timely basis could not have been accomplished without the efforts and dedication of the staff of the General Accounting Division with assistance from other personnel from the various departments and agencies of the State.

I will be pleased to furnish additional information on the State's finances upon request.

Sincerely,

William Donald Schaefer
Comptroller of Maryland

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FINANCIAL SECTION

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Report of Independent Auditors

The Honorable William D. Schaefer
Comptroller of Maryland

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of and for the year ended June 30, 2002, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maryland's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of (1) Maryland Water Quality Financing Administration; (2) Maryland State Lottery Agency; (3) State Use Industries; (4) Maryland Food Center Authority; (5) Maryland Environmental Service; (6) Deferred Compensation Plan; (7) Maryland Local Government Investment Pool; and (8) State Retirement and Pension System of Maryland, which represent the percentages of the assets and revenues or additions of the opinion units listed below.

	Percentage of Opinion Unit	
	Total Assets	Total Revenues or Additions
Business-type activities:		
Maryland Water Quality Financing Administration	8.02	3.29
Maryland State Lottery Agency	5.19	54.60
State Use Industries	.35	1.77
	13.56	59.66
Major funds:		
Economic Development - Loan Programs:		
Maryland Water Quality Financing Administration	15.17	27.23
Maryland State Lottery Agency	100.0	100.0
Aggregate Discretely Presented Component Units:		
Maryland Food Center Authority	.46	.21
Maryland Environmental Service	1.63	2.07
	2.09	2.28
Aggregate Remaining Fund Information		
State Use Industries	.08	.65
Deferred Compensation	4.62	.69
Maryland Local Government Investment Pool	3.67	55.19
State Retirement and Pension System of Maryland	85.57	–22.84
	93.94	33.69

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and in our opinion, insofar as it relates to the amounts included for the above-mentioned agencies and component units, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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

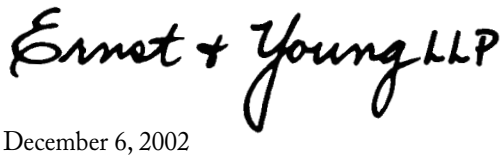
significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maryland, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund and Special Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1D to the financial statements, the State has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," as of July 1, 2001.

The management's discussion and analysis, required supplemental schedule of funding progress for the Pension and Retirement System and required supplemental schedules of funding progress and employer contributions for the Maryland Transit Administration Pension Plan are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maryland's basic financial statements. The combining financial statements and schedules listed in the table of contents are presented for purposes of additional analysis and to meet legal reporting requirements and are not a required part of the basic financial statements. The combining financial statements and schedules have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory and statistical sections of this report have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 6, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management of the State of Maryland provides this narrative overview and analysis of the financial activities of the State for the fiscal year ended June 30, 2002. Please read it in conjunction with the additional information furnished in the Comptroller's letter of transmittal, which can be found in the Introductory Section of this report.

Because the State implemented new reporting standards for this fiscal year with significant changes in content and structure, much of the financial information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the State's financial position and results of operations.

Financial Highlights

Government-wide:

Net Assets – The assets of the State exceeded its liabilities for fiscal year ended June 30, 2002, by $15.7 billion (net assets). Of this amount, $2.1 billion was reported as "unrestricted net assets." Governmental activities reported $466.3 million of this balance while business type activities reported $1.6 billion. Unrestricted net assets represent the amounts available to meet the State's ongoing obligations to citizens and creditors.

Changes in Net Assets – The State's total net assets decreased in fiscal year 2002 by $407.5 million or 2.5%. Net assets of governmental activities decreased $445.3 million or 3.7% while net assets of the business-type activities showed an increase of $37.8 million or .9% increase. More detailed information is provided in the financial analysis section.

Fund Level:

Governmental Funds – As of June 30, 2002, the State's governmental funds reported a combined fund balance of $2.3 billion, a decrease of $1.1 billion, in comparison with the prior year. In this regard, $269.3 million of the combined fund balance represents the "unreserved fund balance" of which $265.5 million is in the general fund. The total unreserved fund balance is approximately 1.4% of the governmental funds expenditures for the year. The total reserved fund balance is $2.0 billion, of which, $678.1 million is in the "State Reserve Fund" and is available for future needs.

Long-term Debt

The State's total long-term debt obligations totaled $7.7 billion, a net increase of $509.4 million or 7.1%, during the current fiscal year. The key factors in this increase were the issuances of General Obligation and Revenue bonds and notes in the amount of $528 and $781.5 million, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the State of Maryland's basic financial statements. The State's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains additional required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements (Reporting the State as a Whole)

The government-wide financial statements provide a broad overview of the State's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the State's financial position, which assists readers in assessing the State's economic condition at the end of the fiscal year. The statements include all fiscal year revenues and expenses, regardless of whether cash has been received or paid. The government-wide financial statements include the following two statements.

The *Statement of Net Assets* presents all of the State's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases and decreases in the State's net assets may serve as a useful indicator of whether the financial position of the State is improving or deteriorating.

The *Statement of Activities* presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the State.

Both of the above financial statements distinguish between three types of state programs or activities. These three types of activities are as follows.

Governmental Activities – The activities in this section are typically supported by taxes and intergovernmental revenues, (federal grants). Most services normally associated with State government fall into this category, including the Legislature, Judiciary, and the general operations of the Executive Department.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the State include insurance and loan programs for economic development, the Unemployment Insurance Program, the Lottery, the Transportation Authority and State Use Industries, a program which constructs office furnishings utilizing the prisons' inmate population.

Discretely Presented Component Units – The government-wide statements include operations for which the State has financial accountability, but are legally separate entities. Financial information for these component units is reported separately from the financial information presented for the primary government. The component unit activities include Higher Education, the Maryland Stadium Authority and other non-major proprietary activities. All of these entities operate similarly to private sector business and to the business-type activities described above. The component unit Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College and Baltimore City Community College. The non-major component units include the Maryland Food Center Authority, Maryland Environmental Service, Maryland Industrial Development Financing Authority, and the College Savings Plans of Maryland.

Complete financial statements of the individual component units can be obtained from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

This report includes two schedules (pages 53 and 55) that reconcile the amounts reported on the governmental fund financial statements (modified accrual accounting) with governmental activities (accrual accounting) on the appropriate government-wide statements. The following summarizes the impact of transitioning from modified accrual-to-accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements.
- Certain tax revenues that are earned, but not available, are reported as deferred revenue on the governmental fund statements.
- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements.
- Deferred bond issuance costs are capitalized and amortized as governmental activities, but reported as expenditures in the governmental fund statements.
- Unless due and payable, long-term liabilities, such as capital lease obligations, compensated absences, litigation, bonds and notes payable, and others only appear as liabilities in the government-wide statements.
- Capital outlay spending results in capital assets on the government-wide statements, but is reported as expenditures on the governmental fund statements.
- Bond and note proceeds result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements.
- Certain other outflows represent either increases or decreases in liabilities on the government-wide statements, but are reported as expenditures on the governmental fund statements.

The government-wide financial statements can be found on pages 48–51 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The State, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The State's funds can be divided into three categories: governmental, proprietary, and fiduciary. Each of these categories uses a different accounting approach.

Governmental Funds Financial Statements – Most of the basic services provided by the State are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the State's near-term financing requirements. These statements provide a detailed short-term view of the State's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the State.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the State's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on the pages immediately following the governmental funds financial statements.

The State maintains five governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Department of Transportation-special revenue fund, both of which are considered to be major funds. Data from the remaining three governmental funds are combined into a single, aggregated presentation. Data for the non-major governmental funds, namely, the debt service fund for general obligation bonds, the debt service fund for transportation revenue bonds and the capital projects fund, is provided in the form of combining statements elsewhere in this report. These funds are reported using modified accrual accounting, which measures cash and all other assets, which can be readily converted to cash. The basic governmental funds financial statements can be found on pages 52–55 of this report.

The State adopts an annual appropriated budget for the general and special revenue funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budget. This statement can be found on pages 56–58 of this report.

Proprietary Funds Financial Statements – Proprietary funds are used to show activities that operate similar to activities of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There is no reconciliation needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements, because they both utilize accrual accounting; the same method used for businesses in the private sector.

The State has six enterprise funds, four of which are considered to be major proprietary funds. These funds are: Economic Development - Loan Programs, the Unemployment Insurance Program, the Lottery Agency, and the Transportation Authority. Data for the non-major proprietary funds, Economic Development - Insurance Programs and State Use Industries, are combined into a single aggregated presentation. Individual fund data for these non-major proprietary funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary funds financial statements can be found on pages 60 to 65 of this report.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the state government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are restricted in purpose and are not available to support the State's own programs. Fiduciary funds use accrual accounting.

The State's fiduciary funds include the Pension and Other Employee Benefits Trust Funds. These trust funds consist of the Retirement and Pension System, the Maryland Transit Administration Pension Plan and the Deferred Compensation Plan and the Investment Trust Fund, which accounts for the transactions, assets, liabilities and fund equity of the external investment pool. Fiduciary Funds also include Agency Funds, which account for the assets held for distribution by the State as an agent for other governmental units, organizations or individuals. Individual fund detail for the fiduciary funds can be found in the combining financial statements.

The basic fiduciary funds financial statements can be found on pages 66 to 67 of this report.

Combining Financial Statements, Component Units – The government-wide financial statements present information for the component units in a single aggregated column in the Statement of Net Assets and Statement of Activities. Combining Statements of Net Assets and Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets have been provided for the Component Unit Proprietary Funds and provide detail for each major proprietary component unit, with a combining column for the non-major component units. Individual financial statement information for the non-major component units is provided elsewhere in this report.

The combining financial statements for the component units can be found on pages 68–69 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and the fund financial statements. The notes to the financial statements can be found on pages 71–105 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the State's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information immediately follows the notes to the financial statements.

Other Supplementary Information:

Combining Financial Statements

The combining financial statements referred to earlier in connection with non-major governmental, enterprise, and fiduciary funds and non-major component units are presented immediately following the required supplementary information.

Supplementary Information

Other schedules have been included in this section in compliance with information required by the *State Finance and Procurement Article of the Annotated Code of Maryland.*

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the State's financial position. The State's combined net assets (government and business-type activities) totaled $15.7 billion at the end of 2002, compared to $16.1 billion at the end of the previous year. Specifically, the State's net assets decreased by $407.5 million during the current fiscal year. This decrease represents the degree to which ongoing revenues, mainly income taxes, have not kept pace with ongoing expenses.

The largest portion of the State's net assets, 78%, reflects investment in capital assets such as land, buildings, equipment, and infrastructure, less any related debt to acquire those assets that is still outstanding. The State uses these capital assets to provide services to citizens. Consequentially, these assets are not available for future spending. Although the State's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Assets as of June 30, 2002
(Expressed in Millions)

	Governmental Activities	Business-type Activities	Total
Current and other assets	$ 6,441.8	$ 6,785.9	$13,227.7
Capital assets	14,521.4	1,424.5	15,945.9
Total assets	20,963.2	8,210.4	29,173.6
Long-term liabilities outstanding	4,722.1	3,512.3	8,234.4
Other liabilities	4,747.4	492.2	5,239.6
Total liabilities	9,469.5	4,004.5	13,474.0
Net assets:			
Invested in capital assets, net of related debt	11,016.6	1,217.6	12,234.2
Restricted	10.8	1,378.0	1,388.8
Unrestricted	466.3	1,610.3	2,076.6
Total net assets	$11,493.7	$ 4,205.9	$15,699.6

In addition, a portion of the State's net assets, 8.8%, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets ($2.1 billion) may be used to meet the State's ongoing obligations to citizens and creditors.

For the fiscal year ended June 30, 2002, the State has positive balances in all three categories of net assets, both for the State as a whole, as well as for its separate governmental and business-type activities.

Governmental Activities

Governmental activities in fiscal year 2002 resulted in a decrease to the State's net assets of $445.3 million. This decrease occurred primarily because tax revenues declined, due to a gradual downturn in the economy and the phase-in of an income tax reduction. In addition expenditures increased during the year, although cost containment measures kept the fund balance positive. Cost containment features are discussed in the budgetary highlights section of this analysis with the discussion of the changes between the original and final budgets.

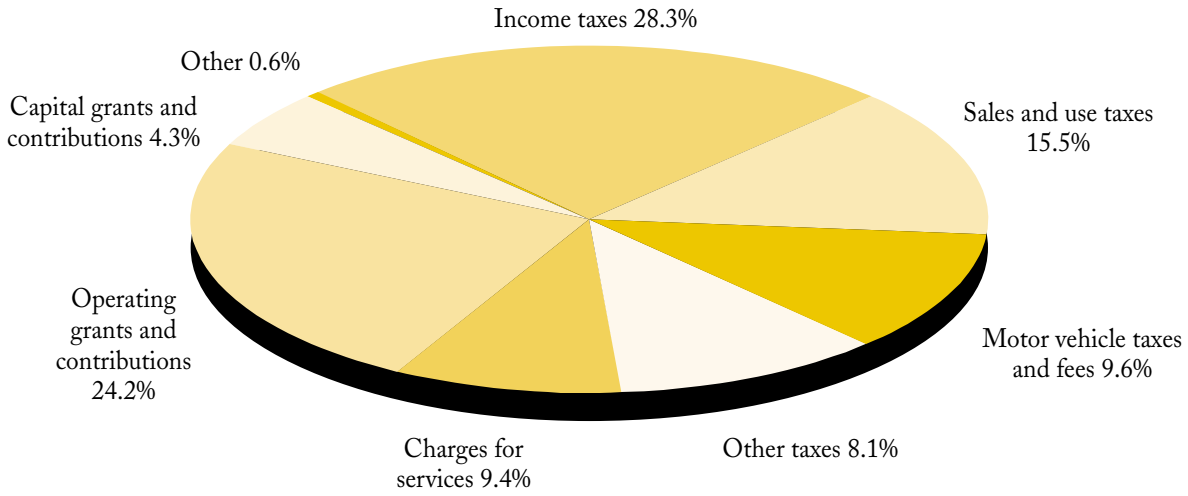
Key elements of this decrease in net assets are as follows:

Changes in Net Assets
For the Year Ended June 30, 2002

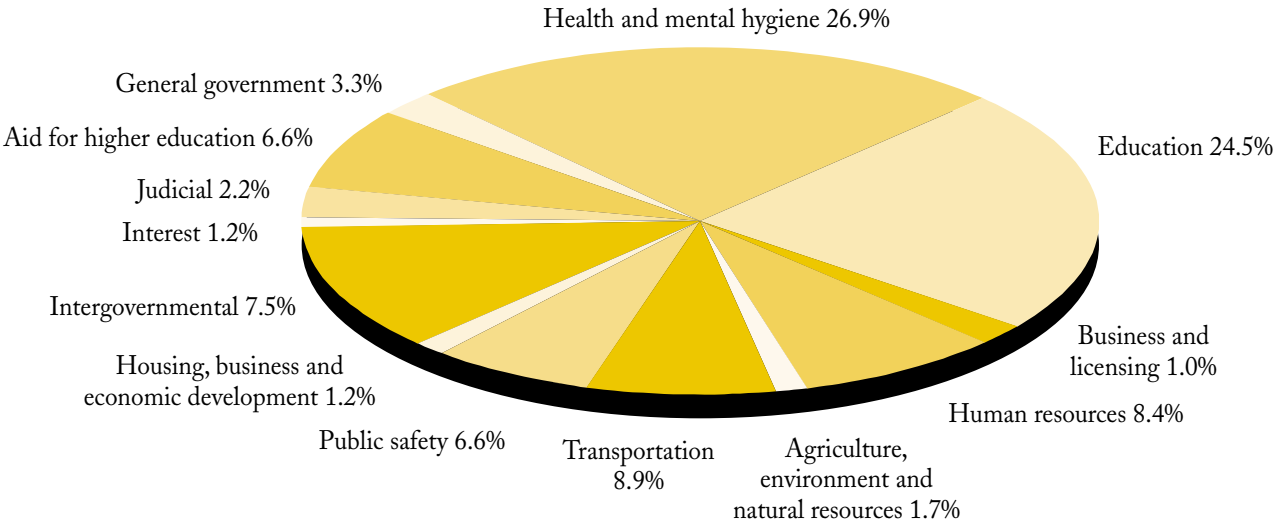
(Expressed in Millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Revenues:			
Program Revenues:			
Charges for services	$1,607.6	$1,554.1	$ 3,161.7
Operating grants and contributions	4,225.3	235.0	4,460.3
Capital grants and contributions	746.9	53.7	800.6
General revenues:			
Income taxes	4,913.2		4,913.2
Sales and use taxes	2,690.1		2,690.1
Motor vehicle taxes	1,661.0		1,661.0
Other taxes	1,413.3	254.5	1,667.8
Unrestricted investment earnings	109.1	297.6	406.7
Total revenues	17,366.5	2,394.9	19,761.4
Expenses:			
General government	610.6		610.6
Health and mental hygiene	4,908.4		4,908.4
Education	4,459.6		4,459.6
Aid for higher education	1,201.4		1,201.4
Human resources	1,536.1		1,536.1
Public safety	1,195.0		1,195.0
Transportation	1,630.7		1,630.7
Judicial	408.6		408.6
Labor, licensing and regulation	173.6		173.6
Natural resources and recreation	149.4		149.4
Housing and community development	168.6		168.6
Environment	87.4		87.4
Agriculture	64.4		64.4
Business and economic development	55.6		55.6
Intergovernmental grants	1,375.0		1,375.0
Interest	209.8		209.8
Economic development insurance programs		5.3	5.3
Economic development general loan programs		291.8	291.8
Unemployment insurance program		550.3	550.3
State Lottery		867.9	867.9
Transportation Authority		205.8	205.8
State Use Industries		39.2	39.2
Total expenses	18,234.2	1,960.3	20,194.5
Increase in net assets before transfers and special items	(867.7)	434.6	(433.1)
Transfers and special items	422.4	(396.8)	25.6
Change in net assets	(445.3)	37.8	(407.5)
Net assets – beginning	11,939.0	4,168.1	16,107.1
Net assets – ending	$11,493.7	$ 4,205.9	$15,699.6

REVENUES BY SOURCE – GOVERNMENTAL ACTIVITIES



EXPENDITURES BY FUNCTION – GOVERNMENTAL ACTIVITIES



Business-type Activities

Business-type activities increased the State's net assets by $434.6 million before transfers of $396.8 million to governmental activities. Key elements of this increase are as follows:

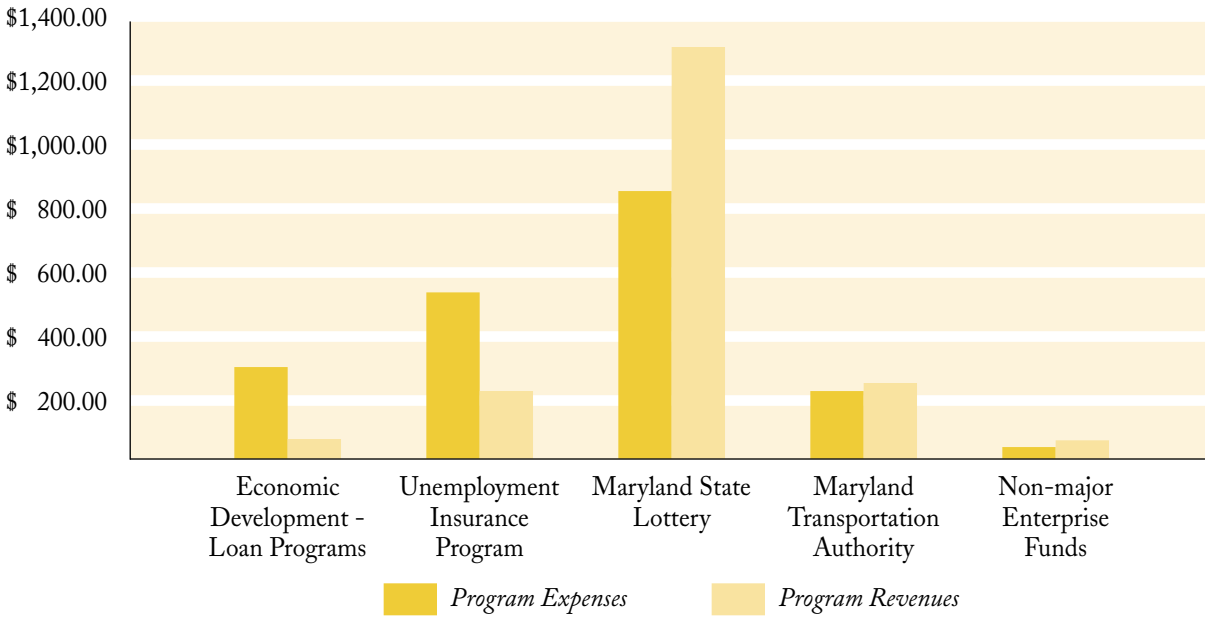
- Lottery ticket sales increased $95.9 million, or 7.9%, to $1.3 billion. The increase in net assets after operating expenses was $439.8 million. Transfers to the general fund were $443.5 million, an increase of $36.5 million, or 9.0%, over the prior year.
- Unemployment taxes decreased by $98.6 million, or 27.9%. This decrease was offset by increases of $37.3 million, or 24.5%, in service charges by the Transportation Authority; $27.8 million, or 10.9%, of interest and other revenue sources in the economic development loan programs; $11.6 million of transfers to the economic development loan programs by the governmental funds, and a decrease of $15.0 million, or 4.8% of benefit payments less federal grants and investment income in the unemployment insurance programs.

Financial Analysis of the State's Funds

The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the State's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the State's net resources available for spending at the end of the fiscal year.

EXPENSES AND PROGRAM REVENUES – BUSINESS-TYPE ACTIVITIES

(Expressed in Millions)



As of the end of the current fiscal year, the State's governmental funds reported a combined fund balance of $2.3 billion, a decrease of $1.1 billion from the prior year. The combined fund balance includes $269.3 million in unreserved fund balance, of which $265.5 million is in the general fund. The general fund unreserved fund balance has been designated for spending in the fiscal year 2003 budget. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to: 1) liquidate contracts and purchase orders of the prior period ($738.1 million), 2) fund prepaid and inventory items ($522.6 million), and 3) reserves for various loans and construction projects ($46.1 million). In addition, $678.1 million of the reserved fund balance is in the "State Reserve Fund," and is set aside to meet future financial needs. The unreserved fund balance, plus the amount in the State Reserve Fund, is approximately 4.8% of the total annual expenditures in governmental funds.

General Fund

The general fund is the chief operating fund of the State. At the end of the current fiscal year, the unreserved, designated fund balance of the general fund was $265.5 million, while total fund balance reached $1.6 billion. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 1.8% and total fund balance represents 10.9% of general fund expenditures.

The fund balance of the State's general fund decreased by $839.8 million during the current fiscal year. Although federal revenues, charges for services and other licenses and fees increased over the previous year's revenues, overall, general fund revenue decreased by $335.8 million or 2.3%, This was due primarily to the final year of the phased in income tax reduction, a 50% decline in capital gains tax revenue and a decline in interest earnings. In addition, by the end of the year, overall general fund expenditures increased by $1.1 billion or 8.1%, after taking into effect certain revenue transfers of prior years that were recorded as expenditures in the current fiscal year. Expenditures increased primarily due to increased spending for primary and secondary education, higher education, foster care and child welfare programs, medical assistance, inmate services, housing assistance projects, and land preservation programs.

In addition to operating revenues and expenses, the Governmental funds received a net inflow of $25.6 million for Special Items. As part of the Budget and Financing Act of 2002, certain one-time distributions were made to the general fund and deemed "Special Items." The general fund received $32 million in transfers while the Debt Service Fund decreased by $6.4 million.

Proceeds of general obligation bond issues are accounted for in the capital projects fund. Completed projects and uncompleted construction in progress at year-end, which are assets of the State, are capitalized as assets in the government-wide statements. During fiscal year 2002, State projects costing $369.2 million were completed. State grants for local governments' capital projects and other public organizations amounted to $570.0 million in the fiscal year.

General and Special Revenue Fund Budgetary Highlights

Differences between the original budget and the final amended budget are summarized as follows.

Overall, the change between the original and final general fund budget was a decrease of $234.7 million or 2.1%. The budget for executive and administrative control decreased $292.7 million. This decrease was principally the result of a change in funding for certain capital projects from general funds to general obligation bonds. Budget and management decreased primarily as a result of cost containment. The decrease of $14.5 million in natural resource's budget was due primarily to reductions in Program Open Space funding related to cost containment. Health and mental hygiene's budget increased by $123.2 million primarily for increased costs in the Medicaid and kidney disease programs.

Overall the special fund budget increased by $369.4 million or 8.8%. The increase for judicial review and legal of $9 million is primarily related to one-time transfers to establish and improve methods of gathering and reporting information, including a land record information system. A significant portion of the increase for transportation expenditures was due to unanticipated security costs, various emergency response activities and increases in general airport costs. The increase in agriculture's budget of $9.4 million resulted primarily from expenditures for land preservation easements. The final budget for health and mental hygiene increased by $56 million primarily because of increased funding for mental hygiene community services, and hospitals providing care to individuals not covered by Medicaid. The budget for human resources increased $22 million due in part to increases in temporary cash assistance, foster care, child welfare and family investment services. The increase in business and economic development of $26.7 million represents increases in funding for business development programs.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, the State had invested $15.9 billion (net of accumulated depreciation) in a broad range capital assets (see table below). Depreciation expense for the fiscal year totaled $514 million ($466 million for governmental activities and $48 million for business-type activities). The total increase in the State's investment in capital assets for the current fiscal year was 6.4% (7.0% for governmental activities and .6% for business-type activities).

Capital Assets as of June 30, 2002
(Net of Depreciation, Expressed in Millions)

	Governmental Activities	Business-type Activities	Total Primary Government
Land and improvements	$ 2,260	$ 105	$ 2,365
Art and historical treasurers	27	—	27
Construction in progress	2,084		2,084
Structures and improvements	2,599	1	2,600
Equipment	733	15	748
Infrastructure	6,818	1,303	8,121
Total	$14,521	$ 1,424	$15,945

Major capital asset events during the current fiscal year include the preservation of agricultural land through paid easements totaling $33 million, the preservation of open space land through paid easements totaling of $50 million, the improvement of the statewide telecommunications network between State agencies at a cost of $10 million, implementation of a statewide educational computer and video system for State schools at a cost of $12.5 million, improvements in energy performance in State buildings at a cost of $10.3 million, and construction and improvements in statewide multi-purpose buildings strategically located throughout the State at a cost of $14.2 million.

Additional information for the State's capital assets can be found in footnote 12 of this report.

Long-term Debt

The State is empowered by law to authorize, issue and sell general obligation bonds, which are backed by the full faith and credit of the State. The State also issues revenue dedicated bonded debt for the Department of Transportation and various business-type activities whose payment for principal and interest comes solely out of revenues received from the respective activities. This debt is not backed by the State's full faith and credit.

At June 30, 2002, the State had total bonded debt of $7.7 billion. Of this amount $3.6 billion was debt backed by the full faith and credit of the State. The remaining $4.1 billion was revenue bonds secured solely by the specified revenue sources.

Outstanding Bonded Debt as of June 30, 2002

(Expressed in Millions)

	Governmental Activities	Business-type Activities	Total Primary Government
General Obligation Bonds (backed by the State)	$3,544		$3,544
Transportation Bonds (backed by specific revenues)	718		718
Revenue Bonds (backed by specific revenues)		$3,413	3,413
Total	$4,262	$3,413	$7,675

The total debt increase for the State in the current fiscal year was 7.1% (3.8% related to general obligation bonds and 11.4% related to revenue bonds).

The State's general obligation bonds are rated Aaa by Moody's and AAA by Standard and Poor's and Fitch.

During fiscal year 2002, the State issued general obligation debt totaling $528 million at a premium of $41.2 million, including $109.9 million to refinance existing debt to take advantage of favorable interest rates. The refinancing is expected to decrease future debt service payments by $10.2 million.

State statutes limit the amount of Consolidated Transportation Bonds that may be outstanding as of June 30 to the amount established in the budget and not to exceed $1.2 billion. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2002, was $799.0 million. This amount is in excess of the actual bonds outstanding ($718 million).

Additional information on the State's long-term debt can be found in note 13 on pages 88–96 of this report.

The ratios of net general obligations bonded debt to assessed property value, debt to present market value, and bonded debt per capita are considered to be useful indicators of the State's debt position to State management, citizens and investors. Data for fiscal years 1993 to 2001 are shown as follows:

General Obligation Bonds	Amount (expressed in thousands)	Ratio of Net Bonded Debt to Assessed Value	Ratio of Debt to Estimated Market Value	Bonded Debt Per Capita
2002	$3,544,000	1.11%	1.11%	$659.35
2001	3,450,900	2.81	1.12	651.53
2000	3,348,866	2.87	1.15	647.50
1999	3,500,228	3.10	1.23	681.67
1998	3,270,525	2.98	1.19	642.03
1997	3,025,394	2.82	1.13	596.49
1996	2,859,939	2.72	1.09	567.17
1995	2,619,069	2.54	1.02	519.04
1994	2,504,004	2.49	1.00	504.33
1993	2,279,390	2.37	.95	464.42

Source: Office of Administration and Finance, Maryland State Comptroller's Office, 2001.

Economic Factors and Next Year's Budgets

Maryland's economy has experienced difficulties over the past year, as has the national economy. While the State's economy has slowed, however, it continues to outperform the national economy in many respects. In November 2002 the State Department of Legislative Services projected a deficit of approximately $590 million in fiscal year 2003 and an additional deficit of $1.2 billion in fiscal year 2004. The current Governor has taken preliminary steps to reduce the deficit in fiscal year 2003 by announcing a cost containment plan for state agencies. The new Governor-elect will take office in January 2003. The Governor is required to submit a balanced budget to the state legislature. Therefore, actions to balance the 2004 budget will be determined by the end of the legislative session in April 2003.

Requests for Information

This financial report is designed to provide a general overview of the State's finances for all those with an interest in the State's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Accounting Division, Office of the Comptroller, P.O. Box 746, Annapolis, Maryland 21404.

BASIC FINANCIAL STATEMENTS

Statement of Net Assets

June 30, 2002

(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Cash and cash equivalents	$ 2,882,923	$ 92,850	$ 2,975,773	$ 48,645
Investments	945,670	410,373	1,356,043	267,499
Inventories	64,756	7,411	72,167	10,649
Pre-paid items	457,865		457,865	3,662
Deferred charges	5,567		5,567	989
Taxes receivable, net	777,217	91,977	869,194	
Intergovernmental receivables	900,270	19,914	920,184	
Tuition contracts receivable			-	190,265
Other accounts receivable	205,274	49,492	254,766	170,019
Due from other funds		336,932	336,932	
Due from primary government			-	597,422
Due from component units	147		147	
Internal balances	96,062	(96,062)	-	
Loans and notes receivable, net	39,126	735,894	775,020	73,622
Loans to component units	520		520	
Investment in direct financing leases		136,805	136,805	290,510
Other assets		82,704	82,704	9,891
Collateral for lent securities	50,939		50,939	
Restricted Assets:				
Cash and cash equivalents	15,509	1,579,816	1,595,325	8,121
Investments		1,197,493	1,197,493	36,006
Due from primary government				10,173
Loans and notes receivable (net)		2,102,941	2,102,941	
Other		37,400	37,400	
Capital assets (net of accumulated depreciation):				
Land	2,260,243	105,080	2,365,323	87,203
Art and historical treasures	26,622		26,622	
Structures and other improvements	2,598,965	446	2,599,411	2,040,715
Equipment	733,072	15,200	748,272	235,398
Infrastructure	6,818,637	1,303,770	8,122,407	98,777
Construction in progress	2,083,874		2,083,874	481,431
Total assets	20,963,258	8,210,436	29,173,694	4,660,997

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
Liabilities				
Salaries payable	207,937		207,937	4,689
Vouchers payable	338,780		338,780	
Accounts payable and accrued liabilities	1,065,439	116,587	1,182,026	260,798
Due to other funds	1,509,907		1,509,907	
Due to component units	607,595		607,595	
Due to primary government				147
Loans from primary government				520
Accounts payable to political subdivisions	149,104		149,104	
Matured bonds and interest coupons payable	4,682		4,682	
Unearned revenue	46,702	9,605	56,307	61,185
Accrued insurance on loan losses		27,545	27,545	4,094
Accrued tuition benefits				267,010
Other liabilities	65,500		65,500	11,790
Collateral obligations for lent securities	50,939		50,939	
Payables from restricted assets:				
Accounts payable and accrued liabilities		1,344	1,344	
Revenue bonds payable		187,872	187,872	
Bonds and notes payable:				
Due within one year	422,530		422,530	64,853
Due in more than one year	3,893,429	3,225,051	7,118,480	1,118,544
Other noncurrent liabilities:				
Due within one year	278,311	149,314	427,625	52,835
Due in more than one year	828,650	287,233	1,115,883	102,999
Total liabilities	9,469,505	4,004,551	13,474,056	1,949,464
Net Assets				
Invested in capital assets, net of related debt	11,016,638	1,217,578	12,234,216	2,062,633
Restricted for:				
Debt service		24,651	24,651	2,666
Capital improvements and deposits	10,827	44,159	54,986	22,829
Higher education				204,221
Loans and notes receivable				68,417
Unemployment compensation benefits		952,305	952,305	
Loan programs		355,285	355,285	
Other		1,625	1,625	
Unrestricted	466,288	1,610,282	2,076,570	350,767
Total net assets	$11,493,753	$4,205,885	$15,699,638	$2,711,533

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Activities

For the Year Ended June 30, 2002

(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-Type Activities	Total	
Primary government:								
Governmental activities:								
General government	$ 610,560	$ 238,480	$ 83,520	$ 662	$ (287,898)		$ (287,898)	
Health and mental hygiene	4,908,418	191,164	2,089,989		(2,627,265)		(2,627,265)	
Education	4,459,644	55,723	672,712		(3,731,209)		(3,731,209)	
Aid for higher education	1,201,462				(1,201,462)		(1,201,462)	
Human resources	1,536,124	35,029	961,581		(539,514)		(539,514)	
Public safety	1,194,952	56,238	40,211	7,104	(1,091,399)		(1,091,399)	
Transportation	1,630,724	615,261	50,394	738,374	(226,695)		(226,695)	
Judicial	408,571	291,546	3,388		(113,637)		(113,637)	
Labor, licensing and regulation	173,625	26,759	139,446		(7,420)		(7,420)	
Natural resources and recreation	149,372	35,058	20,276	144	(93,894)		(93,894)	
Housing and community development	168,595	14,460	141,055		(13,080)		(13,080)	
Environment	87,432	22,613	19,060		(45,759)		(45,759)	
Agriculture	64,395	24,106	3,279	571	(36,439)		(36,439)	
Business and economic development	55,570	1,190	463		(53,917)		(53,917)	
Intergovernmental grants	1,375,043				(1,375,043)		(1,375,043)	
Interest	209,739				(209,739)		(209,739)	
Total governmental activities	18,234,226	1,607,627	4,225,374	746,855	(11,654,370)	-	(11,654,370)	
Business-type activities:								
Economic development - insurance programs	5,262	5,786				524	524	
Economic development - general loan programs	69,381	1,439				(67,942)	(67,942)	
Economic development - water quality loan programs	11,892	5,061		53,701		46,870	46,870	
Economic development - housing loan programs	210,469	3,396				(207,073)	(207,073)	
Unemployment insurance program	550,345		200,601			(349,744)	(349,744)	
Maryland State Lottery	867,910	1,306,538				438,628	438,628	
Maryland Transportation Authority	205,831	189,658	34,392			18,219	18,219	
State Use Industries	39,243	42,285				3,042	3,042	
Total business-type activities	1,960,333	1,554,163	234,993	53,701		(117,476)	(117,476)	
Total primary government	$20,194,559	$3,161,790	$4,460,367	$800,556	(11,654,370)	(117,476)	(11,771,846)	

Component units:								
Higher education	$ 2,888,726	$1,082,795	$ 850,133	$195,198				$ (760,600)
Maryland Stadium Authority	52,945	60,855						7,910
Other component units	199,144	162,242						(36,902)
Total component units	$ 3,140,815	$1,305,892	$ 850,133	$195,198				(789,592)
General revenues:								
Income taxes					4,913,185		4,913,185	
Sales and use taxes					2,690,099		2,690,099	
Motor vehicle taxes					1,660,994		1,660,994	
Other taxes					1,413,307	254,483	1,667,790	
Grants and contributions not restricted to specific programs								974,440
Unrestricted investment earnings					109,065	297,592	406,657	(5,759)
Transfers					396,824	(396,824)		
Total general revenues and transfers					11,183,474	155,251	11,338,725	968,681
Special items					25,628		25,628	(5,628)
Change in net assets					(445,268)	37,775	(407,493)	173,461
Net assets - beginning					3,371,858	2,995,032	6,366,890	4,018,286
Adjustment for change in accounting principle (Note 1)					8,567,163	1,173,078	9,740,241	(1,480,214)
Net assets - ending					$ 11,493,753	$4,205,885	$15,699,638	$2,711,533

The accompanying notes to the financial statements are an integral part of these financial statements.

Balance Sheet
Governmental Funds
June 30, 2002

(Expressed in Thousands)

	General	Special Revenue: Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	$2,867,058	$ 1,724	$ 14,141	$2,882,923
Cash and cash equivalents - restricted		8,047	2,780	10,827
Cash with fiscal agent - restricted			4,682	4,682
Investments	943,944		1,726	945,670
Prepaid items	425,586	32,279		457,865
Taxes receivable, net	674,842	95,271	7,104	777,217
Intergovernmental receivables	725,953	174,317		900,270
Other accounts receivable	160,772	44,164	338	205,274
Due from other funds	127,408	203,602	455,364	786,374
Due from component units	147			147
Inventories	17,680	47,076		64,756
Loans and notes receivable, net	3,053	10,486	25,587	39,126
Loans to component units	520			520
Collateral for lent securities	50,939			50,939
Total assets	$5,997,902	$616,966	$511,722	$7,126,590
Liabilities:				
Salaries payable	$ 187,557	$ 20,380		$ 207,937
Vouchers payable	235,528	26,632	$ 76,620	338,780
Accounts payable and accrued liabilities	825,790	200,215	48,626	1,074,631
Due to other funds	2,158,199	28,542	13,478	2,200,219
Due to component units	607,595			607,595
Accounts payable to political subdivisions	82,421	66,683		149,104
Deferred revenue	137,374	23,165		160,539
Mature bonds and interest coupons payable			4,682	4,682
Accrued self-insurance costs	78,058			78,058
Collateral obligations for lent securities	50,939			50,939
Total liabilities	4,363,461	365,617	143,406	4,872,484
Fund balances:				
Reserved for:				
State reserve fund	678,071			678,071
Encumbrances	245,666	18,991	473,400	738,057
Prepaid items and inventories	443,266	79,355		522,621
Shore Erosion Loan Program			9,633	9,633
Construction projects		8,047		8,047
Loans and notes receivable	1,970	10,486	15,954	28,410
Unreserved:				
Designated	265,468			265,468
Undesignated, (deficit) reported in:				
Special revenue fund		134,470		134,470
General obligation debt service fund			21,401	21,401
Transportation debt service fund			4,515	4,515
Capital projects fund			(156,587)	(156,587)
Total fund balance	1,634,441	251,349	368,316	2,254,106
Total liabilities and fund balances	$5,997,902	$616,966	$511,722	$7,126,590

The accompanying notes to the financial statements are an integral part of these financial statements.

Reconciliation of the Governmental Funds' Fund Balance to the Statement of Net Assets, Net Assets' Balance

June 30, 2002

(Expressed in Thousands)

Amounts reported for governmental activities in the statement of net assets (page 49) differ from the amounts for the governmental funds' fund balances because:	
Amount in governmental funds, fund balance (page 52)	$ 2,254,106
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	14,521,412
Taxes and other receivables that will not be available to pay for current-period expenditures and, therefore, are deferred in the funds	113,837
Accrued interest payable on bonds and capital leases are not liquidated with current financial resources in the governmental funds	(65,500)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
General Obligation Bonds	(3,544,178)
Deferred charges to be amortized over the life of the debt	5,422
Premiums to be amortized over the life of the debt	(40,141)
Transportation Bonds	(717,980)
Deferred charges to be amortized over the life of the debt	145
Premiums to be amortized over the life of the debt	(13,660)
Accrued self-insurance costs	(156,593)
Accrued annual leave	(218,681)
Other long term liabilities	(133,277)
Obligation under capital leases	(220,649)
Obligations under capital leases with component units	(290,510)
Net assets of governmental activities (page 49)	$11,493,753

The accompanying notes to the financial statements are an integral part of these financial statements.

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds for the year ended June 30, 2002

(Expressed in Thousands)

	General	Special Revenue: Maryland Department of Transportation	Other Governmental Funds	Total Governmental Funds
Revenues:				
Income taxes	$ 4,911,807			$ 4,911,807
Sales and use taxes	2,689,567			2,689,567
Motor vehicle taxes and fees		$1,660,994		1,660,994
Other taxes	1,142,426		$ 270,881	1,413,307
Other licenses and fees	610,009			610,009
Charges for services	420,098	394,234		814,332
Revenues pledged as security for bonds		41,161		41,161
Interest and other investment income	95,682	7,116	5,416	108,214
Federal revenue	4,184,301	747,607		4,931,908
Other	128,952	24,296	262	153,510
Total revenues	14,182,842	2,875,408	276,559	17,334,809
Expenditures:				
Current:				
General government	627,367			627,367
Health and mental hygiene	4,893,824			4,893,824
Education	4,209,253		264,350	4,473,603
Aid to higher education	966,777		234,685	1,201,462
Human resources	1,536,780			1,536,780
Public safety	1,265,624			1,265,624
Transportation		1,103,756		1,103,756
Judicial	407,079			407,079
Labor, licensing and regulation	174,725			174,725
Natural resources and recreation	167,160			167,160
Housing and community development	168,580			168,580
Environment	87,447			87,447
Agriculture	91,562			91,562
Business and economic development	55,418			55,418
Intergovernmental	390,634	678,727	305,682	1,375,043
Capital outlays		1,300,616	115,124	1,415,740
Debt service:				
Principal retirement			406,850	406,850
Interest			202,834	202,834
Total expenditures	15,042,230	3,083,099	1,529,525	19,654,854
Deficiency of revenues under expenditures	(859,388)	(207,691)	(1,252,966)	(2,320,045)
Other sources (uses) of financial resources:				
Capital leases	44,294			44,294
Other long-term liabilities		119,460		119,460
Proceeds from bonds		164,050	451,796	615,846
Proceeds from refunding bonds			117,458	117,458
Payments to refunded bond escrow agent			(117,217)	(117,217)
Transfers in	675,793	124,265	653,295	1,453,353
Transfers out	(732,543)	(156,042)	(167,944)	(1,056,529)
Total other sources (uses) of financial resources	(12,456)	251,733	937,388	1,176,665
Special items	32,000		(6,372)	25,628
Net change in fund balances	(839,844)	44,042	(321,950)	(1,117,752)
Fund balances, July 1, 2001	2,456,605	159,524	690,266	3,306,395
Adjustment for change in accounting principle	17,680	47,783		65,463
Fund balances, June 30, 2002	$ 1,634,441	$ 251,349	$ 368,316	$ 2,254,106

The accompanying notes to the financial statements are an integral part of these financial statements.

Reconciliation of the Statement of the Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

June 30, 2002

(Expressed in Thousands)

Amounts reported for governmental activities in the Statement of Activities (pages 50-51) are different from the amounts reported in the Statement of the Revenues, Expenditures, and Changes in Fund Balances Governmental Funds because of the following:		
Net change in fund balances - total governmental funds (page 54)		$(1,117,752)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		
Capital outlays	$1,657,701	
Depreciation expense	(684,162)	973,539
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.		
Donations	780	
Net loss on disposals and trade-ins	(5,611)	(4,831)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds:		
Deferred revenues for taxes are recognized, net of revenue already recognized in the prior year	1,910	
Deferred revenues for other revenues are recognized, net of revenue already recognized in the prior year	50,103	52,013
The issuance of long term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long term debt and related items.		
Debt issued, General Obligation Bonds	(569,254)	
Debt issued, Transportation Bonds	(164,050)	
Capital lease financing	(44,294)	
Other long-term financing	(119,460)	
Discounts and issuance costs	2,257	
Principal repayments:		
General Obligation Bonds	439,535	
Transportation Bonds	84,530	
Capital leases	52,637	(318,099)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds:		
Compensated absences	(20,042)	
Self-insurance	(6,284)	
Accrued interest	(3,812)	(30,138)
Change in net assets of governmental activities (page 51)		$ (445,268)

The accompanying notes to the financial statements are an integral part of these financial statements.

Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - Budgetary General and Special Funds for the year ended June 30, 2002

(Expressed in Thousands)

	General Fund				Special Fund			
	Budget Amounts			Variance	Budget Amounts			Variance
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
Revenues:								
Income taxes	$ 5,590,812	$ 5,234,309	$ 5,044,884	$ (189,425)	$ 108,405	$ 79,405	$ 108,591	$ 29,186
Sales and use taxes	2,771,908	2,635,530	2,642,478	6,948	19,500	31,400	44,309	12,909
Other taxes	697,970	754,447	758,408	3,961	1,690,535	1,680,410	1,758,190	77,780
Licenses and fees	104,350	120,165	140,153	19,988	461,640	526,413	591,971	65,558
Charges for services	216,448	218,768	228,001	9,233	538,928	750,985	684,436	(66,549)
Interest and other investment income	82,513	72,623	93,712	21,089	11,052	19,993	24,577	4,584
Other	444,859	599,641	821,056	221,415	776,218	936,292	637,292	(299,000)
Federal revenue					116,500	67,275	64,533	(2,742)
Total revenues	9,908,860	9,635,483	9,728,692	93,209	3,722,778	4,092,173	3,913,899	(178,274)
Expenditures and encumbrances by major function:								
Payments of revenue to civil divisions of the State	123,790	123,853	123,853					
Public debt	103,455	103,455	103,455		293,607	410,823	408,815	2,008
Legislative	61,558	61,363	55,199	6,164				
Judicial review and legal	365,557	367,875	350,649	17,226	14,447	23,503	15,339	8,164
Executive and administrative control	661,967	369,284	345,415	23,869	80,578	84,170	68,914	15,256
Financial and revenue administration	174,234	171,928	167,132	4,796	64,751	70,291	67,957	2,334
Budget and management	117,073	106,082	64,107	41,975	19,653	22,940	18,855	4,085
Retirement and pension					32,389	31,979	23,099	8,880
General services	56,071	57,185	54,352	2,833	2,460	2,844	2,090	754
Transportation and highways					2,250,037	2,330,592	2,252,277	78,315
Natural resources and recreation	105,169	90,687	77,803	12,884	198,864	201,057	160,805	40,252
Agriculture	45,243	43,638	33,496	10,142	69,536	78,943	52,808	26,135
Health, hospitals and mental hygiene	2,573,224	2,696,390	2,691,632	4,758	194,793	250,762	192,937	57,825
Human resources	498,127	491,191	481,643	9,548	69,621	91,814	85,918	5,896
Labor, licensing and regulation	27,210	28,867	27,497	1,370	12,628	18,560	10,208	8,352
Public safety and correctional services	792,057	784,953	772,202	12,751	124,451	132,589	109,059	23,530
Public education	4,477,586	4,452,095	4,376,391	75,704	140,174	146,060	126,322	19,738
Housing and community development	58,418	51,327	37,093	14,234	76,465	84,673	48,185	36,488
Business and economic development	107,297	99,126	87,640	11,486	100,648	127,400	66,356	61,044
Environment	65,874	63,355	49,461	13,894	372,973	374,142	118,962	255,180
Juvenile services	165,354	164,168	157,583	6,585	142	221	148	73

State police	226,790	228,008	224,570	3,438	53,742	57,997	54,065	3,932
State reserve fund	216,859	233,384	233,384					
Reversions	(25,000)	(25,000)		(25,000)				
Total expenditures and encumbrances	10,997,913	10,763,214	10,514,557	248,657	4,171,959	4,541,360	3,883,119	658,241
Excess of revenues over (under) expenditures	(1,089,053)	(1,127,731)	(785,865)	341,866	(449,181)	(449,187)	30,780	479,967
Other sources (uses) of financial resources:								
Transfers in (out)		229,399	231,304	1,905		(91,640)	116,576	208,216
Excess of revenues over expenditures and other sources of financial resources	(1,089,053)	(898,332)	(554,561)	343,771	(449,181)	(540,827)	147,356	688,183
Total net assets - beginning	1,776,881	1,776,881	1,776,881		809,503	809,503	809,503	
Total net assets - ending	$ 687,828	$ 878,549	$ 1,222,320	$ 343,771	$ 360,322	$ 268,676	$ 956,859	$688,183

The accompanying notes to the financial statements are an integral part of these financial statements.

Reconciliation of the Budgetary General and Special Fund, Fund Balances to the GAAP General and Special Revenue Fund, Fund Balances June 30, 2002

(Expressed in Thousands)

	General	Special
Amount in budgetary funds, fund balance (page 57)	$1,222,320	$956,859
Budgetary special funds reclassified to the General Fund	409,924	(409,924)
Budgetary special funds reclassified to other funds	-	(345,444)
Other non-budgetary funds reclassified to governmental funds	66,206	11,069
Total of budgetary fund balances reclassified into the governmental funds fund structure	1,698,450	212,560
Accounting principle differences:		
Assets recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Cash	5,398	8,047
Investments	11,360	
Taxes receivable	2,780	2,475
Intergovernmental receivables	5,720	
Other accounts receivable	11,270	(7,439)
Loans and notes receivable	60	
Inventories	17,680	47,076
Prepaid items	110,851	
Liabilities recognized in the governmental funds financial statements not recognized for budgetary purposes:		
Accounts payable and accrued liabilities	(214,250)	(11,370)
Accounts payable to political subdivisions	(215)	
Deferred revenue	(4,130)	
Accrued self insurance costs	(10,533)	
Financial statement governmental funds' fund balances, June 30, 2002 (page 54)	$1,634,441	$251,349

The accompanying notes to the financial statements are an integral part of these financial statements.

COMPTROLLER
of MARYLAND
Serving the People
1852
2002
for 150 years

Statement of Net Assets
Enterprise Funds
June 30, 2002

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Assets:						
Current assets:						
Cash and cash equivalents	$ 30,337	$ 3,661	$ 1,200	$ 57,642	$ 10	$ 92,850
Investments	180,157			209,902	145	390,204
Taxes receivable, net		91,977				91,977
Other accounts receivable	7,175		22,801	11,248	6,486	47,710
Due from other funds	118,448		91,002		116,808	326,258
Intergovernmental receivables				19,914		19,914
Inventories				947	6,464	7,411
Loans and notes receivable, net	30,567				419	30,986
Investment in direct financing leases				5,693		5,693
Other assets	38,795		45		5,645	44,485
Current restricted assets:						
Cash and cash equivalents	230,734			461,557		692,291
Cash on deposit with U.S. Treasury		887,525				887,525
Investments	277,998		53,008	28,526		359,532
Loans and notes receivable, net	58,083					58,083
Other assets	36,557					36,557
Total current assets	1,008,851	983,163	168,056	795,429	135,977	3,091,476
Non-current assets:						
Investments	19,505				664	20,169
Other accounts receivable				1,782		1,782
Due from other funds				10,674		10,674
Loans and notes receivable, net	703,966				942	704,908
Investment in direct financing leases				131,112		131,112
Other assets	36,423			1,625	171	38,219
Restricted non-current assets:						
Investments	578,395		259,566			837,961
Loans and notes receivable, net	2,044,858					2,044,858
Other assets	843					843
Capital assets (net of accumulated depreciation):						
Land				105,080		105,080
Structures and improvements					446	446
Equipment	3		3,851	7,102	4,244	15,200
Infrastructure				1,303,685	85	1,303,770
Total non-current assets	3,383,993	-	263,417	1,561,060	6,552	5,215,022
Total assets	4,392,844	983,163	431,473	2,356,489	142,529	8,306,498

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Liabilities:						
Current liabilities:						
Accounts payable and accrued liabilities	48,441	30,858	6,053	28,804	2,431	116,587
Due to other funds	19,914		76,148			96,062
Accrued insurance and loan losses	79				27,466	27,545
Other liabilities	63,316		75,911	9,274	813	149,314
Deferred revenue			2,666	2,712	4,227	9,605
Current liabilities payable from restricted assets:						
Accounts payable and accrued liabilities	1,344					1,344
Revenue bonds payable	168,562			19,310		187,872
Total current liabilities	301,656	30,858	160,778	60,100	34,937	588,329
Non-current liabilities:						
Other liabilities	23,614		262,113		1,506	287,233
Revenue bonds payable	2,575,576			649,475		3,225,051
Total non-current liabilities	2,599,190	-	262,113	649,475	1,506	3,512,284
Total liabilities	2,900,846	30,858	422,891	709,575	36,443	4,100,613
Net Assets:						
Invested in capital assets, net of related debt	3		608	1,212,192	4,775	1,217,578
Restricted for:						
Debt service				24,651		24,651
Capital improvements				44,159		44,159
Unemployment compensation benefits		952,305				952,305
Loan programs	355,285					355,285
Other				1,625		1,625
Unrestricted	1,136,710		7,974	364,287	101,311	1,610,282
Total net assets	$1,491,998	$952,305	$ 8,582	$1,646,914	$106,086	$4,205,885

The accompanying notes to the financial statements are an integral part of these financial statements.

COMPTROLLER
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for 150 years

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

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Operating revenues:						
Other taxes		$254,483				$ 254,483
Lottery ticket sales			$1,306,538			1,306,538
Charges for services and sales	$ 5,508			$ 189,658	$ 47,780	242,946
Interest and other investment income	182,497		998		577	184,072
Other	4,363			25,505		29,868
Total operating revenues	192,368	254,483	1,307,536	215,163	48,357	2,017,907
Operating expenses:						
Prizes and claims			733,196			733,196
Commissions and bonuses			85,363			85,363
Cost of sales and services					32,231	32,231
Operation and maintenance of facilities	3,579			134,821		138,400
General and administrative	20,361		47,709	8,611	9,034	85,715
Benefit payments		550,345				550,345
Interest	6,968					6,968
Depreciation and amortization	55		1,433	46,500	1,191	49,179
Provision for insurance and loan losses	25,945				2,049	27,994
Other	52,160					52,160
Total operating expenses	109,068	550,345	867,701	189,932	44,505	1,761,551
Net operating income	83,300	(295,862)	439,835	25,231	3,852	256,356
Non-operating revenues (expenses):						
Investment income	43,384	55,058		12,210	2,868	113,520
Interest expense	(151,463)		(209)	(15,899)		(167,571)
Federal grants and distributions		200,601				200,601
Other	(31,186)			8,887	291	(22,008)
Income (loss) before contributions and transfers	(55,965)	(40,203)	439,626	30,429	7,011	380,898
Capital contributions	53,701					53,701
Transfers in	83,366					83,366
Transfers out	(34,686)		(443,504)		(2,000)	(480,190)
Change in net assets	46,416	(40,203)	(3,878)	30,429	5,011	37,775
Total net assets - beginning	1,432,104	992,508	12,460	456,885	101,075	2,995,032
Restated amounts due to GASB 34	13,478			1,159,600		1,173,078
Total net assets - ending	$1,491,998	$952,305	$ 8,582	$1,646,914	$106,086	$4,205,885

The accompanying notes to the financial statements are an integral part of these financial statements.

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

(Expressed in Thousands)

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Cash flows from operating activities:						
Receipts from customers	$462,422	$ 278,862	$1,304,817	$ 190,171	$44,221	$2,280,493
Payments to suppliers	(180,395)		(38,704)	(86,891)	(26,232)	(332,222)
Payments to employees	(17,593)		(9,754)	(59,040)	(11,412)	(97,799)
Other receipts (payments)	(221,190)	(547,461)	(811,020)	16,660	(6,741)	(1,569,752)
Lottery installment payments			(54,070)			(54,070)
Future lottery prize installments			4,342			4,342
Net cash provided (used) by operating activities	43,244	(268,599)	395,611	60,900	(164)	230,992
Cash flows from noncapital financing activities:						
Proceeds from the sale of revenue bonds	383,785			381,420		765,205
Payment on revenue bonds	(404,580)			(9,312)		(413,892)
Interest payments	(146,194)					(146,194)
Transfers in	83,366					83,366
Transfers out	(34,686)		(443,504)		(2,000)	(480,190)
Capital contributions	53,701					53,701
Grants		200,601				200,601
Other	(34,709)				267	(34,442)
Net cash provided (used) by noncapital financing activities	(99,317)	200,601	(443,504)	372,108	(1,733)	28,155
Cash flows from capital and related financing activities:						
Proceeds from notes payable and revenue bonds	11,790					11,790
Principal paid on notes payable and revenue bonds	(7,790)			(13,445)		(21,235)
Interest payments	(12,576)		(209)	(7,378)		(20,163)
Acquisition of capital assets			(276)	(54,542)	(1,083)	(55,901)
Payment of capital lease obligations			(1,350)			(1,350)
Other	153					153
Net cash used in capital and related financing activities	(8,423)		(1,835)	(75,365)	(1,083)	(86,706)
Cash flows from investing activities:						
Purchase of investments	(899,238)		(4,342)	(1,145,583)		(2,049,163)
Proceeds from maturity and sale of investments	968,065		54,070	1,108,404		2,130,539
Interest on investments	51,967	55,058		10,508	2,980	120,513
Payments for investment in direct financing leases				(103,728)		(103,728)
Proceeds from investment in direct financing leases				38,964		38,964
Net cash provided (used) by investing activities	120,794	55,058	49,728	(91,435)	2,980	137,125
Net change in cash and cash equivalents	56,298	(12,940)		266,208		309,566
Balance - beginning of the year	204,773	904,126	1,200	252,991	10	1,363,100
Balance - end of the year	$261,071	$ 891,186	$ 1,200	$ 519,199	$ 10	$1,672,666

	Economic Development Loan Programs	Unemployment Insurance Program	Maryland State Lottery Agency	Maryland Transportation Authority	Other Enterprise Funds	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	$ 83,300	$(295,862)	$439,835	$25,231	$3,852	$ 256,356
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation and amortization	55		1,433	46,500	1,191	49,179
Provision for loan losses	25,945					25,945
Effect of changes in assets and liabilities:						-
Taxes receivable		23,669				23,669
Other accounts receivable	44,482		(2,731)	(6,508)	(3,222)	32,021
Intergovernmental receivables				(16,478)		(16,478)
Due from other funds	13,688		(10,178)		(7,682)	(4,172)
Inventories				(270)	1,115	845
Loans and notes receivable	2,044,722				(494)	2,044,228
Other assets	683		(3)		7,860	8,540
Investments-restricted (mortgage backed securities)	(68,887)					(68,887)
Other assets-restricted	(2,140,340)					(2,140,340)
Accounts payable and accrued liabilities	(151)	3,594	(141)	11,651	333	15,286
Due to other funds	11,635		14,679			26,314
Accrued insurance on loan losses	1				(4,182)	(4,181)
Other liabilities	26,767		383	1,287	326	28,763
Deferred revenue			16	(513)	739	242
Lottery installment payments			(54,070)			(54,070)
Future lottery prize installments			6,388			6,388
Accounts payable and accrued liabilities-restricted	1,344					1,344
Total adjustments	(40,056)	27,263	(44,224)	35,669	(4,016)	(25,364)
Net cash provided by (used in) operating activities	$ 43,244	$(268,599)	$395,611	$60,900	$ (164)	$ 230,992

Noncash transactions (amounts expressed in thousands):
Loan Programs - Unrealized gain on investments $6,078.

The accompanying notes to the financial statements are an integral part of these financial statements.

Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2002

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Funds	Investment Trust Fund	Agency Funds
Assets:			
Cash and cash equivalents	$ 1,146,151		$ 13,783
Investments, at fair value:			
U.S. Treasury and agency obligations	1,687,211	$ 696,723	
Repurchase agreements		354,856	
Bonds	2,716,049		
Corporate equity securities	13,078,993		
Mortgage related securities	2,002,347		
Mutual funds	4,459,795	101,268	
Guaranteed investment contracts	356,392		
Real estate	733,338		
Investment held by borrowers under securities lent with cash collateral	2,251,366		
Other	260,350	117,033	
Taxes receivable, net			226,743
Other receivables	316,757	2,737	1,541
Due from other funds			1,172,975
Collateral for lent securities	2,304,930		
Total assets	31,313,679	1,272,617	1,415,042
Liabilities:			
Accounts payable and accrued liabilities	755,639	22,239	57,808
Accounts payable to political subdivisions			1,357,234
Collateral obligation for lent securities	2,304,930		
Total liabilities	3,060,569	22,239	$1,415,042
Net assets:			
Held in trust for:			
Pension benefits	26,651,967		
Deferred compensation benefits	1,601,143		
Local Government Investment Pool participants		1,250,378	
Total net assets	$28,253,110	$1,250,378	

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2002

(Expressed in Thousands)

	Pension and Other Employee Benefits Trust Fund	Investment Trust Fund
Additions:		
Contributions:		
Employers	$ 270,035	
Members	310,056	$3,554,865
Sponsors	347,106	
Total contributions	927,197	3,554,865
Investment income:		
Net decrease in fair value of investments	(3,118,887)	
Interest	572,207	32,281
Dividends	264,762	
Real estate operating net income	29,161	
Net change in annuity pay-out reserves	2,465	
Total investment income (loss)	(2,250,292)	32,281
Less: investment expense	107,784	
Net investment income (loss)	(2,358,076)	32,281
Total additions (reductions)	(1,430,879)	3,587,146
Deductions:		
Benefit payments	1,457,185	
Distribution to participants		32,281
Redemptions (Unit transactions at $1.00 per unit)		3,337,073
Refunds	17,476	
Administrative expenses	25,011	
Total deductions	1,499,672	3,369,354
Change in net assets	(2,930,551)	217,792
Net assets - beginning	31,183,661	1,032,586
Net assets - ending	$28,253,110	$1,250,378

The accompanying notes to the financial statements are an integral part of these financial statements.

STATE OF MARYLAND

Combining Statement of Net Assets
Component Units
June 30, 2002

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Assets:				
Cash and cash equivalents	$ 35,722	$ 306	$ 12,617	$ 48,645
Investments	180,475		87,024	267,499
Inventories	10,649			10,649
Prepaid items	3,662			3,662
Deferred charges	989			989
Tuition contracts receivable	44,142		146,123	190,265
Other accounts receivable	152,727	5,025	12,267	170,019
Due from primary government	556,851	1,061	39,510	597,422
Loans and notes receivable, net	67,889	5,733		73,622
Investments in direct financing leases		277,963	12,547	290,510
Other assets			9,891	9,891
Restricted assets:				
Cash and cash equivalents, restricted	8,121			8,121
Investments	1,202	11,749	23,055	36,006
Due from primary government		9,081	1,092	10,173
Capital assets (net of accumulated depreciation):				
Land	82,110		5,093	87,203
Structures and improvements	1,791,903	231,151	17,661	2,040,715
Equipment	231,102	230	4,066	235,398
Infrastructure	98,777			98,777
Construction in progress	480,519		912	481,431
Total assets	3,746,840	542,299	371,858	4,660,997
Liabilities:				
Salaries payable	4,689			4,689
Accounts payable and accrued liabilities	228,590	9,981	22,227	260,798
Due to primary government			147	147
Loans from primary government			520	520
Unearned revenue	45,271	15,783	131	61,185
Accrued insurance on loan losses			4,094	4,094
Accrued tuition benefits			267,010	267,010
Other liabilities	825	1,784	9,181	11,790
Bonds and notes payable:				
Due within one year	53,114	8,440	3,299	64,853
Due in more than one year	806,056	279,698	32,790	1,118,544
Other noncurrent liabilities:				
Due within one year	52,835			52,835
Due in more than one year	102,999			102,999
Total liabilities	1,294,379	315,686	339,399	1,949,464
Net Assets:				
Invested in capital assets, net of related debt:	1,817,766	225,150	19,717	2,062,633
Restricted:				
Debt service	1,004	1,662		2,666
Capital improvements and deposits	21,737		1,092	22,829
Loan and notes receivable	68,417			68,417
Scholarships and fellowships	44,725			44,725
Research	118,919			118,919
Other purposes	40,577			40,577
Unrestricted (deficit)	339,316	(199)	11,650	350,767
Total net assets	$2,452,461	$226,613	$ 32,459	$2,711,533

The accompanying notes to the financial statements are an integral part of these financial statements.

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Component Units
for the year ended June 30, 2002

(Expressed in Thousands)

	Higher Education	Stadium Authority	Other Component Units	Total
Operating revenues:				
Student tuition and fees (net of $123,679 in allowances)	$ 607,016			$ 607,016
Grants and contracts	814,673			814,673
Charges for services and sales	103,383	$ 26,517	$ 71,458	201,358
Auxiliary enterprises (net of $17,524 in allowances)	331,375			331,375
Tuition contracts			88,927	88,927
Other	33,817		1,857	35,674
Total operating revenues	1,890,264	26,517	162,242	2,079,023
Operating expenses:				
Instruction	846,888			846,888
Research	579,290			579,290
Public service	142,572			142,572
Academic support	230,146			230,146
Student services	114,294			114,294
Institutional support	288,503			288,503
Scholarships and fellowships	58,018			58,018
Auxiliary enterprises	315,951			315,951
Hospital	42,203			42,203
Operation and maintenance of facilities	231,698	17,003	56,437	305,138
General and administrative		5,363	11,417	16,780
Depreciation and amortization		9,449	2,641	12,090
Provision for insurance on loan losses, net			4,349	4,349
Tuition benefits			112,584	112,584
Other		1,826	1,869	3,695
Total operating expenses	2,849,563	33,641	189,297	3,072,501
Operating income (loss)	(959,299)	(7,124)	(27,055)	(993,478)
Non-operating revenues (expenses):				
State appropriations	961,262			961,262
Grants and contracts	28,342			28,342
Gifts	7,118			7,118
Investment income	(12,066)	2,237	4,070	(5,759)
Interest expense	(39,163)	(19,304)	(1,780)	(60,247)
Other	7,204	34,338	(8,067)	33,475
Special items		(4,000)	(1,628)	(5,628)
Total non-operating revenues (expenses)	952,697	13,271	(7,405)	958,563
Net income	(6,602)	6,147	(34,460)	(34,915)
Other revenues, expenses gains and losses:				
Capital appropriations	195,198			195,198
Other	13,178			13,178
Total other revenues, expenses, gains and losses	208,376			208,376
Change in net assets	201,774	6,147	(34,460)	173,461
Total net assets - beginning	3,730,901	220,466	66,919	4,018,286
Restated amounts due to implementing GASB 35	(1,480,214)			(1,480,214)
Total net assets - ending	$2,452,461	$226,613	$ 32,459	$2,711,533

The accompanying notes to the financial statements are an integral part of these financial statements.

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Notes to the Financial Statements
for the year ended June 30, 2002

1. Summary of Significant Accounting Policies:

A. Reporting Entity

The accompanying financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or Constitutional Officers of the State of Maryland (State).

As required by accounting principles generally accepted in the United States of America, these financial statements present the state government (primary government) and its component units (entities for which the State is considered to be financially accountable). The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include the State appointing a voting majority of an organization's governing body and (1) the ability of the governing body to impose its will on that organization, or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the State.

Discrete Component Units

These component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the government-wide financial statements includes the financial data of the following major component units. Individual statements are presented for each.

Higher Education (Proprietary Fund Type) - Higher Education consists of the University System of Maryland, Morgan State University, St. Mary's College of Maryland and Baltimore City Community College. Each entity is governed by its own Board of Regents, or Board of Trustees, whose members are appointed by the Governor. The universities and colleges are funded through State appropriations, tuition, federal grants, and private donations and grants. Because the universities and colleges are similar in nature and function, they have been combined and presented as a single discretely presented component unit. Most of the financial information for foundations affiliated with the universities and colleges has not been included with the financial information of the universities and colleges in accordance with the requirements of GASB Statement No. 14.

Maryland Stadium Authority (Proprietary Fund Type) - The Maryland Stadium Authority (Authority) was created as a body corporate and politic and as an independent unit of the Executive Department of the State of Maryland. The Authority's purpose is to acquire land and to construct, operate and/or manage various capital facilities in the State. The Board consists of seven members, of which, six are appointed by the Governor, with the advice and consent of the State Senate, and one whom is appointed by the Mayor of Baltimore City, with the advice and consent of the State Senate. The Maryland State Legislature and the Board of Public Works (consisting of the Governor, Comptroller and the Treasurer) have approved all of the projects and bond issuances of the Authority.

The non-major component units are comprised of the following proprietary fund type entities.

The Maryland Food Center Authority (Authority) is a body corporate and politic, the governing board of which is composed of twelve members. Four members are State officials, and eight are appointed by the Governor. The Authority was created to establish and operate a consolidated wholesale food center within the Greater Baltimore Region and is subject to State regulations.

The Maryland Environmental Service (Service) was created as a body corporate and politic and is governed by a nine-member Board of Directors. The Board of Directors and the officers of the Service are appointed and/or approved by the Governor. The Service helps private industry and local governments manage liquid, solid and hazardous wastes. In accordance with direction from the Governor, the Service plans and establishes major resource recovery facilities, solid waste management plans and hazardous waste management programs.

The Maryland Industrial Development Financing Authority (Authority) was established as a body corporate and politic and a public instrumentality of the State. The Authority consists of nine members, the Secretary of the Department of Business and Economic Development, or his designee, the State Treasurer or the State Comptroller, as designated by the Governor; and seven members appointed by the Secretary of the Department of Business and Economic Development and approved by the Governor. The Authority provides financial assistance to enterprises seeking to locate or expand operations in Maryland.

The College Savings Plans of Maryland (Plans) is an independent agency of the State and is directed by the Maryland Higher Education Investment Board. The Board consists of four State officials and five members of the public appointed by the Governor. The Plans provide methods for Maryland citizens to save money for college tuition.

Complete financial statements of the individual component units and the Local Government Investment Pool of the Investment Trust Fund may be requested from the Comptroller of Maryland, LLG Treasury Building, Annapolis, Maryland 21404.

Related Organizations

The Maryland Economic Development Corporation, Injured Workers' Insurance Fund and the Maryland Automobile Insurance Fund are related organizations of the State. The governor appoints a majority of the Board of Directors, but the State does not have the ability to impose its will on the organizations, and there is no financial benefit/burden relationship.

B. Government-wide and Fund Financial Statements

The State's government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all nonfiduciary activities of the primary government and its component units. Interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Expenses reported for functional activities include allocated indirect expenses. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurements focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers all revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to retirement costs, compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The State reports the following major governmental funds:

General Fund:

Transactions related to resources obtained and used for those services traditionally provided by a state government, which are not accounted for in other governmental funds, are accounted for in the general fund. These services include, among other items, general government, health and mental hygiene, education (other than higher education institutions), human resources, public safety and judicial. Resources obtained from federal grants and used for activities accounted for in the general fund, consistent with applicable legal requirements, are recorded in the general fund.

Maryland Department of Transportation, Special Revenue Fund:

Transactions related to resources obtained, the uses of which are restricted for specific purposes, are accounted for in the special revenue fund. The Maryland Department of Transportation special revenue fund accounts for resources used for operations (other than debt service and pension activities) of the Maryland Department of Transportation, including construction or improvement of transportation facilities and mass transit operations.

Enterprise Funds:

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The enterprise funds differ from governmental funds in that the focus is on the flow of economic resources, which, together with the maintenance of equity, is an important financial indicator.

The major enterprise funds are as follows.

1. The Economic Development Loan Programs includes the direct loan programs of the Maryland Departments of Housing and Community Development, Business and Economic Development and Environment.
2. The Unemployment Insurance Program reflects the transactions, assets, liabilities and net assets of the Unemployment Insurance Program and is used to account for the unemployment taxes collected from employers, federal revenue received and remittance of benefits to the unemployed.
3. The Maryland State Lottery Agency operates the State Lottery.
4. The Maryland Transportation Authority is responsible for the operation and maintenance of toll roads, bridges and tunnels around the State.

The State reports the following fiduciary funds.

1. The Pension and Other Employee Benefits Trust Funds includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), 401(a), and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.
2. The Investment Trust Fund reflects the transactions, assets, liabilities and fund equities of the Maryland Local Government Investment Pool and is accounted for using the flow of economic resources measurement focus.
3. The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

D. Change in Accounting Principles / Restatement of Beginning Balances

The accompanying financial statements of the State have been prepared in conformity with generally accepted accounting principles as prescribed by the GASB. In June 1999, the GASB issued Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* and Statement 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public College and Universities.* These Statements establish new financial reporting requirements for state and local governments and public colleges and universities throughout the United States. They require new information and restructure much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected.

The State is required to implement these standards for the fiscal year ended June 30, 2002. Accordingly, the State has adopted the provisions of GASB Statements 34 and 35 for its fiscal year ended June 30, 2002. With the implementation of GASB Statements 34 and 35, the State has prepared required supplementary information titled *Management's Discussion and Analysis,* which precedes the basic financial statements.

Other GASB Statements are required to be implemented in conjunction with GASB Statements 34 and 35. Therefore, the State has implemented the following GASB Statements in the current fiscal year: Statement 36, *Recipient Reporting for Certain Shared Nonexchange Revenues,* Statement 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and Statement 38, *Certain Financial Statement Note Disclosures,* and Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.*

The accompanying financial statements present the financial position of the State and the various funds and fund types, the changes in financial position of the State and the various funds and fund types, and the cash flows of the proprietary funds. The financial statements are presented as of June 30, 2002, and for the year then ended. The financial statements include the various agencies, boards, commissions, public trusts and authorities and any other organizational units governed by the Maryland State Legislature and/or Constitutional Officers of the State of Maryland.

The following schedules reconcile June 30, 2001, fund balances/net assets as previously reported, to beginning fund balance/net assets, as restated, to include the adoption of new pronouncements (amounts expressed in thousands).

	June 30, 2001 As Previously Reported	Fund Reclassifications	Prior Period Adjustments	June 30, 2001 As Restated
Governmental Funds:				
General Fund	$ 2,456,605		$ 17,680	$ 2,474,285
Special Revenue Fund, Maryland Department of Transportation	159,524		47,783	207,307
Special Revenue Fund, Maryland Transportation Authority	361,871	$ (361,871)		
Non-major Funds:				
Debt Service Fund, General Obligation Bonds	43,630			43,630
Debt Service Fund, General Transportation Bonds	3,842			3,842
Debt Service Fund, Maryland Transportation Authority	95,014	(95,014)		
Capital Projects Fund	642,794			642,794
Total governmental funds	$ 3,763,280	$ (456,885)	$ 65,463	$ 3,371,858
Adoption of GASB Statement No. 34:				
Revenue recognition			$ 48,006	$ 48,006
Capital Assets, net of depreciation		$ 11,297,062	2,270,940	13,568,002
Long-term bonds and notes payable			(4,238,686)	(4,238,686)
Other liabilities and long-term obligations			(810,159)	(810,159)
Adoption of GASB Statement No. 34		11,297,062	(2,729,899)	8,567,163
Total governmental funds and activities	$ 3,763,280	$ 10,840,177	$(2,664,436)	$11,939,021
Enterprise Funds:				
Net assets June 30, 2001	$ 1,545,639		$ 13,478	$ 1,559,117
Unemployment Insurance Program		$ 992,508		992,508
Maryland Transportation Authority		456,885	1,159,600	1,616,485
Total Proprietary Funds and Business Type Activities	$ 1,545,639	$ 1,449,393	$ 1,173,078	$ 4,168,110
Fiduciary Funds:				
Pension and Other Employee Benefits Trust Fund	$29,551,136	$ 1,632,525		$31,183,661
Investment Trust Funds	1,032,586			1,032,586
Expendable Trust Funds:				
Unemployment Insurance	992,508	(992,508)		
Deferred Compensation Plan	1,632,525	(1,632,525)		
Total Fiduciary Funds	$33,208,755	$ (992,508)		$32,216,247
Account Groups:				
General Fixed Assets	$11,297,062	$(11,297,062)		
General Long-Term Obligations				
Total Account Groups	$11,297,062	$(11,297,062)		
Total Primary Government	$49,814,736		(1,491,358)	48,323,378
Discretely Presented Component Units:				
Higher Education	$ 3,730,901		$(1,480,214)	$ 2,250,687
Stadium Authority	220,466			220,466
Other Component Units	66,919			66,919
Total Net Assets for Discretely Presented Component Units	$ 4,018,286		$(1,480,214)	$ 2,538,072

E. New Pronouncements

In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units by the primary government. This pronouncement requires reporting as a component unit, a fundraising organization which exists for the primary benefit of the primary government or its component units. The State is in the process of assessing the impact of this statement and will implement it as of the effective date.

2. Assets, Liabilities and Net Assets or Equity:

A. All Funds:

Deposits with Financial Institutions and Investments:

Substantially all cash and cash equivalents of the governmental fund types and certain enterprise, fiduciary funds and component units are maintained by the State Treasurer on a pooled basis. The State Treasurer's Office invests short-term cash balances on a daily basis primarily in repurchase agreements, U.S. Government obligations and money market mutual funds. Under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2, the State Treasurer may only invest in the following:

- Any obligation for which the United States Government has pledged its faith and credit for the payment of principal and interest.
- Any obligation that a United States agency issues in accordance with an act of Congress.
- Repurchase agreements that any of the above obligations secure.
- Certificates of deposits of Maryland financial institutions.
- Banker's acceptances.
- Money market mutual funds.
- Commercial paper.
- Maryland Local Government Investment Pool.

In addition, bond sale proceeds may be invested in Municipal securities. A significant portion of the investments maintained by the State Treasurer consists of repurchase agreements. Collateral must be at least 102% of the book value of the repurchase agreements and must be delivered to the State Treasurer's custodian for safekeeping.

Investments maturing within 90 days of purchase are reported at amortized cost in the financial statements as cash and cash equivalents. Other investments are recorded at fair value and changes in fair value are recognized as revenue. Fair values are based on quotations from national security exchanges and security pricing services, or by the respective fund managers for securities which are not actively traded.

Retirement Costs:

Substantially all State employees participate in one of several State retirement systems. (See Note 17.) The State also provides retirement benefits to teachers and certain other employees of its political subdivisions. Retirement costs have been provided on the accrual basis, based upon actuarial valuations except that retirement expenditures for governmental funds represent amounts contributed by the State for the fiscal year.

Accrued Self-Insurance Costs:

The accrued self-insurance costs represent the State's liability for its 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 records self-insurance expenses in the proprietary funds and discretely presented component unit on an accrual basis and the modified accrual basis for the governmental funds. The long-term accrued self-insurance costs of the governmental funds, which are not expected to be funded with current resources, are reported in the government-wide financial statements.

Annual Leave Costs:

Principally all full-time employees accrue annual leave based on the number of years employed up to a maximum of 25 days per calendar year. Earned annual leave may be accumulated up to a maximum of 50 days as of the end of each calendar year. Accumulated earned but unused annual leave for general government employees is accounted for in the government-wide financial statements. Liabilities for accumulated earned but unused annual leave applicable to proprietary funds and component units are reported in the respective funds.

Capital Assets:

Capital assets, which include property, plant, art and historical treasures, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $50,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	40
Building improvements	40
Vehicles	7
Office equipment	10
Computer equipment	5
Infrastructure	30–50

Long-Term Obligations:

In the government-wide financial statements, and for proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

When both restricted and unrestricted resources are available for use, it is the State's policy to use restricted resources first, then unrestricted resources as they are needed.

Net Assets:

Net assets are divided into three categories. Net assets invested in capital assets net of related debt is the capital assets less accumulated depreciation and outstanding principal related debt. Restricted net assets reflect restrictions on assets imposed by parties outside the State. Unrestricted net assets is total assets of the State less net assets invested in capital assets net of related debt and restricted net assets. Unrestricted net assets is comprised mainly of cash, investments, loans, and receivables.

B. Governmental Funds:

Inventories and Prepaid Items:

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the fund financial statements under the consumption method.

Grants:

Revenues from federal reimbursement type grants are recognized when the related expenditures are incurred. Distributions of food stamp benefits are recognized as revenues and expenditures when the benefits are distributed to individual recipients.

Income Taxes:

The State accrues the net income tax receivable or records a deferred revenue based on estimated income tax revenues and refunds due relating to the fiscal year, that will not be collected or paid until after the fiscal year end. This accrual is computed based on projected calendar year net tax collections, tax laws in effect, future projections and historical experience.

Sales and Use Taxes:

The State accrues June sales taxes that are not remitted at year end as a receivable. These taxes are considered measurable and available since they represent June collections that are remitted to the State in July by merchants who collect the related sales tax.

Property Taxes:

The State levies an annual tax for the fiscal year beginning July 1 and ending June 30 on all real and personal property subject to taxation, due and payable each July 1 (lien date), based on assessed values as of the previous January 1, established by the State Department of Assessments and Taxation at various rates of estimated market value. Each of the counties, Baltimore City and incorporated municipalities establish rates and levy their own tax on such assessed values. The State tax rate since 1982 has been maintained at 21¢ per $100 of assessed value. Unpaid property taxes are considered in arrears on October 1, and penalty and interest of 1% is assessed for each month or fraction of a month that the taxes remain unpaid. Current collections are 98.7% of the total tax levy for the fiscal year. Property taxes are accrued to the extent they are collected within 60 days of year end.

Escheat Property:

Escheat property is property that reverts to the State's general fund in the absence of legal claimants or heirs. The escheat activity is reported in the general fund. The asset is recognized in the period when the legal claim to the assets arises or when the resources are received, whichever occurs first, and a liability is recognized for the estimated amount that ultimately will be reclaimed and paid.

Intergovernmental Expenditures:

General, special revenue and capital projects fund revenues paid to political subdivisions, and bond proceeds granted to political subdivisions and other public organizations, are recorded as intergovernmental expenditures. Direct grants and other payments to, or on behalf of, political subdivisions are recorded as current expenditures.

Capital Assets:

Expenditures for capital assets are reported as capital outlays in the governmental funds.

Compensated Absences

It is the State's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the State does not have a policy to pay any amounts when employees separate from service with the government. A liability for vacation pay amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Fund Equity:

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

C. Enterprise Funds, Fiduciary Funds and Component Units:

Basis of Accounting:

The accounts of the enterprise funds, fiduciary funds, and component units are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For both the government-wide and the proprietary fund financial statements, the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

Enterprise funds and component units distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents:

The enterprise funds and component units consider all highly liquid investments with maturities of less than three months to be cash and cash equivalents.

Grants:

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.

Property, Plant and Equipment:

Capital assets are stated at cost. Depreciation of the cost of capital assets is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to l0 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Debt Refinancing:

The gain or loss associated with debt refinanced is deferred and amortized to interest expense over the life of the debt.

Lottery Revenues, Prizes and Related Transfers:

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

Inventories:

Inventories are stated at the lower of cost or market, using the first-in, first-out method.

3. Budgeting and Budgetary Control:

The Maryland Constitution requires the Governor to submit to the General Assembly an annual balanced budget for the following fiscal year. This budget is prepared and adopted for the General Fund, which includes all transactions of the State, unless otherwise directed to be included in another fund and the Special Fund, which includes the transportation activities of the State, fishery and wildlife funds, shared taxes and payments of debt service on general obligation bonds. In contrast, the GAAP special revenue fund includes only the operations (other than debt service and pension activities) of the Maryland Department of Transportation. An annual budget is also prepared for the Federal Fund, which accounts for substantially all grants from the Federal government, and the current unrestricted and restricted funds of the Universities and Colleges. In addition to the annual budget, the General Assembly adopts authorizations for the issuance of general obligation bonds. The expenditures of the resources obtained thereby are accounted for in the capital projects fund.

All State budgetary expenditures for the general, special and federal funds are made pursuant to appropriations in the annual budget, as amended from time to time, by budget amendments. The legal level of budgetary control is at the program level for the general, special and federal funds. State governmental departments and independent agencies may, with the Governor's approval, amend the appropriations by program within the budgetary general fund, provided they do not exceed their total general fund appropriations as contained within the annual budget. Increases in the total general fund appropriations must be approved by the General Assembly. For the fiscal year ended June 30, 2002, the General Assembly approved a net increase in General Fund appropriations of $171,651,000. Appropriations for programs funded in whole or in part from the special or federal funds may permit expenditures in excess of original special or federal fund appropriations to the extent that actual revenues exceed original budget estimates and such additional expenditures are approved by the Governor. Unexpended appropriations from the general fund may be carried over to succeeding years to the extent of encumbrances, with all other appropriations lapsing as of the end of the fiscal year. Unexpended appropriations from special and federal funds may be carried over to the extent of (a) available resources, and (b) encumbrances. The State's accounting system is maintained by the Comptroller in compliance with State Law and in accordance with the State's Budgetary Funds. It controls expenditures at the program level to ensure legal compliance. The "Agency Appropriation Unencumbered Balance Report," which is available for public inspection at the Office of the Comptroller provides a more comprehensive accounting of activity on the basis of budgeting.

The original and amended budget adopted by the General Assembly for the general and special funds is presented in the Statement of Revenues, Expenditures and Encumbrances, and Changes in Fund Balances - Budget and Actual - for the year ended June 30, 2002. The State's budgetary fund structure and the basis of budgeting, which is the modified accrual basis with certain exceptions, differs from that utilized to present financial statements in conformity with generally accepted accounting principles. The budgetary system's principal departures from the modified accrual basis are the classification of the State's budgetary funds and the timing of recognition of certain revenues and expenditures. A summary of the effects of the fund structure differences and exceptions to the modified accrual basis of accounting, as of June 30, 2002, is provided in the financial statement, "Reconciliation of the Budgetary General and Special Funds, Fund Balances to the GAAP General and Special Revenue Funds, Fund Balances."

4. Deposits with Financial Institutions and the U.S. Treasury and Investments:

Cash and cash equivalents for the governmental funds, enterprise funds, fiduciary funds and component units totaled $2,898,432,000, $1,672,666,000, $1,159,934,000, and $56,766,000, respectively, as of June 30, 2002. Included as cash and cash equivalents for financial statement presentation were certain short term investments which are included in Note 4B and categorized as to custodial credit risk or included in Note 4B and not categorized as to credit risk because they do not exist in physical or book entry form. These cash and cash equivalents totaled $2,898,432,000, $749,362,000, $1,108,469,000, and $37,739,000 for the governmental funds, enterprise funds, fiduciary funds and component units, respectively, as of June 30, 2002.

A. Cash Deposits

Cash deposits are categorized to give an indication of the level of custodial credit risk assumed by the State. Category 1 includes deposits insured or collateralized with securities held by the State or its agent in the State's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 includes deposits which are uncollateralized.

As of June 30, 2002, the book balance for the bank deposits for the enterprise funds of the primary government was $923,304,000 and the bank balance was $933,095,000. Of this amount $35,779,000 was insured by Federal depository or collateralized by securities held by the State's agent in the State's name and is a Category 1 asset. The remaining amount of $897,316,000 was on deposit with the U.S. Treasury and is not categorized as to custodial credit risk in accordance with GASB Statement No. 3.

As of June 30, 2002, both the carrying value and the bank deposits for the fiduciary funds totaled $51,465,000. Of that amount $6,133,000 was pooled by the State and is comprised of Category 1 assets. The remaining bank balance of $45,332,000 was uninsured and uncollateralized and is a Category 3 asset.

As of June 30, 2002, the carrying value of bank deposits for the component units totaled $19,027,000. The associated bank balance of cash deposited with financial institutions for the component units was $22,692,000 of which $6,727,000 is a Category 1 asset and

is insured by Federal, private or foreign national government depository insurance, or was collateralized by a pledge of U.S. Treasury obligations held by the component unit's agent in the component unit's name and $286,000 is a Category 2 asset and is collateralized with securities held by the counterparty's trust department or agent in the component unit's name. The remaining $15,679,000 is categorized as risk Category 3, $15,136,000 of which is uninsured and unregistered, and collateralized with securities held by the pledging financial institution's agent, but not in the component unit's name, and $543,000 of which is uninsured and uncollateralized.

B. Investments

The State's investments are classified as to custodial credit risk by the three categories described below.

Category 1 Insured or registered, with securities held by the State or its agent in the State's name.

Category 2 Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the State's name.

Category 3 Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not in the State's name.

All of the State's investments held at year-end are subject to classification of custodial credit risk except for those investments, that do not exist in physical or book entry form, which by their nature are not subject to risk categorization. The State's pooled investments that are not subject to risk categorization include the Maryland Local Government Investment Pool, annuity contracts, guaranteed investment contracts, mutual funds, real estate, and investments held by borrowers for lent securities collaterized with cash.

1. Investments–Governmental Funds:

Investments are stated at fair value that is based on quoted market prices. The investments as of June 30, 2002, for the governmental funds of the primary government are categorized as follows (amounts expressed in thousands).

	Category			
	1	2	3	Fair Value
U.S. Treasury and agency obligations	$ 772,982			$ 772,982
Repurchase agreements	2,392,893			2,392,893
Bonds	384			384
	$3,166,259			3,166,259
Items not subject to classification:				
Money market mutual funds				505,532
Local Government Investment Pool				172,311
Total				$3,844,102

As of June 30, 2002, cash in the amount of $4,682,000 was maintained with fiscal agents and represents resources transmitted to bond paying agents for which coupons have not been presented. This cash, which is included above, was invested in mutual funds that invest only in U.S. Treasury and agency obligations and, therefore, is not categorized.

The Maryland Local Government Investment Pool is operated in accordance with Rule 2 a-7 of the Investment Company Act of 1940, as amended. As of June 30, 2002, the net asset value, offering and redemption price per share was $1.00. The fair value of the State of Maryland's investment in the pool is equal to the fair value of its shares in the pool.

2. Investments–Enterprise Funds:

Investments of the enterprise funds are stated at fair value, which is based on quoted market prices. The investment policies for all enterprise funds, with the exception of the Community Development Administration, are the same as those of the State Treasurer. The Community Development Administration, an agency of the Department of Housing and Community Development, is authorized to invest in obligations of the U.S. Treasury, U.S. Government agencies and corporation, political subdivisions of the U.S., banker's acceptances, repurchase agreements, corporate debt securities and certificates of deposit with foreign or domestic banks. The U.S. Treasury and agency obligations and collateral for the repurchase agreements are held by the enterprise fund's agent in the enterprise fund's name.

The investments as of June 30, 2002, for the business type funds of the primary government are as follows (amounts expressed in thousands).

	Category			
	1	2	3	Fair Value
U.S. Treasury and agency obligations	$1,245,195			$1,245,195
Repurchase agreements	274,127			274,127
Corporate equity securities	16,517			16,517
	$1,535,839			$1,535,839
Items not subject to classification:				
Mutual funds				749,362
Annuity contracts				3,529
Guaranteed investment contracts				17,823
Investments held by borrowers under securities lent with cash collateral				50,675
Total				$2,357,228

3. Investments–Fiduciary Funds:

The Pension Trust Funds (Funds), in accordance with State Personnel and Pensions Article Section 21-123 of the Annotated Code of Maryland, are permitted to make investments subject to the terms, conditions, limitations, and restrictions imposed by the Board of Trustees of the State Retirement and Pension Systems of Maryland and the Board of Trustees of the State's Supplemental Retirement Plans. The law further provides that no more than 25% of the assets that are invested in common stocks may be invested in nondividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the net plan assets available for pension benefits.

Investments of the State Retirement and Pension Systems are stated at fair value. Fair value of the investments is determined by the State Retirement and Pension System of Maryland based on published securities data, quotations from national security exchanges and security pricing services, or by respective fund managers for securities which are not actively traded. Other investments are valued based on appraisals or the present value of the projected future income.

State employees are offered participation in a deferred compensation plan (Plan) created in accordance with the Internal Revenue Code, Sections 401(a), 401(k), 403(b) and 457. The Board of Trustees of the State's Supplemental Retirement Systems is responsible for the implementation, maintenance and administration of the Plan. The Board has appointed a private company as the Plan administrator. Assets of the Plan are held in trusts for the exclusive benefit of participating employees and their beneficiaries. Investments of the Plan are stated at fair value. Fair value of the investments are valued at cost plus interest credited for fixed earnings investment contract pools and at fair value based on published quotations at each December 31, or net asset value as provided by the investment carrier, for variable earnings investments.

The Maryland Local Government Investment Pool may invest in any instrument in which the State Treasurer may invest. Permissible instruments are established under the State Finance and Procurement Article of the Annotated Code of Maryland, Title 6, Subtitle 2. Investments of the plan are stated at fair value. Securities are valued daily on an amortized cost basis which approximates market value. Money market funds are valued at the closing net asset value per share on the day of valuation.

The investments as of June 30, 2002, for the fiduciary funds of the primary government are as follows (amounts expressed in thousands).

	Category			
	1	2	3	Fair Value
U.S. Treasury and agency obligations	$ 2,383,934			$ 2,383,934
Repurchase agreements	354,856			354,856
Bonds	2,716,049			2,716,049
Corporate equity securities	13,078,993			13,078,993
Commercial paper	378,292			378,292
Bankers acceptances	62,408			62,408
Mortgage backed securities	2,002,347			2,002,347
	$20,976,879			20,976,879
Items not subject to classification:				
Guaranteed investment contracts				356,392
Insurance contracts				4,002
Annuity contracts				260,350
Mutual funds				4,561,063
Real estate				733,338
Global pooled with short term investments				780,800
Investments held by borrowers under securities lent with cash collateral:				
U.S. Treasury and agency obligations				1,205,063
Bonds				42,006
Corporate equity securities				1,004,297
Total				$29,924,190

The Funds may invest in derivatives as permitted by guidelines established by the Board of Trustees of the State Retirement and Pension Systems of Maryland. Compliance with these guidelines is monitored by the Fund's staff. At times, the Funds invest in foreign currency forward contracts, options, futures, collaterized mortgage obligations, mortgage-backed securities, interest-only securities and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The mortgage-backed securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives is the risk that the counter party will be unable to meet its obligations.

The Funds invest in foreign currency forward contracts to hedge the currency risk in their international and global portfolios. The following summary shows the foreign currency forward contracts outstanding as of June 30, 2002 (amounts expressed in thousands).

Purchases

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 2002
Australian dollar	13,898	$ 7,795
Euro currency	100,412	98,873
Japanese yen	512,879	4,283
U.S. dollar	67,618	67,618
Total purchases		$178,569

Sales

Currency	Purchase Amount (In Local Currency)	Fair Value as of June 30, 2002
Australian dollar	7,503	$ 4,206
Canadian dollar	23,507	15,441
Japanese yen	15,921,675	133,147
Pound sterling	11,966	18,124
U.S. dollar	8,773	8,773
Total sales		$179,691

4. Investments–Component Units:

Investment accounts established by higher education institutions relate principally to endowments and trust accounts required by debt instruments. In general, endowment resources can be invested in debt and equity securities, and trust accounts can be invested only in debt securities. These investments include U.S. Treasury and agency obligations, corporate debt and equity securities, repurchase agreements, and mutual funds that invest in government securities.

The Maryland Stadium Authority's marketable securities are held by the Bond Trustee. Proceeds to purchase these marketable securities were derived from various bond issues and any proceeds from the sale of these marketable securities are restricted to the purpose of the original bond issue.

Investments of the higher education institutions and the Maryland Stadium Authority are stated at fair value, which is based on quoted market prices.

The investments as of June 30, 2002, for the discretely presented component units are as follows (amounts expressed in thousands).

	Category			
	1	2	3	Fair Value
U.S. Treasury and agency obligations	$ 8,086	$11,109		$ 19,195
Corporate debt securities	28,394	457		28,851
Corporate equity securities	129,850	1	$1,288	131,139
Asset-backed securities	6,127	851		6,978
Certificates of deposit	970			970
Foreign government securities		38		38
	$173,427	$12,456	$1,288	187,171
Items not subject to classification:				
Money market mutual funds				154,073
Total				$341,244

Derivatives are used to hedge against foreign currency risk, improve yield, adjust the duration of the fixed income portfolio, or hedge against changes in interest rates. These securities are subject to changes in value due to changes in interest rates or currency valuations. The asset backed securities, which are primarily secured by mortgages, meet the definition of derivatives as defined by GASB Technical Bulletin 96-1. These securities are subject to prepayment risk when interest rates are falling.

C. Securities Lending Transactions:

1. Governmental and Enterprise Fund Types:

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. These transactions may involve certain investments held in the State treasury for the benefit of State agencies. The State's custodial bank manages the securities lending program by contracting with a lending agent who receives cash as collateral. The lending agent may use or invest cash collateral in accordance with the reinvestment guidelines approved by the State Treasurer's Office. The collateral will be returned for the same securities in the future. Cash collateral is initially pledged at greater than the market value of the securities lent and additional cash collateral has to be provided by the next business day if the aggregate value of the collateral falls to less than 100 percent of the market value of the securities lent. Either the State or the borrower may terminate the lending agreements on demand. Lending agreements are usually short in duration. Therefore, the duration of lending agreements does not generally match the maturities of the investments made with cash collateral. All lent securities are reported as assets on the Statement of Net Assets and are included in the categorization of custodial credit risk.

The bank is obligated to indemnify the State against liability for any suits, actions, or claims of any character arising from or relating to the performance of the bank under the contract, except for liability caused by acts or omissions of the State.

The State did not experience any losses on their securities lending transactions for the year ended June 30, 2002. Furthermore, as of June 30, 2002, the State had no credit risk exposure to borrowers because the fair value of collateral for the securities lent was at least 100% of the fair value of the related securities, as follows (amounts expressed in thousands).

		Fair Value	
Enterprise Fund Types - Lottery:	Lent Securities	Collateral Received	Percent Collateralized
Securities — U.S. Treasury Obligations	$50,675	$50,939	100.5%

2. Fiduciary Funds:

The Pension Trust Funds (Funds) participate in a securities lending program as permitted by the investment policies as approved by the Board of Trustees. The Funds' custodian lends specified securities to independent brokers in return for collateral of greater value. All lent securities are reported as assets on the Statement of Fiduciary Net Assets and are included in the categorization of custodial credit risk.

Borrowing brokers must transfer in the form of cash, other securities or letters of credit valued at a minimum of 102% of the fair value of domestic securities and international fixed income securities, or 105% of the fair value of international equity securities on loan. Collateral is marked to market daily. If the fair value of the pledged collateral falls below the specified levels, additional collateral is required to be pledged by the close of the next business day. In the event of default by a borrowing broker, the Funds' custodial bank is obligated to indemnify the Funds if, and to the extent that, the fair value of collateral is insufficient to replace the lent securities. The Funds have not experienced any loss due to credit or market risk on securities lending activity since inception of the program. As of June 30, 2002, the Funds had no credit risk exposure to borrowers because the fair value of collateral held for securities lent exceeded the fair value of the related securities.

Although the average term of the Funds' security loans is one week, each loan can be terminated at will by either the Funds or the borrower. Cash collateral is invested in two of the lending agent's short-term investment pools, which at June 30, 2002, had interest rate sensitivity durations of 79 and 66 days. Because the relationship between the maturities of the investment pools and the Fund's security loans is affected by the maturities of the loans made by other entities that use the agent's pools, the Funds cannot match maturities. The Funds cannot pledge or sell collateral securities received unless and until a borrower defaults. Investments made with cash received as collateral and the corresponding liabilities are reported in the Statement of Fiduciary Net Assets, Pension and Other Employee Benefits Trust Funds.

As of June 30, 2002, the fair value of lent securities and the related collateral were as follows (amounts expressed in thousands).

		Fair Value	
Securities:	Lent Securities	Collateral Received	Percent Collateralized
International equity securities	$ 758,879	$ 774,158	102.0%
Domestic and international fixed securities	1,586,094	1,626,670	102.6%
Total	$2,344,973	$2,400,828	

5. Receivables:

Taxes receivable, as of June 30, 2002, consist of the following (amounts expressed in thousands).

	Major Governmental Funds			
	General	Special Revenue	Non-major Governmental Funds	Enterprise
Income taxes	$387,139			
Sales and use taxes	279,683			
Transportation taxes, principally motor vehicle fuel and excise		$95,271		
Unemployment compensation taxes				$161,353
Other taxes, principally alcohol and property	21,335		$7,104	
Less: allowance for uncollectibles	(13,315)			(69,376)
Taxes receivable, net	$674,842	$95,271	$7,104	$ 91,977

Tax revenues are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are $9,970,000.

Other accounts receivable in the governmental funds of $205,274,000 consists of various miscellaneous receivables for transportation costs, collection of bills owed to the State's collection unit, reimbursement and rebates for health and mental hygiene facilities, and public assistance and food stamp overpayments and surcharges.

6. Deferred Revenue:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds, enterprise funds, and component units also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds and enterprise funds were as follows (amounts expressed in thousands).

	Unavailable	Unearned
Tax receivables to be collected within one year; i.e., current receivables for revenues not considered available to liquidate liabilities of the current period (general fund)	$ 49,915	
Other receivables to be collected greater than one year (general fund)	63,922	
Income tax and other receipts that have been received, but not earned (general fund)		$23,537
Revenue in connection with resources that have been received, but not earned (special revenue fund)		23,165
Revenue in connection with resources that have been received, but not earned (enterprise funds)		9,605
Total deferred/unearned revenue for governmental funds and enterprise funds	$113,837	$56,307

7. Loans and Notes Receivable and Investment in Direct Financing Leases:

A. Loans and Notes Receivable:

Loans and notes receivable, as of June 30, 2002, consist of the following (amounts expressed in thousands).

	Primary Government				Component Units	
	General	Special Revenue Department of Transportation	Non-major Governmental Funds	Enterprise	Higher Education	Stadium Authority
Notes receivable:						
Political subdivisions -						
Water quality projects			$ 6,505	$ 431,235		
Construction		$10,486	555			
Other			60			
Hospitals and nursing homes			8,834			
Permanent mortgage loans				2,561,951		
Student and health profession loans					$70,214	
Shore erosion loans			9,633			
Other	$3,053				6,217	$5,733
Total	3,053	10,486	25,587	2,993,186	76,431	5,733
Less: Allowance for possible loan losses				154,351	8,542	
Loans and notes receivable, net	$3,053	$10,486	$25,587	$2,838,835	$67,889	$5,733

Certain notes receivable for advances of general obligation bond proceeds bear interest at rates ranging from 4.0% to 9.2% and mature over approximately 26 years.

Water quality project loans consist of loans to various local governments and other governmental entities in the State for wastewater projects under the United States Environmental Protection Agency's (EPA) Capitalization Grants for State Revolving Funds' federal assistance program. The permanent mortgage loans consist of financing for single and multi-family projects, rental projects, small businesses, industrial sites and various other purposes. Student and health profession loans are made pursuant to student loan programs funded through the U.S. Government.

B. Investment in Direct Financing Leases:

Enterprise Funds:

As of June 30, 2002, the Maryland Transportation Authority (Authority) has direct financing leases with the State's Department of Transportation. The present value of the direct financing leases as of June 30, 2002, is $136,805,000. As of June 30, 2002, the Authority held $346,674,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2003	$ 33,834
2004	33,495
2005	37,811
2006	39,209
2007	40,593
2008-2012	204,987
2013-2017	185,124
2018-2022	146,069
2023-2027	137,141
2028-2032	45,356
Total	903,619
Less: Unearned interest income	420,140
Net lease payments	483,479
Restricted investments related to unexpended bond proceeds	346,674
Net investments in direct financing leases	$136,805

Component Units:

As of June 30, 2002, the Maryland Stadium Authority (Authority) has direct financing leases with the State. The present value of the direct financing leases as of June 30, 2002, is $277,963,000. As of June 30, 2002, the Authority held $10,282,000 to be spent to complete assets under these direct financing leases. Lease payments receivable (including unearned interest) for each of the five succeeding fiscal years and thereafter, including repayment of amounts to be spent, consist of the following (expressed in thousands).

2003	$ 36,147
2004	26,559
2005	25,498
2006	26,347
2007	26,324
2008-2012	130,250
2013-2017	119,660
2018-2022	72,994
2023-2026	25,682
Total	489,461
Less: Unearned interest income	201,216
Net lease payments	288,245
Restricted investments related to unexpended bond proceeds	10,282
Net investments in direct financing leases	$277,963

8. Restricted Assets:

Certain assets of the governmental activities, business-type activities and component units are classified as restricted assets on the Statement of Net Assets. The purpose and amount of restricted assets as of June 30, 2002, were as follows (amounts expressed in thousands).

Amount	Purpose
Governmental Activities:	
$8,047	Represents money restricted for completion of transportation construction projects maintained in a trust account per Certificates of Participation agreements.
2,780	Represents cash and cash equivalents restricted for debt service payments according to bond agreements.
4,682	Represents funds transmitted to bond paying agents and restricted for payments for coupons and bonds that have not been presented.
Business-type Activities:	
$3,030,657	Net assets of the Community Development Administration are restricted for various mortgage loans for low-income housing and local governments' public facilities.
196,811	The purpose of the restricted assets is to secure the loans and revenue bonds of the Maryland Water Quality Administration made for waste-water treatment systems, drinking systems, and secured deposits.
312,574	This cash is held in separate annuity contracts and coupon bonds for winning lottery ticket payouts.
490,083	Cash and investments have been restricted in accordance with revenue bond debt covenants of the Maryland Transportation Authority for completion of capital projects, facility operations, and debt service.
887,525	Restricted assets represent unemployment compensation benefits and deposits with the U.S. Treasury in accordance with federal statute.
Component Units:	
$46,352	Restricted assets include cash and cash equivalents and investments that relate to bond indentures and to restricted project advances for the provision of water supply and waste-water treatment by the Maryland Environmental Service.
7,948	Restricted assets of higher education associated with endowment funds are invested in accordance with the terms of donor agreements.

9. Receivable Due From/To Other Funds:

Interfund receivables and payables, as of June 30, 2002, consist of the following (amounts expressed in thousands).

Receivable Fund	Payable Fund	Amount
General Fund	Special Revenue Fund	$ 17,868 (a)
	Non-major Governmental Funds	13,478
	Enterprise Fund – Economic Development - Loan Programs	19,914 (b)
	Maryland State Lottery Agency	76,148 (a)
	Component Units – Non-major	147 (b)
		$ 127,555
Special Revenue Fund	General Fund	$ 203,602
Non-major Governmental Funds	General Fund	$ 455,364
Enterprise Funds -		
Economic Development Loan Programs	General Fund	$ 118,448
Maryland State Lottery Agency	General Fund	91,002
Maryland Transportation Authority	Special Revenue Fund	10,674 (c)
Non-major Enterprise Funds	General Fund	116,808
		$ 336,932
Pension Trust Fund -		
Maryland Transit Administration Pension Plan	State Retirement System	$ 1,131 (d)
Agency Funds	General Fund	$1,172,975
Components Units -		
Higher Education Fund	General Fund	$ 556,851
Maryland Stadium Authority	General Fund	10,142
Non-major Component Units	General Fund	40,602
		$ 607,595

(a) The amounts represent monies collected by the special revenue fund and the Maryland State Lottery in June, 2002 and paid to the general fund in July, 2002.

(b) The amounts represent short term advances from the general fund, which should not be occurring in the future.

(c) The Maryland Transportation Authority lent funds to the Special Revenue Fund for a construction project at the Seagirt Marine Terminal. The balance outstanding at June 30, 2002 was $10,674,000. Payments will continue for 33 years after completion of the project.

(d) The amount represents a liability for benefit payments due to the Maryland Transit Administration Pension Plan from the State Retirement System paid in July 2002.

All remaining amounts which are due from the general fund represent pooled cash belonging to the other funds on deposit with the State Treasurer.

All interfund balances except for (c) above are expected to be repaid by June 30, 2003.

10. Interfund Transfers:

Interfund transfers, as of June 30, 2002, consist of the following (amounts expressed in thousands).

Transfers In	Transfers Out	Amount
General Fund	Special Revenue Fund	$ 41,137
	Non-major Governmental Funds	154,466
	Enterprise Funds -	
	Maryland State Lottery Agency	443,504
	Economic Development Loan Programs	34,686
	Non-major Enterprise Fund	2,000
		$675,793
Special Revenue Fund	General Fund	$124,265
Non-major Governmental Funds	General Fund	$538,390
	Special Revenue Fund	114,905
		$653,295
Enterprise Funds -		
Loan Programs	General Fund	$69,888
	Non-major Governmental Funds	13,478
		$83,366

Transfers are primarily used to 1) transfer revenues from the fund required by statute or budget to collect the revenue to the fund required by statute or budget to expend them, 2) transfer receipts restricted to debt service from the funds collecting the receipts to the non-major governmental funds as debt service payments become due, and 3) provide unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. In addition, the non-major governmental funds transferred $3,148,000 of interest earned on bonds, $150,271,000 return of funds for rescinded pay-as-you-go capital projects and $1,047,000 of Shore Erosion loan funds to the general fund. The general fund transferred $103,095,000 for redemptions and interest on state bonds and $98,000,000 for program open space capital projects to the non-major governmental funds.

The Maryland State Lottery transferred revenue in excess of funds allocated to prize awards, operating expenses and capital expenditure payments in the amount of $443,504,000, to the general fund. The general fund transferred $69,888,000 to support the operations of Enterprise Funds – Loan Programs and the Enterprise Funds – Loan Programs transferred $14,149,000 of unused funds to the general fund. Also, expenditures for capital projects of $13,478,000 were transferred to Enterprise Funds – Loan Programs.

During the year, the general fund and other governmental funds had expenditures of $961,262,000, and $195,198,000, respectively, that were for funds provided to supplement revenues and construction costs, respectively, of the higher education component units. The general fund also had expenditures of $27,230,000, that were for funds provided to supplement revenues of the Maryland Stadium Authority.

11. Special items:

As part of the Budget Reconciliation and Financing Act of 2002, certain one-time distributions were made to the general fund. These transfers include $4,000,000, from the Maryland Stadium Authority, a component unit, $8,000,000 from non-major component units and $20,000,000 from the Maryland Automobile Insurance Fund, a related organization. In addition, as part of this legislation, the general fund forgave a loan owed by a non-major component unit as of June 30, 2002. This loan had a balance of $6,372,000 as of June 30, 2002.

12. Capital Assets:

A. Capital Assets, Primary Government:

Capital assets activity by asset classification net of accumulated depreciation, for the year ended June 30, 2002, was as follows (amounts expressed in thousands).

Governmental activities:

Classification	Restated Balance July 1, 2001	Additions	Deletions	Transfers In (Out)	Balance June 30, 2002
Capital assets, not depreciated,					
Land and improvements	$ 2,189,168	$ 9,440		$ 61,635	$ 2,260,243
Art and historical treasures	26,563	62	$ 3		26,622
Construction in progress	1,447,447	1,005,632		(369,205)	2,083,874
Total capital assets, not depreciated	3,663,178	1,015,134	3	(307,570)	4,370,739
Capital assets, being depreciated,					
Structures and improvements	3,682,013	169,934	85	100,848	3,952,710
Equipment	1,592,722	103,144	32,970	10,447	1,673,343
Infrastructure	10,932,098	365,193	210,782	196,275	11,282,784
Total capital assets, being depreciated	16,206,833	638,271	243,837	307,570	16,908,837
Less accumulated depreciation for,					
Structures and improvements	1,262,900	90,864	19		1,353,745
Equipment	809,946	147,532	17,207		940,271
Infrastructure	4,229,164	445,766	210,783		4,464,147
Total accumulated depreciation	6,302,010	684,162	228,009		6,758,163
Total capital assets, net	$13,568,001	$ 969,243	$ 15,831	-	$14,521,413

Business-type activities:

Classification	Restated Balance July 1, 2001	Additions	Deletions	Transfers In (Out)	Balance June 30, 2002
Capital assets, not depreciated,					
Land and improvements	$ 99,828	$ 5,252			$ 105,080
Construction in progress	6,094			$(6,094)	
Total capital assets, not depreciated	105,922	5,252		(6,094)	105,080
Capital assets, being depreciated,					
Structures and improvements	1,080	33			1,113
Equipment	39,787	2,597	$1,545		40,839
Infrastructure	2,051,521	49,294		6,094	2,106,909
Total capital assets, being depreciated	2,092,388	51,924	1,545	6,094	2,148,861
Less accumulated depreciation for,					
Structures and improvements	599	68			667
Equipment	24,629	1,010			25,639
Infrastructure	756,635	46,504			803,139
Total accumulated depreciation	781,863	47,582			829,445
Total capital assets, net	$1,416,447	$ 9,594	$1,545	-	$1,424,496

B. Depreciation Expense, Primary Government:

The depreciation expense for the year ended June 30, 2002, for the primary government was charged as follows (amounts expressed in thousands).

Governmental activities:

Function	Amount
General government	$ 22,453
Education	11,762
Judiciary	2,573
Business and economic development	11
Labor, licensing and regulation	520
Human resources	21,979
Health and mental hygiene	16,750
Environment	507
Transportation	553,472
Public safety	41,783
Housing and community development	770
Natural resources and recreation	5,319
Agriculture	6,263
Total depreciation expense – governmental activities	$684,162

Business-type activities:

Function	Amount
State Lottery	$ 183
Transportation Authority	46,500
Other business-type activities	899
Total depreciation expense-business type activities	$ 47,582

13. Long-Term Obligations:

A. Governmental Activities:

Changes in governmental activities' long-term debt, for the year ended June 30, 2002, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
General Obligation Bonds	$3,450,900	$ 528,033	$ (434,755)	$3,544,178	$327,365
Transportation Bonds	652,510	150,000	(84,530)	717,980	95,165
Premiums on bonds		56,276	(2,475)	53,801	
Total bonds and notes payable	4,103,410	734,309	(521,760)	4,315,959	422,530
Other Liabilities:					
Compensated absences	198,639	144,909	(124,867)	218,681	129,747
Self insurance costs	222,642	575,948	(563,939)	234,651	90,082
Escheat property	20,441	13,452	(10,883)	23,010	9,191
Obligations under capital leases	236,857	44,294	(60,502)	220,649	38,552
Obligations under capital leases with component units	298,472	1,768	(9,730)	290,510	10,139
Other long-term liabilities		119,460		119,460	600
Total other liabilities	977,051	899,831	(769,921)	1,106,961	278,311
Total long-term liabilities - governmental activities	$5,080,461	$1,634,140	$(1,291,681)	$5,422,920	$700,841

General Obligation Bonds –

General obligation bonds are authorized and issued primarily to provide funds for State owned capital improvements, facilities for institutions of higher education and the construction of public schools in political subdivisions.

Bonds have also been issued for local government improvements, including grants and loans for water quality improvement projects and correctional facilities, and to provide funds for loans or outright grants to private, not-for-profit cultural or educational institutions. Under constitutional requirements and practice, the Maryland General Assembly, by a separate enabling act, authorizes loans for particular objects or purposes. Thereafter, the Board of Public Works, a constitutional body comprised of the Governor, the Comptroller and the State Treasurer, by resolution, authorizes the issuance of bonds in specified amounts for part or all of the loans

authorized by particular enabling acts. General obligation bonds are subject to arbitrage regulations. However, there are no major outstanding liabilities in connection with these regulations as of June 30, 2002.

General obligation bonds, which are paid from the general obligation debt service fund, are backed by the full faith and credit of the State and, pursuant to the State Constitution, must be fully paid within 15 years from the date of issue. Property taxes, debt service fund loan repayments and general fund appropriations provide the resources for repayment of general obligation bonds. During fiscal year 2002, the State issued $528,033,000 of general obligations at a premium of $41,221,000 with related issuance costs of $281,000.

Bonds issued after January 1, 1988, are subject to redemption provisions at the option of the State.

On November 21, 2001, the State sold $18,098,000 General Obligation Bonds, Qualified Zone Academy Bonds at par and with related issuance costs of $50,000. The bonds pay no interest and were only available for purchase by insurance companies and certain other financial institutions. The purchaser receives federal tax credits each year the bonds are outstanding. The bonds mature on November 21, 2015. Annually for 14 years, starting November 1, 2002, the State will purchase an $888,000 guaranteed investment contract (GIC) from the purchaser of the bonds. The investment must be collateralized with U.S. Treasury Obligations and guaranteed U.S. agencies instruments. U.S. Bank National Association will act as the collateral agent. The GIC's will earn interest at a 5.4% guaranteed rate. In 2015 the investments will be redeemed, and the proceeds will be used to liquidate the bonds.

On March 21, 2002, general obligation bonds of $309,935,000 were issued, of which $200,000,000 was for capital improvements and $109,935,000 was to refund certain outstanding general obligation bonds issued between 1991 and 1994 with interest rates ranging from 6.0% to 6.5%, in order to realize savings on debt service costs. The aggregate difference in debt service between the refunded debt and the refunding debt is $10,247,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is $8,001,000.

The escrow agent made payments of $95,950,000 for the refunded bonds maturing in fiscal years 2003-2007 with call dates of April and May, 2002. Refunded bonds of $16,485,000 maturing in fiscal year 2010 and callable in fiscal year 2005 were considered defeased as of June 30, 2002. Accordingly, the trust account assets and the liability for the defeased bonds are not included in these financial statements.

As of June 30, 2002, the State has $16,485,000 of defeased debt outstanding, all of which was defeased during the year ended June 30, 2002.

General obligation bonds issued and outstanding, as of June 30, 2002, are as follows (amounts expressed in thousands).

Issue	Maturity	Interest Rates	Principal Issued	Principal Outstanding
7/9/87	1991-2003	6.30-6.50	$ 144,860	$ 15,450
7/17/90	1994-2006	6.40-6.80	95,000	8,605
7/23/91	1995-2007	5.50-6.50	100,000	8,475
10/22/91	1995-2007	5.10-6.10	120,000	32,215
5/27/92	1995-2007	4.40-6.00	120,000	32,180
2/2/93	1996-2008	4.75-5.50	130,000	71,035
6/3/93(a)	1994-2008	4.50-5.50	278,150	154,915
10/21/93(a)	1995-2009	3.00-4.75	283,545	213,985
3/3/94(a)	1995-2009	3.50-4.75	184,210	81,180
6/2/94	1997-2009	4.88-5.50	120,000	74,710
10/20/94	1998-2010	5.00-6.00	160,000	94,260
3/23/95	1998-2010	5.00-5.70	175,000	122,170
10/26/95	1998-2010	4.50-5.13	150,000	113,050
2/29/96	1999-2011	4.00-4.90	170,000	128,125
6/20/96	1999-2011	5.00-5.25	150,000	113,675
10/24/96	2000-2012	5.00	170,000	140,005
3/13/97	2000-2012	5.00	240,000	197,290
8/14/97	2001-2013	4.75-5.00	250,000	221,065
3/5/98	2001-2013	4.50-5.00	250,000	221,065
7/28/98	2002-2014	5.00-5.25	250,000	235,885
3/11/99	2002-2014	4.00-4.50	225,000	211,805
7/29/99	2003-2015	4.25-5.25	125,000	125,000
8/3/00	2004-2016	5.13-5.75	200,000	200,000
3/8/01	2004-2016	4.00-5.50	200,000	200,000
7/15/01	2005-2017	5.00-5.50	200,000	200,000
11/21/01	2016	0(b)	18,098	18,098
3/6/02(a)	2003-2017	4.00-5.50	309,935	309,935
			$4,818,798	$3,544,178

(a) Includes refunding debt.
(b) Qualified Zone Academy Bonds are non–interest bearing.

General obligation bonds authorized, but unissued, as of June 30, 2002, total $1,773,604,000.

As of June 30, 2002, general obligation debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2003	$ 327,365	$ 172,598
2004	330,090	157,294
2005	351,990	141,271
2006	344,185	123,973
2007	328,480	107,399
2008-2012	1,329,765	312,082
2013-2017	532,303	58,688
Total	$3,544,178	$1,073,305

On August 15, 2002, general obligation bonds aggregating $515,830,000 were issued, of which $225,000,000 was for capital improvements and $290,830,000 was to advance refund certain outstanding general obligation bonds issued between 1991 and 1995 with interest rates ranging from 5.1% to 5.9%, in order to realize savings on debt service costs. The interest rates on the new issue range from 3% to 5.5% and the bonds mature serially through 2018. The aggregate difference in debt service between the refunded debt and the refunding debt is $17,495,000. The economic gain on the transaction, that is, the difference between the present value of the debt service streams for the refunding debt and refunded debt, is $15,720,000.

Transportation Bonds -

Transportation Bonds outstanding as of June 30, 2002, are as follows (amounts expressed in thousands).

	Outstanding
Consolidated Transportation Bonds — 3.3% to 5.8%, due serially through 2017	$402,000
Consolidated Transportation Bonds, Refunding — 4.2% to 5.5%, due serially through 2006	312,150
County Transportation Bonds — 5.8% to 6.2%, due serially through 2006	3,830
Total	$717,980

Consolidated Transportation Bonds are limited obligations issued by the Maryland Department of Transportation (Department) for highway, port, airport or mass transit facilities, or any combination of such facilities. The principal must be paid within 15 years from the date of issue.

As provided by law, the General Assembly shall establish in the budget for any fiscal year a maximum outstanding aggregate amount of these Consolidated Transportation Bonds as of June 30 of the respective fiscal year that does not exceed $1,200,000,000. The aggregate principal amount of those bonds that was allowed to be outstanding as of June 30, 2002, was $799,000,000. The aggregate principal amount of Consolidated Transportation Bonds outstanding as of June 30, 2002, was $714,150,000. Consolidated Transportation Bonds are paid from the transportation debt service fund. Principal and interest on Consolidated Transportation Bonds are payable from the proceeds of certain excise taxes levied by statute and a portion of the corporate income tax credited to the Department. These amounts are available to the extent necessary for that exclusive purpose before being available for other uses by the Department. If those tax proceeds become insufficient to meet debt service requirements, other receipts of the Department are available for that purpose. The holders of such bonds are not entitled to look to other State resources for payment.

Under the terms of the authorizing bond resolutions, additional Consolidated Transportation Bonds may be issued, provided, among other conditions, that (1) total receipts (excluding Federal funds for capital projects, bond and note proceeds, and other receipts not available for debt service), less administration, operation and maintenance expenses for the preceding fiscal year, equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued, and that (2) total proceeds from pledged taxes equal at least two times the maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

County Transportation Bonds are issued by the Department, and the proceeds are used by participating counties and Baltimore City to fund local road construction, reconstruction and other transportation projects and facilities and to provide local participating funds for federally-aided highway projects. Debt service on these bonds is payable from the counties' and Baltimore City's shares of highway user revenues.

Legislation was enacted during the 1993 session of the General Assembly that established an alternative County transportation bond program. This new legislation provides features similar to the previous program except that the County transportation debt will be the obligation of the participating counties rather than the Department.

As of June 30, 2002, the Department had no defeased debt outstanding.

As of June 30, 2002, Department bond debt service requirements for principal and interest in future years are as follows (amounts expressed in thousands).

Years Ending June 30,	Consolidated and County Transportation Bonds	
	Principal	Interest
2003	$ 95,165	$ 33,689
2004	102,370	29,263
2005	114,705	24,369
2006	84,360	19,402
2007	54,380	16,073
2008-2012	159,000	50,307
2013-2017	108,000	16,765
Total	$717,980	$189,868

Other Liabilities –

The Maryland Department of Transportation has entered into several financing agreements, primarily with the Maryland Transportation Authority, for the financing of various transportation-related projects, similar in nature to capital leases. The Department has obligations under other long-term liabilities of $119,460,000 as of June 30, 2002, bearing interest at annual rates ranging from 2.5% to 6.7%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2002 (amounts expressed in thousands).

Years Ending June 30,	Other Liabilities
2003	$ 24,096
2004	25,215
2005	29,532
2006	30,925
2007	32,313
2008-2012	163,584
2013-2017	162,814
2018-2022	155,677
2023-2027	137,141
2028-2032	45,356
Total future minimum payments	806,653
Less: Amount representing interest	389,234
Less: Restricted cash and investments	297,959
Present value of net minimum payments	$119,460

For the governmental activities, compensated absences, self-insurance, escheat property claim payments, obligations under capital leases with third parties, and other liabilities are generally liquidated by the general or special revenue fund as applicable.

Obligations Under Capital Leases –

Obligations under capital leases as of June 30, 2002, bore interest at annual rates ranging from 3.1% to 5.9%. Capital Lease Obligations with third parties in fiscal year 2002 increased by $44,294,000 for master equipment leases entered into by the general fund. The capital leases with component units include capital leases with the Maryland Stadium Authority, which are being paid with the net proceeds transferred from certain Lottery games, and capital leases with other non-major component units. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2002 (amounts expressed in thousands).

Years Ending June 30,	Capital Lease Obligations with	
	Third Parties	Component Units
2003	$ 53,349	$ 38,812
2004	50,086	28,924
2005	42,882	27,676
2006	30,414	28,386
2007	26,133	28,261
2008-2012	102,846	139,193
2013-2017	62,778	123,300
2018-2022	22,613	72,994
2023-2027	11,518	25,682
Total future minimum payments	402,619	513,228
Less: Amount representing interest	112,987	222,718
Less: Restricted cash and investments	68,983	
Present value of net minimum payments	$220,649	$290,510

The assets acquired through capital leases are as follows (amounts expressed in thousands).

	Third Parties
Equipment	$126,011
Buildings	587,367
Infrastructure	8,897
Total acquired assets	722,275
Less: accumulated depreciation	(100,616)
Total capital assets-net	$621,659

B. Long-Term Obligations – Business-type Activities:

Changes in long-term obligations for business-type activities as of June 30, 2002, are as follows (amounts expressed in thousands).

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds and Notes Payable:					
Notes payable	$ 742		$ 742		
Revenue bonds payable	3,061,551	$ 781,469	430,097	$3,412,923	$187,872
Total bonds & notes payable	3,062,293	781,469	430,839	3,412,923	187,872
Other Liabilities:					
Lottery prizes	355,367	777,385	799,151	333,601	74,038
Escrow deposits	60,591	30,452	23,289	67,754	62,925
Rebate liability		19,927	256	19,671	308
Compensated absences	5,713	3,160	2,019	6,854	6,215
Self-insurance costs	4,623	2,383	1,582	5,424	4,846
Obligations under capital leases	2,579	1,272	608	3,243	982
Total other liabilities	428,873	834,579	826,905	436,547	149,314
Total long-term liabilities - business type activities	$3,491,166	$1,616,048	$1,257,744	$3,849,470	$337,186

Debt service requirements for business-type activities' notes payable, revenue bonds and capital lease payments to maturity are as follows (amounts expressed in thousands).

	Community Development Administration		Maryland Water Quality Financing Administration		Maryland Transportation Authority		Maryland State Lottery Agency	
Years Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	$ 157,955	$ 143,200	$ 9,625	$ 8,077	$ 19,310	$ 34,504	$ 982	$170
2004	68,570	138,531	6,535	8,414	26,200	32,058	1,203	115
2005	73,200	135,156	5,816	8,774	26,262	30,576	1,037	39
2006	73,045	131,476	5,648	7,605	35,690	29,506	21	1
2007	79,675	127,838	8,049	6,299	38,995	27,629		
2008-2012	433,255	574,394	62,661	584	116,545	118,854		
2013-2017	479,010	449,896	17,550	1,656	142,888	87,133		
2018-2022	438,975	317,154			84,980	56,187		
2023-2027	412,240	187,691			106,405	30,736		
2028-2032	291,835	81,238			37,545	7,811		
2033-2037	73,585	24,846						
2038-2042	46,000	8,871						
2043-2045	7,840	403						
Total	2,635,185	2,320,694	115,884	41,409	634,820	454,994	3,243	325
Discounts, premiums and other deferred costs	(6,931)							
Accumulated accreted interest					33,965			
Total	$2,628,254	$2,320,694	$115,884	$41,409	$668,785	$454,994	$3,243	325

Community Development Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Housing and Community Development, has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. Assets aggregating approximately $3,030,657,000 and revenues of each mortgage loan program are pledged as collateral for the revenue bonds. Interest rates range from 1.6% to 10.4%, with the bonds maturing serially through July, 2043. The principal amount outstanding as of June 30, 2002, is $2,628,254,000. Substantially all bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at rates ranging from 100% to 102% of the outstanding principal amount. During fiscal year 2002, the Administration issued $395,575,000 of revenue bonds with interest rates ranging from 2.0% to 5.7% and maturing serially through July, 2043.

The Administration issues short-term tax-exempt bonds to preserve its allocation of the state volume ceiling until the issuance of long-term bonds to finance mortgages. In fiscal year 2002, the Administration issued Series 2002, Series B and Series 2002, Series C which are still outstanding as of June 30, 2002. Series 2001, Series C and Series 2001, Series D were issued in fiscal year 2001 and either were redeemed prior to maturity or matured in fiscal year 2002.

The following summarizes short-term debt activity in 2002. The only short-term debt that was issued in fiscal year 2002 was in the Residential Revenue Bond Program Fund.

Outstanding Short-term Debt at June 30, 2001	$59,180,000
Issuance	97,275,000
Retirements	59,180,000
Outstanding Short-term Debt as of June 30, 2002	$97,275,000

This amount of short-term debt is included in the restricted revenue bonds payable on the Statement of Net Assets.

Subsequent to June 30, 2002, the Administration redeemed a total of $5,600,000, of revenue bonds.

Maryland Water Quality Financing Administration (Administration) - Revenue Bonds:

The Administration, an agency of the Department of Environment, has issued revenue bonds for making loans. Interest rates range from 4.4% to 6.9% with principal of $104,219,000 due serially from September 1, 2002 to September 1, 2014, and term bonds with an aggregate principal of $11,665,000 due from September 1, 2013 to 2015. These bonds are payable solely from the revenue, money or property of the Administration. The bonds are subject to redemption provisions at the option of the Administration. Redemptions are permitted at premiums ranging up to 2.5% of the outstanding principal amount.

As of June 30, 2002, the Administration had $6,785,000 of debt defeased. The loss of $506,000 from the defeasance is being deferred and amortized through interest expense through the year 2011.

Maryland Transportation Authority Bonds:

Bonds outstanding as of June 30, 2002, are as follows (amounts expressed in thousands).

Series 1991 Revenue bonds, maturing in annual installments from $6,830 to $9,380 from July 1, 2002, to July 1, 2006, with interest rates ranging from 6.3% to 6.5%, payable semiannually	$ 26,400
Series 1992 Revenue bonds, current interest serial bonds, maturing in annual installments from $11,965 to $14,570 from July 1, 2002, to July 1, 2013, with interest rates ranging from 5.5% to 5.8%, payable semiannually	59,575
Series 1992 Capital Appreciation Revenue bonds maturing in annual installments of original principal and an accreted amount ranging from $3,000 to $15,420 from July 1, 2004, to July 1, 2015, with approximate yield to maturity of 6.0% to 6.4%	74,860
Series 1992 Current interest term Revenue bonds with interest payable semiannually at 5.8%, due July 1, 2015	27,020
Series 1998 Revenue Refunding Bonds maturing in annual installments ranging from $210 to $9,510 from July 1,2002 to July 1, 2006 with interest rates ranging from 4.4% to 5.0%, payable semiannually	15,820
Series 1994, Special Obligation Revenue bonds maturing in annual installments from $4,470 to $8,980 from July 1, 2002 to June 30, 2020, with interest rates ranging from 5.5% to 6.3% payable semiannually	83,690
BWI Consolidated Car Rental Facility Revenue bonds, Series 2002 maturing in annual installments ranging from $600 to $8,505 from July 1, 2003, to July 1, 2032, with interest rates ranging from 2.7% to 6.7%, payable semiannually	117,345
BWI Parking Garage Revenue Bonds, Series 2002 maturing in annual installments ranging from $4,315 to $17,470 from March 1, 2005, to March 1, 2027, with interest rates ranging from 4.0% to 5.5%, payable semiannually	264,075
Total	$668,785

The Maryland Transportation Authority (Authority) has issued Transportation Facilities Projects Revenue Bonds, Series 1991 and 1992, BWI Consolidated Car Rental Facility Revenue Bonds, Series 2002, and BWI Parking Garage Revenue Bonds, Series 2002, which are payable solely from the revenues of the transportation facilities projects.

The Series 1991 Revenue Bonds, the bonds which matured after July 1, 2002, are subject to redemption at the Authority's option on or after July 1, 2002. The redemption prices range from 100% to 102% of the principal amount. The debt service reserve requirement for the 1991 Revenue Bonds, in the amount of $9,990,000, has been satisfied through a surety bond.

With respect to the 1992 Revenue Bonds, $13,130,000 of the current interest term bonds stated to mature on July 1, 2015, are subject to mandatory sinking fund redemption on July 1, 2014, at a redemption price equal to the principal amount, plus accrued interest. The debt service reserve requirement for these bonds, in the amount of $23,325,000, has been satisfied through the deposit of cash with the trustee and is included in the enterprise fund on the statement of net assets. The current interest serial bonds stated to mature on July 1, 2013, and the balance of the current interest term bonds stated to mature on July 1, 2015, are subject to redemption at the option of the Authority on or after July 1, 2002, without premium. The capital appreciation bonds are not subject to early redemption. Capital appreciation bonds payable as of June 30, 2002, include an accreted amount of $33,965,000.

The Special Obligation Revenue Bonds are payable as to principal and interest solely from Passenger Facility Charges (PFC's) received by the Maryland Aviation Administration (MAA) and deposited with the Trustee (Bank of New York) and amounts deposited in the general account maintained by the Authority under the Trust Agreement. The Series 1994 Bonds issued in accordance with the provisions of the 1985 Trust Agreement, as supplemented, and interest thereon, do not constitute a debt or pledge of the faith and credit of the State of Maryland, the Maryland Department of Transportation or the MAA, but are payable solely from PFC's.

C. Notes and Revenue Bonds Payable – Component Units:

Higher Education –

Certain State higher education institutions have issued revenue bonds and mortgage loans payable for the acquisition and construction of student housing and other facilities. Student fees and other user revenues collateralize the revenue bonds. The mortgage loans payable are collateralized by real estate. Interest rates range from 2.5% to 7.0% on the revenue bonds with the rate being 3.0% on the mortgage loans payable. Since June 1992, the University System of Maryland (System) has issued serial notes payable to finance the acquisition of new equipment and to refinance the balance of amounts due under certain installment purchase agreements for equipment then in the possession of the System. Payments of principal and interest, at rates ranging from 5.8% to 6.1%, are to be made semiannually through 2007. The notes payable are callable, at the option of the System, at premiums of no more than 2.0% of the outstanding principal, beginning in 2003.

Debt service requirements to maturity are as follows (amounts expressed in thousands).

	Notes Payable and Other Long-Term Debt		Revenue Bonds	
Years Ending June 30,	Principal	Interest	Principal	Interest
2003	$ 9,705	$ 4,303	$ 43,409	$ 42,388
2004	2,458	4,143	44,327	40,482
2005	2,727	3,960	43,446	36,676
2006	2,356	3,759	47,291	32,789
2007	1,550	3,609	50,011	29,664
2008-2012	8,932	16,507	251,614	112,173
2013-2017	51,776	5,979	176,841	54,174
2018-2022			107,885	14,451
2023-2027			6,125	1,731
2028-2032			3,380	331
Total	79,504	42,260	774,329	364,859
Accumulated accreted interest and other deferred costs			5,337	
Total	$79,504	$42,260	$779,666	$364,859

The bonds issued are the debt and obligation of the issuing higher education institutions and are not a debt and obligation of, or pledge of, the faith and credit of the State.

On October 30, 2000, the System issued $17,800,000 of variable rate demand Certificates of Participation to finance construction. Payments of principal will be made annually on June 1 beginning in the year 2003 and ending June 1, 2015. Interest is payable semiannually on December 1 and June 1. Interest charges are determined on a weekly basis by a remarketing agent, using the lowest rate that would permit the sale of the Certificates at par plus accrued interest. The System has the option of converting the Certificates to a daily rate, a multi-annual rate, a commercial paper rate, or a fixed rate.

On November 13, 2001, the System issued $58,390,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, 2001 Series B (the 2001 Series B bonds). The 2001 Series B bonds consist of serial bonds maturing through the year ended June 30, 2022, with stated rates of interest of from 3.5% to 4.6%, and were issued at an aggregate premium of $199,000. Of the proceeds of the 2001 Series B, approximately $30,485,000 was used to fund new construction and renovation projects, while $28,433,000 was used to advance refund an aggregate of $26,620,000 of outstanding principal of the 1992 Series A, 1993 Series A, and 1996 Series A revenue bonds. The advance refunding of revenue bonds reduced future debt service requirements by $1,472,000 and resulted in an economic gain (the present value of the difference between the debt service requirements on the old, refunded debt and the new debt) of $1,491,000.

On December 20, 2001, Morgan State University issued $7,035,000 Revenue Bonds to provide funding towards university capital projects. The revenue bonds mature July 1, 2021, and bear interest of 2.5% through 4.9%, paid semiannually January and July 1. The outstanding balance of the 2001 Revenue Bonds as of June 30, 2002 was $7,035,000.

In 1993, Morgan State University issued Revenue Refunding Bonds. In connection with the issuance of the 1993 Revenue Refunding Bonds, the 1990 Revenue Bonds were legally defeased. Assets were placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the defeased bonds. Accordingly, neither the indebtedness nor the assets of the irrevocable trust are included in the financial statements. At June 30, 2002, the outstanding balance of the defeased 1990 Revenue Bonds was $11,977,000.

At June 30, 2002, investments were held by the trustee for St. Mary's College in the amount of $914,000 and restricted investments were held for Morgan State University in the amount of $1,202,000.

On July 2, 2002, St. Mary's College issued $13,650,000 of Academic and Auxiliary Facilities Fees Subordinate Revenue Bonds, 2002 Series A. The revenue bond proceeds will be used mainly to pay for construction of a new student housing facility. Principal payments of the revenue bonds are due each September 1 annually beginning 2003 and ending 2032. The interest rates range from 3.0% to 4.9%.

At June 30, 2002, cash and cash equivalents in the amount of $18,527,000 were held by the trustee as unexpended proceeds of the Revenue Bonds.

On July 3, 2002, the System issued $142,350,000 of University System of Maryland Auxiliary Facility and Tuition Revenue Bonds, 2002 Series A bonds. The 2002 Series A bonds consist of serial bonds maturing through the year ended June 30, 2023, with the stated rates of interest from 3.0% to 5.3%, and were issued at an aggregate premium of $6,758,000. Of the proceeds of the 2002 Series A, approximately $104,500,000 will be used to fund new construction and renovation projects, while $44,600,000 will be used to advance refund an aggregate of $40,945,000 of outstanding principal of the 1996 Series A and 2000 Series A revenue bonds.

Obligations under capital leases of $11,358,000 exist as of June 30, 2002, bearing interest at annual rates ranging from 4.6% to 6.8%. Following is a schedule of annual future minimum payments under these obligations, along with the present value of the related net minimum payments as of June 30, 2002 (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2003	$ 1,796	$ 549
2004	1,855	508
2005	1,357	430
2006	1,021	370
2007	630	331
2008-2012	1,426	1,343
2013-2017	1,700	860
2018-2022	1,573	219
Total	$11,358	$4,610

Maryland Stadium Authority (Authority) – Revenue Bonds –

Debt service requirements to maturity for Maryland Stadium Authority revenue bonds and notes payable are as follows (amounts expressed in thousands).

Years Ending June 30,	Principal	Interest
2003	$ 8,440	$ 17,655
2004	10,425	17,247
2005	10,330	16,404
2006	11,440	16,144
2007	12,240	15,326
2008-2012	71,925	64,569
2013-2017	82,677	39,425
2018-2022	58,310	14,684
2023-2027	22,351	3,332
Total	$288,138	$204,786

The Authority has issued various lease revenue bonds and notes to finance the construction of the baseball and football stadiums, and convention center expansions in Baltimore City and the Town of Ocean City. The outstanding debt is to be repaid through capital lease payments from the State as the State has entered into capital lease arrangements for the use of the facilities financed with the debt proceeds.

As of June 30, 2002, the Authority had outstanding revenue bonds for the construction, renovation and expansion of certain facilities as follows (amounts expressed in thousands).

Facility	Outstanding Amount	Interest Rates	Maturity Date
Baseball Stadium	$143,041	6.5% to 7.6%	December 15, 2020
Football Stadium	85,783	4.7% to 5.8%	March 1, 2026
Baltimore City Convention Center	44,635	5.3% to 5.9%	December 15, 2014
Ocean City Convention Center	14,679	4.8% to 5.4%	December 15, 2015

During 1993, the Authority entered into an interest rate swap agreement, a forward bond purchase agreement and a remarketing agreement for the refunding of $121,380,000 of 7.3% fixed rate Series 1989D Bonds. The Authority agreed to retire the fixed rate debt and issue variable rate debt by December 1998. During April 1996, the Authority received approximately $15,522,000, related to the interest rate swap and forward bond purchase agreement. The Authority deferred this gain and is amortizing it over the life of the related debt agreements. On December 9, 1999, in accordance with the above agreements, the Authority issued taxable floating rate bonds, Series 1999, to refinance the Series 1989D Bonds. Under terms of the interest swap agreement, there was no change in the Authority's debt service payments. As a result, $121,380,000 of the Series 1989 D bonds are considered defeased and the liability for those bonds has been removed from lease revenue bonds payable. This refunding resulted in an excess of the reacquisition price over the net carrying amount of the old debt of $3,467,000. This difference, reported as a deduction from lease revenue bonds payable, is being amortized as interest expense through the year 2019. The Authority completed the refunding to reduce its debt service payments by $1,728,000 and obtain an economic gain of $10,323,000.

In fiscal year 2000, the Baltimore Orioles initiated an arbitration proceeding pursuant to its lease with the Maryland Stadium Authority contending that it was entitled to reductions in rent or credits against future obligation by reason of an alleged lack of parity between the Orioles' Authority Agreement and the Authority's separate lease with the Ravens. This contention was disputed by the Authority in arbitration and was contested before the panel of arbitrators. On July 6, 2001, the arbitration panel issued a ruling and awarded the following relief to the Orioles: (1) the right to share in revenues from future non-baseball seating bowl events in the ballpark; (2) the requirement that the Authority make a one-time $10,000,000 payment to the existing Ballpark Improvements Fund from which funds are expended solely for ballpark improvements with the joint approval of the Authority and the Orioles; and (3) the right to sell the name of the ballpark. In November 2001, the Authority issued a nine month bond anticipation note for $10,250,000 of which $10,000,000 was used to satisfy the arbitration decision. On July 10, 2002, the Authority issued Sports Facilities taxable Lease Revenue Bonds Series 2002, to finance the payment of the bonds anticipation notes in the amount of $10,250,000. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 3.0% to 5.7% per annum.

Also on July 10, 2002, the Authority issued Hippodrome Performing Arts Center Taxable Lease Revenue Bonds, Series 2002, to finance, together with certain other funds, the renovation of the Hippodrome Theater. Principal and interest are payable primarily from the basic rent to be paid by the State under the Master Lease. Interest is payable semiannually at rates varying from 5.0% to 6.3% per annum. This issue contains $7,570,000 of serial bonds that mature in varying amounts through June 15, 2013 and $4,655,000 and $8,025,000 term bonds that mature June 15, 2017 and June 15, 2022, respectively. These term bonds are subject to mandatory sinking fund payments beginning June 15, 2017.

14. Insurance:

The self-insurance liabilities represent the State's liability for its 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. Commercial insurance coverage is purchased for specialized exposures such as aviation hull and liability, steam boiler coverage and certain transportation risks. There were no significant reductions or changes in the commercial insurance coverage from the prior year, and the amount of settlements have not exceeded insurance coverage for any of the past three fiscal years.

All funds, agencies and authorities of the State participate in the self-insurance program (Program). The Program, which is accounted for in the general fund, allocates the cost of providing claims servicing and claims payment by charging a "premium" to each fund, agency or public authority, based on a percentage of each organization's estimated current-year payroll or based on an average loss experienced by each organization. This charge considers recent trends in actual claims experience of the State as a whole and makes provision for catastrophic losses.

The Program's liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, actual claims paid could differ from these estimates. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Nonincremental claims adjustment expenses have been included as part of the liability for claims and adjustments. Liabilities for incurred workers' compensation losses to be settled by fixed or reasonably determinable payments over a long period of time are reported at their present value using a 4.0% discount rate. The workers' compensation and property and

casualty costs are based upon separately determined actuarial valuations for the fiscal years ending. The employee health benefits liability is calculated based on claims subsequently reported and claims trends.

Changes in the self-insurance liabilities during fiscal year 2002 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability	$ 9,309	$ 10,641	$ 6,575	$ 13,375	$ 6,575
Workers' compensation	186,321	49,447	41,078	194,690	30,194
Employee health benefits	51,661	529,352	522,797	58,216	58,216
Total self-insurance costs	$247,291	$589,440	$570,450	$266,281	$94,985

As of June 30, 2002, the Program held $189,503,000, in cash and investments designated for payments of these claims.

Changes in the self-insurance liabilities during fiscal year 2001 were as follows (amounts expressed in thousands).

	Beginning-of-Fiscal-Year Liability	Claims and Changes in Estimates	Claim Payments	End-of-Fiscal-Year Liability	Amount Due Within One Year
Property, casualty and general liability	$ 8,676	$ 8,902	$ 8,269	$ 9,309	$ 6,700
Workers' compensation	172,000	57,152	42,831	186,321	28,880
Employee health benefits	44,041	441,762	434,142	51,661	51,661
Total self-insurance costs	$224,717	$507,816	$485,242	$247,291	$87,241

As of June 30, 2001, the Program held $157,717,000, in cash and investments designated for payments of these claims.

15. Equity:

A portion of the general fund fund balance, in the amount of $678,071,000 as of June 30, 2002, has been reserved for the State Reserve Fund. The State Reserve Fund is comprised of a Dedicated Purpose Account, an Economic Development Opportunities Program Fund, a Catastrophic Event Fund, a Revenue Stabilization Account and a Joseph Fund with balances as of June 30, 2002, of $100,770,000, $21,090,000, $228,000, $547,916,000, and $8,067,000, respectively. The Dedicated Purpose Account is designed to retain appropriations for major multi-year expenditures and to meet contingency requirements. The Economic Development Opportunities Program Fund is to be used for extraordinary economic development opportunities and only as a supplement to existing programs. The Catastrophic Event Fund is to be used to respond without undue delay to a natural disaster or other catastrophic event that cannot be managed without appropriations. The Revenue Stabilization Account is designed to retain State revenues for future needs and reduce the need for future tax increases. The purpose of the Joseph Fund is to set aside reserves in time of economic prosperity to meet the emerging needs of economically disadvantaged citizens of the State.

A portion of the general fund unreserved fund balance is designated for fiscal year 2003 appropriations in the amount of $265,468,000. Furthermore, portions of the General Obligation debt service and Department of Transportation debt service unreserved fund balance are designated for payment of the debt service on the long-term debt, and Transportation bond debt in the amounts of $21,401,000, and $4,515,000, respectively.

16. Segment Information

The State's Economic Development Loan Program contains two separately identifiable activities that have separately issued revenue bonds outstanding; housing loans of the Community Development Administration and water quality loans of the Maryland Water Quality Administration.

The Community Development Administration has issued revenue bonds, the proceeds of which were used for various mortgage loan programs. The assets of the loan program and revenues of each mortgage loan program are pledged as collateral for the revenue bonds.

The Maryland Water Quality Administration has issued revenue bonds to encourage capital investment for wastewater and drinking water projects. These bonds are payable solely from the revenue, money or property of the Maryland Water Quality Administration.

Summary financial information for the two loan programs is presented below.

Condensed Statement of Net Assets
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Assets:		
Current assets:		$184,379
Due from other funds		18,458
Current loans and notes receivable (net)		11,638
Current restricted assets	$ 573,441	29,930
Non-current assets:		2,988
Loans and notes receivable (net)		252,136
Restricted assets	2,457,216	166,879
Capital assets		3
Total assets	$3,030,657	$666,411
Liabilities:		
Current liabilities	$ 104,372	$ 932
Due to other funds	829	
Current liabilities payable from restricted assets	157,955	11,951
Non-current liabilities	2,490,018	105,277
Total liabilities	$2,753,174	$118,160
Net Assets:		
Invested in capital assets, net of related debt		3
Restricted	277,483	77,764
Unrestricted		470,484
Total net assets	$ 277,483	$548,251

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Operating income:		
Interest and other investment income	$146,392	$ 20,042
Interest expense		(6,968)
Amortization expense		(55)
Operating revenues	2,830	5,061
Other operating expenses	(15,781)	(4,855)
Operating Income	133,441	13,225
Non-operating revenues (expenses):		
Other non-operating expenses	(119,448)	(14)
Capital contributions		53,701
Transfers in		8,730
Change in net assets	13,993	75,642
Beginning net assets	262,290	472,609
Restated amount due to GASB #34	1,200	
Ending net assets	$277,483	$548,251

Condensed Statement of Cash Flows
(Expressed in Thousands)

	Community Development Administration	Maryland Water Quality Administration
Net cash provided (used) by:		
Operating activities	$ 94,054	$ (48,974)
Non-capital financing activities	(17,231)	57,703
Capital and related financing activities	(147,449)	(7,321)
Net cash provided by investing activities	125,915	(3,411)
Beginning cash and cash equivalents	174,875	2,701
Ending cash and cash equivalents	$230,164	$ 698

17. Retirement Benefits:

State Retirement and Pension System of Maryland (System):

The State contributes to the System, an agent multiple-employer public employee retirement system established by the State to provide pension benefits for State employees (other than employees covered by the Maryland Transit Administration Pension Plan described below) and employees of 130 participating political subdivisions or other entities within the State. The non-State entities that participate within the System receive separate actuarial valuations in order to determine their respective funding levels and actuarial liabilities. Retirement benefits are paid from the System's pooled assets rather than from assets relating to a particular plan participant. Consequently, the System is accounted for as a single plan as defined in GASB Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans." The System prepares a separately audited Comprehensive Annual Financial Report, which can be obtained from the State Retirement and Pension System of Maryland, 120 E. Baltimore Street, Baltimore, Maryland 21202.

Plan Description:

The System, which is administered in accordance with the State Personnel and Pensions Article of the Annotated Code of Maryland, consists of several plans which are managed by the Board of Trustees for the System. All State employees and employees of participating entities are covered by the plans.

"Retirement System" - retirement programs for substantially all State employees, teachers, State police and judges who are not members of the State Pension System.

"Pension System" - retirement programs for employees and teachers hired after January 1, 1980, and prior employees who have elected to transfer from the Retirement System.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completion of 5 years of service. A member terminating employment before attaining retirement age but after completing 5 years of service becomes eligible for a vested retirement allowance provided the member lives to age 60 (age 62 for the Pension System, age 50 for State police) and does not withdraw his or her accumulated contributions. Members of the Retirement System may retire with full benefits after attaining the age of 60, or completing 30 years of service credit, regardless of age. Members of the Pension Systems may retire with full benefits after attaining the age 62, or after completing 30 years of Service Credit, regardless of age. State police members may retire with full benefits after attaining age 50, or completing 22 years of service credit, regardless of age. Members of the Law Enforcement Officers System may retire with full benefits at age 50, or completing 25 years of service credit, regardless of age.

The annual benefit for Retirement System Members is equal to 1/55 (1.8%) of the member's highest three-year average salary multiplied by the number of years of service credit. A member may retire with reduced benefits after completing 25 years of service, regardless of age. Legislation enacted during the 1998 legislative session changed certain provisions of the Pension Systems and provided for a Contributory Pension System and a Non-Contributory Pension System. A member of the Contributory Pension System will generally receive, upon retirement, an annual service retirement allowance equal to 1.2% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit on or before June 30, 1998, plus 1.4% of the highest three consecutive year average salary multiplied by the number of years of service credit after July 1, 1998. The annual benefit for a Non-Contributory Pension System member is equal to 0.8% of the member's highest three-consecutive year average salary multiplied by the number of years of service credit, with a provision for additional benefits for compensation earned in excess of the Social Security Wage base. A member of either type of Pension System may retire with reduced benefits after attaining age 55 and completing 15 years of service.

The annual retirement allowance for a State Police member is equal to 2.6% of the member's highest three-year average salary multiplied by each year of service up to a maximum of 28 years. The annual retirement allowance for a member of the Law Enforcement Officers Pension System is 2.0% of the member's highest three-consecutive year average salary multiplied by each year of service up to a maximum of 30 years. Neither the State Police Retirement System nor Law Enforcement Officers Pension System provide for an early retirement. Recent legislation and Internal Revenue Service approval has created a Deferred Retirement Option Program (DROP) for members of the State Police and Law Enforcement Officers System. This program allows for a member to retire from the system, accrue retirement earnings (which are held in a separate account) and continue employment until a pre-determined date.

Funding Policy:

The State's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the Systems, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used to determine the employers' contribution rates and the actuarial accrued liability. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages (7.0% or 5.0% depending on the retirement plan selected). Members of the Contributory Pension System are required to contribute to the System 2.0% of their regular salaries and wages. Members of the Non-Contributory Pension System are required to contribute to the System 5.0% of their regular salaries and wages which exceed the Social Security wage base. State Police members are required to contribute 8.0% of their regular salaries and wages to the System. Members of the Law Enforcement Officers Pension System are required to contribute 4.0% of their regular

salaries and wages. All contributions are deducted from each member's salary, and wage payments are remitted to the System on a regular and periodic basis.

The contribution requirements of the System members, as well as the State and participating governmental employers, are established and may be amended by the Board of Trustees for the System. During fiscal year 2002, the State made the required contribution totaling $541,853,000, which was 8.0% of covered payroll. The State makes non-employer contributions to the System for local school system teachers. The covered payroll amount includes amounts for employees for whom the State pays retirement benefits, but does not pay the payroll. As of June 30, 2002, 2001 and 2000, the State had made all required contributions, and thus as of June 30, 2002, 2001 and 2000, the State did not have a net pension obligation.

Annual Pension Cost and Net Pension Obligation:

Three Year Historical Trend Information for the System is as follows (amounts expressed in thousands).

Plan	Annual Pension Cost Fiscal Year Ended June 30, 2002	2001	2000
Teachers' Retirement and Pension System	$360,993	$403,423	$435,434
Employees' Retirement and Pension System	142,218	161,656	182,650
State Police Retirement System	4,907	6,891	1,075
Judges' Retirement System	13,375	14,575	14,730
Law Enforcement Officers Pension System	20,360	12,144	10,543

Percentage of Annual Pension Cost Contributed

The State contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2002, 2001 and 2000, for each of the five plans listed above.

Net Pension Obligation

The State's net pension obligation was zero as of June 30, 2002, 2001 and 2000, for each of the five plans listed.

In addition, there was no transition liability determined in accordance with GASB Statement No. 27.

The fiscal year 2002 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 2002. The significant actuarial assumptions listed below were used for all plans.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing (difference in experienced and assumed return)
Rate of return on investments	8.0%
Rate of salary increase	Varies
Projected inflation rate	5.0%
Post retirement benefit increase	Varies
Amortization method	Level Percent of Payroll
Remaining amortization period	18 years as of June 30, 2002 for prior UAAL
New layer as of June 30, 2001	24 years as of June 30, 2002 for new UAAL
New layer as of June 30, 2002	25 years as of June 30, 2002 for new UAAL
Status of period (Open or Closed)	Closed

Maryland Transit Administration Pension Plan (Plan):

The Plan is a single employer non-contributory plan, which covers all Maryland Transit Administration (Administration) employees covered by a collective bargaining agreement and all those management employees who were employed by the Baltimore Transit Company. In addition, employees who enter the management group as a result of a transfer from a position covered by a collective bargaining agreement maintain their participation. For the year ended June 30, 2002, the Administration's covered and total payroll was $134,434,000. The Plan is administered and funded in compliance with the collective bargaining agreements, which established the Plan.

Plan Description:

The Plan provides retirement (normal and early), death and disability benefits. Members may retire with full benefits at age 65 with five years of credited service or age 52 with 30 years of credited service. The annual normal retirement benefit is 1.3% of final average compensation multiplied by credited service, with minimum and maximum benefit limitations. Participants are fully vested after five years of credited service.

As of June 30, 2002, membership in the Plan includes retirees and beneficiaries currently receiving benefits, terminated members entitled to, but not yet receiving benefits and current active members.

There were no investments in loans to or leases with parties related to the Plan. In addition, no investment in any one organization constituted 5.0% or more of the net plan assets available for pension benefits.

Funding Policy:

The Administration's required contributions are based on actuarial valuations. The entry age normal cost method is the actuarial cost method used to determine the employer's contribution rates and the actuarial accrued liability. All administrative costs of the Plan are paid by the Plan.

Employer contributions to the Plan totaling $15,200,000 (11.3% of covered payroll) for fiscal year 2002 were made in accordance with actuarially determined contribution requirements based on an actuarial valuation performed as of June 30, 2002. This amount consisted of $2,660,000 normal cost and $12,540,000 amortization of the actuarial accrued liability (2.0% and 9.3%, respectively, of covered payroll).

The liquidation period for the actuarial accrued liabilities (as provided by law) is 17 years from June 30, 2002. Significant actuarial assumptions used to compute contribution requirements are the same as those used to compute the annual pension cost and net pension obligations.

The computation of the annual required contribution for fiscal year 2002 was based on the same actuarial assumptions, benefit provisions, actuarial funding method, and other significant factors used to determine pension contribution requirements in the previous year.

Annual Pension Cost and Net Pension Obligation:

The Administration's annual pension cost for the fiscal years ending June 30, 2002, 2001, and 2000 were $15,200,000, $14,820,000 and $13,721,000, respectively.

The Administration contributed 100% of the annual pension cost for each of the fiscal years ended June 30, 2002, 2001 and 2000 for the Plan.

The Administration's net pension obligation was zero as of June 30, 2002, 2001, and 2000 for the Plan.

The fiscal year 2002 annual pension cost and net pension obligations were determined as a part of an actuarial valuation as of June 30, 2002. The significant actuarial assumptions listed below were used for the Plan.

Valuation method	Entry Age Normal Cost Method
Cost method of valuing assets	Smoothing
Rate of return on investments	8.0% Compounded per Annum
Projected inflation rate	5.0%
Rate of salary increase	3.0% Compounded per Annum
Postretirement benefit increase	3.0% of original benefit amount
Amortization method	Level dollar annual installments
Remaining amortization period	17 years from June 30, 2002
Status of period (Open or Closed)	Closed

During fiscal year 2002, there were no changes in actuarial assumptions or benefit provisions from 2001 that significantly affected the valuation of the annual pension cost and net pension obligation. No significant changes in these assumptions are planned in the near term.

Plan Financial Statements:

The Plan does not issue separate financial reports prepared in accordance with accounting principles generally accepted in the United States of America. Accordingly, financial statements for the Plan are presented below.

Maryland Transit Administration Pension Plan
Statement of Fiduciary Net Assets
June 30, 2002
(Expressed in Thousands)

Assets:	
Cash and cash equivalents	$ 468
Bonds	10,025
Corporate equity securities	54,578
Due from other funds	1,131
Total assets	66,202
Liabilities:	
Accounts payable and accrued liabilities	1,131
Total liabilities	1,131
Net assets:	
Held in trust for pension benefits	65,071
Total net assets	$65,071

Statement of Changes in Fiduciary Net Assets
For the Year ended June 30, 2002
(Expressed in Thousands)

Additions:	
Contributions:	
Employers	$15,200
Total contributions	15,200
Investment earnings:	
Net depreciation in fair value of investment	(8,328)
Interest	1,895
Total investment earnings	(6,433)
Total additions	8,767
Deductions:	
Benefit payments	13,258
Administrative expenses	173
Total deductions	13,431
Net decrease in plan assets	(4,664)
Net assets held in trust for pension benefits:	
July 1, 2001	69,735
June 30, 2002	$65,071

Post Retirement Benefits:

The State also provides, in accordance with State Merit System Laws, post employment health care benefits to retired employees and their dependents (generally employees who retired before July 1, 1984, employees who retired on or after July 1, 1984, with at least 5 years of creditable service and employees who receive disability retirement allowances or special death benefits). The State subsidizes approximately 50% to 90% of covered medical and hospitalization costs, depending on the type of insurance plan. The State assesses a surcharge for post employment health care benefits, which is based on health care insurance charges for current employees. During fiscal year 2002, these benefits paid amounted to $109,838,000. Costs are recognized as they are paid. There are 29,670 participants currently receiving benefits.

Deferred Compensation Plan (Plan):

The State offers its employees a deferred compensation plan (Plan) created in accordance with Internal Revenue Code Sections 457, 403(b), 401(a) and 401(k). The Plan, available to eligible State employees, permits participants to defer a portion of their salary until future years. Participation in the Plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. State law provides that the Governor appoint the nine member Board of Trustees of the State's Supplemental Retirement Systems. The Board is responsible for the implementation, maintenance and administration of the Plan.

The State of Maryland Match Plan and Trust was established by the State on July 1, 1999. The plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code section 401(a). Under plan provisions, the State

contributes to each participant's account an amount equal to each participant's contributions to the State's Supplemental Retirement Plans during the same plan year. For each fiscal year of the State beginning after June 30, 1999, the maximum amount contributed to this plan for each participant is $600 ($500 beginning on July 1, 2002). A participant may receive more than this amount in matching contributions during a plan year, but may not exceed the maximum $600 contribution for any State fiscal year. An employee's interest in his/her account is fully vested at all times. The State's contribution for the plan year ending December 31, 2001, was $20,570,000.

18. Commitments:

The State leases office space under various agreements that are accounted for as operating leases. Many of the agreements contain rent escalation clauses and renewal options. Rent expenditures for fiscal year 2002 were approximately $44,815,000. Future lease commitments under these agreements as of June 30, 2002, are as follows (amounts expressed in thousands).

Years Ending June 30,	Amount
2003	$ 43,775
2004	38,981
2005	35,048
2006	29,337
2007	22,761
2008-2012	54,749
2013-2017	8,117
2018-2022	7,030
Total	$239,798

As of June 30, 2002, the State had commitments of approximately $263,608,000 and $14,003,000 for the completion of projects under construction and for service contracts.

As of June 30, 2002, the Department of Transportation and Maryland Transportation Authority had commitments of approximately $2,579,079,000 and $86,000,000 respectively, for construction of highway and mass transit facilities.

Approximately 36% of future expenditures related to the Department of Transportation commitments are expected to be reimbursed from proceeds of approved Federal grants when the actual costs are incurred. The remaining portion will be funded by other financial resources of the Department of Transportation.

The Department of Transportation, as lessor, leases space at various marine terminals, airport facilities and office space pursuant to various cancelable operating leases with scheduled rent increases. Minimum future rental revenues are as follows (amounts expressed in thousands).

Years Ending June 30,	Amount
2003	$ 75,910
2004	54,827
2005	33,870
2006	28,678
2007	18,858
2008-2012	121,136
Total	$333,279

The cost and accumulated depreciation of the assets as of June 30, 2002 are $567,472,000 and $192,907,000, respectively.

Total minimum future rental revenues do not include contingent rentals that may be received under certain concession leases on the basis of a percentage of the concessionaire's gross revenue in excess of stipulated minimums. Rental revenue was approximately $120,817,000 for the year ended June 30, 2002, including contingent rentals of approximately $1,278,000.

As of June 30, 2002, the Maryland State Lottery Agency had commitments of approximately $122,082,000 for services to be rendered relating principally to the operation of the lottery game.

As of June 30, 2002, several enterprise fund loan programs within the Department of Business and Economic Development had committed to lend a total of $18,987,000 in additional loans (Maryland Economic Development Assistance Authority Fund $2,000,000; Maryland Economic Development Opportunities Program Fund $11,750,000; Smart Growth Economic Development Infrastructure Fund $3,998,000; Maryland Competitive Advantage Financing Fund $709,000; Maryland Economic Adjustment Fund $530,000). In addition, the Community Development Administration, an enterprise fund loan program, has $162,261,000 of revenue bonds outstanding that are not included in the financial statements of the Administration. The revenue bonds are secured solely by the individual multi-family project properties, related revenues and applicable credit enhancements.

Pursuant to legislation enacted by the Maryland General Assembly in April, 1996, the Maryland Stadium Authority is required to pay $2,400,000 per year into the Public School Construction Fund over ten years, subject to availability of funds, beginning in fiscal year 2001. The Authority was relieved of its fiscal year 2002 obligation through the approval of the State's budget.

Certain State higher education institutions of the higher education fund, a component unit, lease facilities and equipment under agreements that are accounted for as operating leases. Many of the lease agreements provide for optional extensions and periodic increases in lease payments. Lease expenditures for fiscal year 2002 were approximately $10,031,000. Future lease commitments under agreements as of June 30, 2002, are as follows (amount expressed in thousands).

Years Ending June 30,	Amount
2003	$ 9,167
2004	6,984
2005	6,027
2006	3,673
2007	2,370
2008-2012	5,906
Total	$34,127

As of June 30, 2002, the higher education fund had commitments of approximately $451,209,000 for the completion of projects under construction.

19. Contingencies:

The State is party to legal proceedings which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material, adverse impact on the financial position of the State as a whole.

As of June 30, 2002, mortgage loan insurance programs included in the enterprise funds and component unit proprietary funds were contingently liable as insurer of mortgage loans payable or portions of mortgage loans payable, in an aggregate amount of approximately $576,560,000 (including $509,231,000 for the economic development loan programs). In addition, there are commitments to insure mortgage loans which would represent additional contingent liabilities of approximately $9,396,000.

The State receives significant financial assistance from the U.S. Government. Entitlement to the resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 2002, the State estimates that no material liabilities will result from such audits.

20. Tobacco Settlement:

Legislation enacted by the 1999 General Assembly established the Cigarette Restitution Fund for all revenues received from any judgment against or settlement with the tobacco industry. Expenditures from the fund are made by an appropriation in the annual State budget. The law provides that at least 50% of the appropriations shall be made for tobacco or health related purposes and the remaining appropriations may be for any public purpose. During the 2002 legislative session, legislation was enacted providing that an additional 25% of the appropriations for fiscal years 2003 through 2006 shall be made for the Maryland Medical Assistance Program (Medicaid). Transfers of $118,982,000 were made from the proceeds in the Cigarette Restitution Fund for fiscal year 2002 expenditure of appropriations.

As part of the Master Settlement Agreement between the states and the tobacco companies, Maryland's share during fiscal year 2002 was $165,504,000. Pursuant to an order of the Circuit Court of Maryland, 25% of the proceeds were separately disbursed by the Master Settlement Agreement Trustee to an escrow account for the joint benefit of the State of Maryland and legal counsel which pursued this claim. The funds in the escrow account were held pending disposition of a lawsuit pertaining to the percentage of the proceeds to be allocated to outside counsel. In fiscal year 2002, $124,128,000 and $41,376,000 were remitted to the State and escrow agent, respectively.

In April 2002, a settlement agreement was reached between the State and legal counsel resolving all disputes. Pursuant to that agreement, funds in the joint escrow account were disbursed to legal counsel in the amount of $30,000,000 and to the State in the amount of $93,075,000. The terms of the agreement provide for four future payments to legal counsel over fiscal years 2004-2006 totaling $119,873,000.

It is estimated that the payments made to the State pursuant to the Master Settlement through fiscal year 2010 will total $1.8 billion, of which $149,873,000 will go to outside counsel. However, the actual amount paid each year will reflect adjustments for inflation and cigarette shipment volume. In addition, the State expects to receive $49,641,000 during that same period pursuant to an award for attorney fees by the national arbitration panel.

21. Landfill Closure and Postclosure Care Costs:

State and Federal laws require the Maryland Environmental Service (the Service) to place a final cover on the Midshore Regional Landfill (Midshore), which is expected to close in April 2009, and the Easton Landfill (Easton), which is filled to capacity and in the process of being closed, and to perform certain maintenance and monitoring functions at the landfill sites for thirty years after closure.

Although closure and post-closure care costs at Midshore will be paid near or after the date the landfill stops accepting waste, the Service accrues a portion of these closure and post-closure care costs as a liability based on the estimated capacity of the landfill that has been used to date, which was 66% as of June 30, 2002. The Service recognized a liability for Easton equal to the estimated total current cost of closure and post-closure care that has not been paid. A $5,526,000 liability is included in other liabilities in the accompanying balance sheet of the Service. Total closure and post-closure care costs are currently estimated to be approximately $8,420,000 as determined through engineering studies. Actual costs may be higher due to inflation.

Under recently promulgated federal regulations, the Service has satisfied its financial assurance requirements based upon the local government financial ratio tests of the project participants as of June 30, 2001. The Service expects to satisfy these requirements as of June 30, 2002, using the same criteria.

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REQUIRED SUPPLEMENTARY INFORMATION

Required Supplemental Schedule of Funding Progress for Pension and Retirement System

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Entry Age	(Unfunded AAL) /Excess of Assets over AAL	Funded Ratio	Covered Payroll (1)	(Unfunded AAL) /Excess as a Percentage of Covered Payroll (2)
			TEACHERS RETIREMENT AND PENSION SYSTEM			
2002	$19,424,000	$21,117,046	($1,693,046)	91.98%	$4,323,053	(39.16)%
2001	19,182,750	20,126,943	(944,193)	95.31	3,994,201	(23.64)
2000	18,419,539	18,994,294	(574,755)	96.97	3,729,845	(15.41)
1999	16,634,932	18,036,251	(1,401,319)	92.23	3,550,614	(39.47)
1998	14,934,503	17,452,181	(2,517,678)	85.57	3,319,260	(75.85)
1997	13,142,495	16,292,451	(3,149,956)	80.67	3,151,218	(99.96)
			EMPLOYEES RETIREMENT AND PENSION SYSTEM			
2002	$11,162,265	$11,385,749	($223,484)	98.04%	$3,356,671	(6.66)%
2001	11,021,958	10,789,907	232,051	102.15	3,084,859	7.52
2000	10,593,917	9,907,683	686,234	106.93	2,829,250	24.25
1999	9,557,556	9,203,218	354,338	103.85	2,613,659	13.56
1998	8,621,081	8,877,652	(256,571)	97.11	2,448,181	(10.48)
1997	7,668,655	8,060,733	(392,078)	95.14	2,399,504	(16.34)
			STATE POLICE RETIREMENT SYSTEM			
2002	$1,300,402	$1,030,575	$269,827	126.18%	$83,142	324.54%
2001	1,305,556	993,847	311,709	131.36	79,383	392.66
2000	1,269,418	911,273	358,145	139.30	79,388	451.13
1999	1,150,559	850,041	300,518	135.35	75,602	397.50
1998	1,033,274	739,074	294,200	139.81	70,663	416.34
1997	909,549	744,496	165,053	122.17	62,936	262.26
			JUDGES RETIREMENT SYSTEM			
2002	$234,558	$267,532	$(32,974)	87.67%	$31,824	(103.61)%
2001	229,022	254,913	(25,891)	89.84	30,554	(84.74)
2000	216,374	236,446	(20,072)	91.51	30,147	(66.58)
1999	192,909	231,394	(38,485)	83.37	29,577	(130.12)
1998	170,953	220,136	(49,183)	77.66	25,553	(192.47)
1997	149,283	213,259	(63,976)	70.00	25,007	(255.83)
			LAW ENFORCEMENT OFFICERS' PENSION SYSTEM			
2002	$191,100	$312,058	$(120,958)	61.24%	$65,916	(183.50)%
2001	165,678	290,504	(124,826)	57.03	60,438	(206.54)
2000	140,034	214,822	(74,788)	65.19	50,302	(148.68)
1999	102,040	140,677	(38,637)	72.53	36,435	(106.04)
1998	83,430	115,534	(32,104)	72.21	30,512	(105.22)
1997	44,947	60,824	(15,877)	73.90	12,905	(123.03)
			LOCAL FIRE AND POLICE SYSTEM			
2002	$10,938	$18,324	$(7,386)	59.69%	$7,188	(102.75)%
2001	9,814	13,828	(4,014)	70.97	5,601	(71.67)
2000	10,099	15,349	(5,250)	65.80	6,938	(75.67)
1999	8,583	13,799	(5,216)	62.20	6,530	(79.88)
1998	7,114	12,358	(5,244)	57.57	6,288	(83.40)
1997	5,767	11,446	(5,679)	50.38	5,815	(97.66)
			TOTAL OF ALL PLANS			
2002	$32,323,263	$34,131,284	$(1,808,021)	94.70%	$7,867,794	(22.98)%
2001	31,914,778	32,469,942	(555,164)	98.29	7,255,036	(7.65)
2000	30,649,381	30,279,867	369,514	101.22	6,725,870	5.49
1999	27,646,579	28,475,380	(828,801)	97.09	6,312,417	(13.13)
1998	24,850,355	27,416,935	(2,566,580)	90.64	5,900,457	(43.50)
1997	21,920,696	25,383,209	(3,462,513)	86.36	5,657,385	(61.20)

(1) Covered payroll includes the payroll cost of those participants which the State pays the retirement contribution but does not pay the participants payroll cost. Starting with the 7/1/98 disclosure, covered payroll was reported using an adjusted payroll figure. With this year's disclosure, the covered payroll has been restated to show actual salaries reported for valuation purposes, prior to any adjustments.

(2) Percentage of (Unfunded AAL)/ excess assets over AAL as a percentage of covered payroll.

Required Supplemental Schedule of Funding Progress for Maryland Transit Administration Pension Plan

(Expressed in Thousands)

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability Entry Age	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
2002	$81,617	$210,013	$128,396	38.9%	$134,434	95.5%
2001	76,700	203,628	126,928	37.7	110,249	115.2
2000	71,566	199,455	127,889	35.9	102,923	124.3
1999	60,829	181,064 (1)	120,235	33.6	104,569	115.0
1998	51,208	167,330	116,122	30.6	98,814	117.5
1997	42,739	172,076	129,337	24.8	95,333	135.7
1996	34,568	141,381	106,813	24.5	95,550	111.8
1995	24,470	137,826	113,356	17.8	92,445	122.6
1994	17,572	126,351	108,779	13.9	88,491	122.9
1993	13,447	95,032	81,585	14.1	87,134	93.6

(1) Fiscal year 1999 has been restated to include changes pertaining to the Collective Bargaining Agreement.

Required Supplemental Schedule of Employer Contributions for Maryland Transit Administration Pension Plan

(Expressed in Thousands)

Year Ended June, 30	Annual Required Contribution	Percentage Contributed
2002	$15,200	100%
2001	14,820	100
2000	13,721	100
1999	13,103	100
1998	13,902	100
1997	11,502	100
1996	11,918	100
1995	11,323	100
1994	8,452	100
1993	8,467	100

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COMBINING FINANCIAL STATEMENTS AND SCHEDULES

Non-Major Governmental Funds

Debt Service Funds

General Obligation Bonds, Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on general long-term debt obligations are accounted for in the general obligation bonds debt service fund.

Transportation Bonds, Debt Service Fund: Transaction related to resources obtained and used for the payment of interest and principal on transportation long-term debt obligations are accounted for in the transportation bonds debt service fund.

Capital Projects Fund

Transactions related to resources obtained and used for the acquisition, construction or improvement of certain capital facilities, including those provided to political subdivisions and other public organizations, are accounted for in the capital projects fund. Such resources are derived principally from proceeds of general obligation bond issues, federal grants and operating transfers from the State's general fund. The State enters into long-term contracts for construction of major capital projects and records the related commitments as encumbrances.

Combining Balance Sheet
Non-major Governmental Funds
June 30, 2002

(Expressed in Thousands)

	Debt Service Funds			
	General Obligation Bonds	Transportation Bonds	Capital Projects Fund	Total Non-major Governmental Funds
Assets:				
Cash and cash equivalents	$14,141			$ 14,141
Cash and cash equivalents - restricted		$2,780		2,780
Cash with fiscal agent - restricted	3,807	875		4,682
Investments		1,726		1,726
Taxes receivable, net	7,104			7,104
Other receivables	156	9	$ 173	338
Due from other funds			455,364	455,364
Loans and notes receivable, net	15,954		9,633	25,587
Total assets	$41,162	$5,390	$465,170	$511,722
Liabilities:				
Vouchers payable			$ 76,620	$ 76,620
Accounts payable and accrued liabilities			48,626	48,626
Due to other funds			13,478	13,478
Matured bonds and interest coupons payable	$ 3,807	$ 875		4,682
Total liabilities	3,807	875	138,724	143,406
Fund balances:				
Reserved for:				
Encumbrances			473,400	473,400
Shore Erosion Loan Program			9,633	9,633
Loans and notes receivable	15,954			15,954
Unreserved:				
Undesignated	21,401	4,515	(156,587)	(130,671)
Total fund balances	37,355	4,515	326,446	368,316
Total liabilities and fund balances	$41,162	$5,390	$465,170	$511,722

Combining Statement of Revenues, Expenditures, Other Sources and Uses of Financial Resources and Changes in Fund Balances Non-major Governmental Funds for the year ended June 30, 2002

(Expressed in Thousands)

	Debt Service Funds			Total
	General Obligation Bonds	Transportation Bonds	Capital Projects Fund	Non-major Governmental Funds
Revenues:				
Other taxes	$270,881			$ 270,881
Interest and other investment income	2,048	$ 101	$ 3,267	5,416
Other	127	135		262
Total revenues	273,056	236	3,267	276,559
Expenditures:				
Education			264,350	264,350
Aid to higher education			234,685	234,685
Intergovernmental			305,682	305,682
Capital outlays			115,124	115,124
Debt service:				
Principal retirement	322,320	84,530		406,850
Interest	172,896	29,938		202,834
Total expenditures	495,216	114,468	919,841	1,529,525
Deficiency of revenues under expenditures	(222,160)	(114,232)	(916,574)	(1,252,966)
Other sources (uses) of financial resources:				
Proceeds from bonds			451,796	451,796
Proceeds from refunding bonds			117,458	117,458
Payments to refunded bond escrow agent	(117,217)			(117,217)
Transfers in	339,474	114,905	334,772	789,151
Transfers out			(303,800)	(303,800)
Net other sources and uses of financial resources	222,257	114,905	600,226	937,388
Special items	(6,372)			(6,372)
Net change in fund balances	(6,275)	673	(316,348)	(321,950)
Fund balances, July 1, 2001	43,630	3,842	642,794	690,266
Fund balances, June 30, 2002	$ 37,355	$ 4,515	$326,446	$ 368,316

Non-major Enterprise Funds

Transactions related to commercial types of activities operated by the State are accounted for in the enterprise funds. The non-major enterprise funds consist of the economic development insurance programs of the Department of Housing and Community Development and State Use Industries, which utilizes inmate labor from State correctional institutions to manufacture goods, wares and merchandise to be sold to State agencies, political subdivisions and charitable, civic, educational, fraternal or religious associations or institutions.

STATE OF MARYLAND

Combining Statement of Net Assets
Non-major Enterprise Funds
June 30, 2002

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Assets:			
Current assets:			
Cash and cash equivalents		$ 10	$ 10
Investments	$ 145		145
Other accounts receivable		6,486	6,486
Due from other funds	106,239	10,569	116,808
Inventories		6,464	6,464
Loans and notes receivable, net	419		419
Other assets	5,416	229	5,645
Total current assets	112,219	23,758	135,977
Non-current assets:			
Investments	664		664
Loans and notes receivable, net	942		942
Capital assets, net of accumulated depreciation:			
Structures and improvements		446	446
Equipment		4,244	4,244
Infrastructure		85	85
Other assets		171	171
Total non-current assets	1,606	4,946	6,552
Total assets	113,825	28,704	142,529
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	532	1,899	2,431
Accrued insurance and loan losses	27,466		27,466
Other liabilities	210	603	813
Deferred revenue	2,592	1,635	4,227
Total current liabilities	30,800	4,137	34,937
Non-current liabilities:			
Other liabilities	1,158	348	1,506
Total non-current liabilities	1,158	348	1,506
Total liabilities	31,958	4,485	36,443
Net Assets:			
Invested in capital assets, net of related debt		4,775	4,775
Unrestricted	81,867	19,444	101,311
Total net assets	$ 81,867	$24,219	$106,086

Combining Statement of Revenues, Expenses and Changes in Fund Net Assets
Non-major Enterprise Funds
For the Year Ended June 30, 2002

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Operating revenues:			
Charges for services and sales	$ 5,490	$42,290	$ 47,780
Interest and other investment income	577		577
Total operating revenues	6,067	42,290	48,357
Operating expenses:			
Cost of sales and services		32,231	32,231
General and administrative	3,209	5,825	9,034
Depreciation and amortization	4	1,187	1,191
Provision for insurance and loan losses	2,049		2,049
Total operating expenses	5,262	39,243	44,505
Operating income	805	3,047	3,852
Nonoperating revenues (expenses):			
Investment income	2,868		2,868
Other	296	(5)	291
Income before transfers	3,969	3,042	7,011
Transfers out		(2,000)	(2,000)
Change in net assets	3,969	1,042	5,011
Total net assets - beginning	77,898	23,177	101,075
Total net assets - ending	$81,867	$24,219	$106,086

Combining Statement of Cash Flows
Non-major Enterprise Funds
For the Year Ended June 30, 2002

(Expressed in Thousands)

	Economic Development Insurance Programs	State Use Industries	Total Non-major Enterprise Funds
Cash flows from operating activities:			
Receipts from customers	$ 5,153	$39,068	$44,221
Payments to suppliers		(26,232)	(26,232)
Payments to employees	(2,457)	(8,955)	(11,412)
Other receipts (payments)	(5,943)	(798)	(6,741)
Net cash provided (used) by operating activities	(3,247)	3,083	(164)
Cash flows from noncapital financing activities:			
Transfers out		(2,000)	(2,000)
Other	267		267
Net cash (used) provided by noncapital financing activities	267	(2,000)	(1,733)
Cash flows from capital and related financing activities:			
Acquisition of capital assets		(1,083)	(1,083)
Net cash used in capital and related financing activities	-	(1,083)	(1,083)
Cash flows from investing activities:			
Interest on investments	2,980		2,980
Net cash provided by investing activities	2,980	-	2,980
Net change in cash and cash equivalents	-	-	-
Balance - beginning of the year		10	10
Balances - end of the year	$ -	$ 10	$ 10
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	$ 805	$ 3,047	$ 3,852
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	4	1,187	1,191
Effect of changes in assets and liabilities:			
Other accounts receivable		(3,222)	(3,222)
Due from other funds	(6,884)	(798)	(7,682)
Inventories		1,115	1,115
Loans and notes receivable	(494)		(494)
Other assets	7,573	287	7,860
Accounts payable and accrued liabilities	(84)	417	333
Accrued insurance on loan losses	(4,182)		(4,182)
Deferred revenue	(352)	1,091	739
Other liabilities	367	(41)	326
Net cash provided by (used in) operating activities	$(3,247)	$ 3,083	$ (164)

Fiduciary Funds

The Pension and Other Employee Benefits Trust Fund includes the State Retirement and Pension System of Maryland, the Maryland Transit Administration Pension Plan, and the Deferred Compensation Plan. The Trust Fund reflects the transactions, assets, liabilities and fund equities of the plans administered by the State and the Maryland Transit Administration and is accounted for using the flow of economic resources measurement focus. The Deferred Compensation Plan, which is included with a year end of December 31, accounts for participant earnings deferred in accordance with Internal Revenue Code Sections 457, 403(b), and 401(k). Amounts deferred are invested and are not subject to federal income taxes until paid to participants upon termination or retirement from employment, death or for an unforeseeable emergency.

The agency funds are custodial in nature and do not present the results of operations or have a measurement focus. The State uses agency funds to account for the receipt and disbursement of patient and prisoner accounts, various taxes collected by the State for distribution to the Federal government and political subdivisions and amounts withheld from employees' payroll.

Combining Statement of Fiduciary Net Assets
Pension and Other Employee Benefits Trust Funds
June 30, 2002

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2001	Total
Assets:				
Cash and cash equivalents	$ 1,141,644	$ 468	$ 4,039	$ 1,146,151
Investments, at fair value:				
U.S. Treasury and agency obligations	1,687,211			1,687,211
Bonds	2,706,024	10,025		2,716,049
Corporate equity securities	13,024,415	54,578		13,078,993
Mortgage related securities	2,002,347			2,002,347
Mutual funds	3,400,318		1,059,477	4,459,795
Guaranteed investment contracts			356,392	356,392
Real estate	733,338			733,338
Investment held by borrowers under securities lent with cash collateral	2,251,366			2,251,366
Other	84,969		175,381	260,350
Other receivables	310,651		6,106	316,757
Due from other funds		1,131		1,131
Collateral for lent securities	2,304,930			2,304,930
Total assets	29,647,213	66,202	1,601,395	31,314,810
Liabilities:				
Accounts payable and accrued liabilities	754,256	1,131	252	755,639
Due to other funds	1,131			1,131
Collateral obligation for lent securities	2,304,930			2,304,930
Total liabilities	3,060,317	1,131	252	3,061,700
Net assets:				
Held in trust for:				
Pension benefits	26,586,896	65,071		26,651,967
Deferred compensation benefits			1,601,143	1,601,143
Total net assets	$26,586,896	$65,071	$1,601,143	$28,253,110

Combining Statement of Changes in Plan Net Assets
Pension and Other Employee Benefits Trust Funds
For the Year ended June 30, 2002

(Expressed in Thousands)

	Retirement and Pension System of Maryland	Maryland Transit Administration Pension Plan	Deferred Compensation Plan December 31, 2001	Total
Additions:				
Contributions:				
Employers	$ 234,265	$15,200	$ 20,570	$ 270,035
Members	199,304		110,752	310,056
Sponsors	347,106			347,106
Total contributions	780,675	15,200	131,322	927,197
Investment income:				
Net decrease in fair value of investments	(2,986,680)	(8,328)	(123,879)	(3,118,887)
Interest	535,226	1,895	35,086	572,207
Dividends	264,762			264,762
Real estate operating net income	29,161			29,161
Net change in annuity payout reserves			2,465	2,465
Total investment loss	(2,157,531)	(6,433)	(86,328)	(2,250,292)
Less investment expense	107,784			107,784
Net investment loss	(2,265,315)	(6,433)	(86,328)	(2,358,076)
Total additions (decreases)	(1,484,640)	8,767	44,994	(1,430,879)
Deductions:				
Benefit payments	1,372,325	13,258	71,602	1,457,185
Refunds	17,476			17,476
Administrative expenses	20,064	173	4,774	25,011
Total deductions	1,409,865	13,431	76,376	1,499,672
Net decrease in plan assets	(2,894,505)	(4,664)	(31,382)	(2,930,551)
Net assets held in trust for pension benefits:				
July 1, 2001	29,481,401	69,735	1,632,525	31,183,661
June 30, 2002	$26,586,896	$65,071	$1,601,143	$28,253,110

Combining Statement of Fiduciary Net Assets
Retirement and Pension System of Maryland
June 30, 2002

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Assets:							
Cash and cash equivalents	$ 703,400	$ 361,292	$ 10,740	$ 47,787	$ 1,676	$ 16,749	$ 1,141,644
Investments, at fair value	15,629,858	8,929,297	184,916	996,761	7,774	141,382	25,889,988
Other receivables	181,016	113,666	2,104	10,837	82	2,946	310,651
Collateral for lent securities	1,376,368	784,689	22,647	97,096	841	23,289	2,304,930
Total assets	17,890,642	10,188,944	220,407	1,152,481	10,373	184,366	29,647,213
Liabilities:							
Accounts payable and accrued liabilities	461,531	256,465	5,559	25,482	205	5,014	754,256
Due to other funds	671	392	10	51		7	1,131
Collateral obligation for lent securities	1,376,368	784,689	22,647	97,096	841	23,289	2,304,930
Total liabilities	1,838,570	1,041,546	28,216	122,629	1,046	28,310	3,060,317
Net Assets:							
Held in trust for pension benefits	$16,052,072	$ 9,147,398	$192,191	$1,029,852	$ 9,327	$156,056	$26,586,896

Combining Statement of Changes in Plan Net Assets
Retirement and Pension System of Maryland
For the Year ended June 30, 2002

(Expressed in Thousands)

	Teachers' Retirement and Pension Systems	Employees' Retirement and Pension Systems	Judges' Retirement System	State Police Retirement System	Local Fire and Police System	Law Enforcement Officers' Pension System	Total
Additions:							
Contributions:							
Employers	$ 14,020	$ 180,198	$ 13,183	$ 4,907	$1,200	$ 20,757	$ 234,265
Members	109,140	79,285	1,399	6,793	5	2,682	199,304
Sponsors	346,913		193				347,106
Total contributions	470,073	259,483	14,775	11,700	1,205	23,439	780,675
Investment income:							
Net decrease in fair value of investment	(1,746,166)	(1,051,693)	(23,033)	(148,115)	(842)	(16,831)	(2,986,680)
Interest	330,291	181,827	4,412	16,166	267	2,263	535,226
Dividends	157,247	91,511	2,130	12,237	94	1,543	264,762
Real estate operating net income	17,943	9,400	345	1,218	23	232	29,161
Total investment loss	(1,240,685)	(768,955)	(16,146)	(118,494)	(458)	(12,793)	(2,157,531)
Less investment expense	64,233	37,087	1,120	4,653	62	629	107,784
Net investment loss	(1,304,918)	(806,042)	(17,266)	(123,147)	(520)	(13,422)	(2,265,315)
Total additions (reductions)	(834,845)	(546,559)	(2,491)	(111,447)	685	10,017	(1,484,640)
Deductions:							
Benefit payments	848,419	450,556	16,343	49,014	472	7,521	1,372,325
Refunds	10,190	7,062	2	181		41	17,476
Administrative expenses	12,103	6,924	140	790	6	101	20,064
Net transfers	(209)	4,933	1	(75)	(3)	(4,647)	-
Total deductions	870,503	469,475	16,486	49,910	475	3,016	1,409,865
Net increase (decrease) in plan assets	(1,705,348)	(1,016,034)	(18,977)	(161,357)	210	7,001	(2,894,505)
Net assets held in trust for pension benefits:							
July 1, 2001	17,757,420	10,163,432	211,168	1,191,209	9,117	149,055	29,481,401
June 30, 2002	$16,052,072	$9,147,398	$192,191	$1,029,852	$9,327	$156,056	$26,586,896

Combining Statement of Fiduciary Net Assets
Agency Funds
June 30, 2002

(Expressed in Thousands)

	Agency Funds					
	Local Income Taxes	Insurance Premium Taxes	Local Transportation Funds and Other Taxes	Payroll Taxes and Fringe Benefits	Patient and Prisoner Accounts	Total Agency Funds
Assets:						
Cash and cash equivalents		$ 10	$ 8,155		$5,618	$ 13,783
Taxes receivable, net	$ 226,743					226,743
Other receivables		1,531	10			1,541
Due from other funds	1,106,965	41,701	23,526	$783		1,172,975
Total assets	$1,333,708	$43,242	$31,691	$783	$5,618	$1,415,042
Liabilities:						
Accounts payable and accrued liabilities		$43,242	$ 8,165	$783	$5,618	$ 57,808
Accounts payable to political subdivisions	$1,333,708		23,526			1,357,234
Total liabilities	$1,333,708	$43,242	$31,691	$783	$5,618	$1,415,042

Combining Statement of Changes in Assets and Liabilities - All Agency Funds for the year ended June 30, 2002

(Expressed in Thousands)

	Balance July 1, 2001	Additions	Deletions	Balance June 30, 2002
Patient and Prisoner Accounts				
Assets:				
Cash and cash equivalents	$ 5,958	$ 17,593	$ 17,933	$ 5,618
Liabilities:				
Accounts payable and accrued liabilities	$ 5,958	$ 17,593	$ 17,933	$ 5,618
Insurance Premium Taxes				
Assets:				
Cash and cash equivalents	$ 10			$ 10
Due from other funds	37,776	$ 20,575	$ 16,650	41,701
Other receivables	1,787		256	1,531
Total assets	$ 39,573	$ 20,575	$ 16,906	$ 43,242
Liabilities:				
Accounts payable and accrued liabilities	$ 39,573	$ 20,575	$ 16,906	$ 43,242
Local Income Taxes				
Assets:				
Due from other funds	$1,108,659	$2,964,153	$2,965,847	$1,106,965
Taxes receivable	225,431	20,788	19,476	226,743
Other receivables				
Total assets	$1,334,090	$2,984,941	$2,985,323	$1,333,708
Liabilities:				
Accounts payable to political subdivisions	$1,334,090	$2,984,941	$2,985,323	$1,333,708
Local Transportation Funds and Other Taxes				
Assets:				
Cash and cash equivalents	$ 7,103	$ 8,155	$ 7,103	$ 8,155
Due from other funds	14,223	69,989	60,686	23,526
Other receivables	24		14	10
Total assets	$ 21,350	$ 78,144	$ 67,803	$ 31,691
Liabilities:				
Accounts payable and accrued liabilities	$ 7,127	$ 8,155	$ 7,117	$ 8,165
Accounts payable to political subdivisions	14,223	69,989	60,686	23,526
Total liabilities	$ 21,350	$ 78,144	$ 67,803	$ 31,691
Payroll Taxes and Fringe Benefits				
Assets:				
Due from other funds	$ 6,956	$ 922,260	$ 928,433	$ 783
Liabilities:				
Accounts payable and accrued liabilities	$ 6,956	$ 922,260	$ 928,433	$ 783
Totals - All Agency Funds				
Assets:				
Cash and cash equivalents	$ 13,071	$ 25,748	$ 25,036	$ 13,783
Taxes receivable	225,431	20,788	19,476	226,743
Other receivables	1,811		270	1,541
Due from other funds	1,167,614	3,976,977	3,971,616	1,172,975
Total assets	$1,407,927	$4,023,513	$4,016,398	$1,415,042
Liabilities:				
Accounts payable and accrued liabilities	$ 59,614	$ 968,583	$ 970,389	$ 57,808
Accounts payable to political subdivisions	1,348,313	3,054,930	3,046,009	1,357,234
Total liabilities	$1,407,927	$4,023,513	$4,016,398	$1,415,042

Combining Statement of Net Assets
Non-major Component Units
June 30, 2002

(Expressed in Thousands)

	College Savings Plans of Maryland	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
Assets:					
Current assets:					
Cash and cash equivalents	$ 12,331	$ 286			$ 12,617
Investments	78,986	7,068	$ 970		87,024
Tuition contracts receivable	50,012				50,012
Other accounts receivable		12,257		$ 10	12,267
Due from primary government			35,690	3,820	39,510
Investments in direct financing leases		1,664			1,664
Other assets		1,876			1,876
Investments, restricted		12,466			12,466
Due from primary government, restricted				1,092	1,092
Total current assets	141,329	35,617	36,660	4,922	218,528
Non-current assets:					
Tuition contracts receivable	96,111				96,111
Investments in direct financing leases		10,883			10,883
Other assets		8,015			8,015
Investments, restricted		10,589			10,589
Capital assets, net of accumulated depreciation:					
Land				5,093	5,093
Structures and improvements		6,416		11,245	17,661
Equipment	406	3,535		125	4,066
Construction in progress		912			912
Total non-current assets	96,517	40,350		16,463	153,330
Total assets	237,846	75,967	36,660	21,385	371,858
Liabilities:					
Current liabilities:					
Accounts payable and accrued liabilities	402	16,010	13	186	16,611
Accrued insurance on loan losses			4,094		4,094
Accrued tuition benefits	3,507				3,507
Other liabilities	222	1,331		268	1,821
Deferred revenue			39	92	131
Loans from primary government	130				130
Due to primary government	147				147
Revenue bonds and notes payable		3,299			3,299
Total current liabilities	4,408	20,640	4,146	546	29,740
Non-current liabilities:					
Accounts payable and accrued liabilities		5,616			5,616
Accrued tuition benefits	263,503				263,503
Other liabilities		7,253		107	7,360
Loans from primary government	390				390
Revenue bonds and notes payable		32,790			32,790
Total non-current liabilities	263,893	45,659		107	309,659
Total liabilities	268,301	66,299	4,146	653	339,399
Net Assets:					
Invested in capital assets, net of related debt	241	3,013		16,463	19,717
Restricted for capital improvements and deposits				1,092	1,092
Unrestricted (deficit)	(30,696)	6,655	32,514	3,177	11,650
Total net assets (deficiency)	$(30,455)	$ 9,668	$32,514	$20,732	$ 32,459

Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Non-major Component Units
for the year ended June 30, 2002

(Expressed in Thousands)

	College Savings Plans of Maryland	Maryland Environmental Service	Maryland Industrial Development Financing Authority	Maryland Food Center Authority	Total Non-major Component Units
Operating revenues:					
Charges for services and sales		$67,788	$ 472	$ 3,198	$ 71,458
Tuition contracts	$ 88,927				88,927
Other	1,326		531		1,857
Total operating revenues	90,253	67,788	1,003	3,198	162,242
Operating expenses:					
Operation and maintenance of facilities		56,437			56,437
General and administrative	1,607	6,851	498	2,461	11,417
Depreciation and amortization	116	2,028		497	2,641
Provision for insurance on loan losses, net			4,349		4,349
Tuition benefits	112,584				112,584
Other	15	962	674	218	1,869
Total operating expenses	114,322	66,278	5,521	3,176	189,297
Operating income (loss)	(24,069)	1,510	(4,518)	22	(27,055)
Non-operating revenues (expenses):					
Investment income	1,866	678	1,260	266	4,070
Interest expense		(1,780)			(1,780)
Other	(8,305)	93		145	(8,067)
Special items			(5,000)	3,372	(1,628)
Total non-operating revenues (expenses)	(6,439)	(1,009)	(3,740)	3,783	(7,405)
Change in net assets	(30,508)	501	(8,258)	3,805	(34,460)
Total net assets - beginning	53	9,167	40,772	16,927	66,919
Total net assets (deficiency) - ending	$(30,455)	$ 9,668	$32,514	$20,732	$ 32,459

STATE OF MARYLAND

Schedule of Estimated and Actual Revenues by Source, Budgetary Basis, for the year ended June 30, 2002

(Expressed in Thousands)

	Annual Budgeted Funds											
							Higher Education Funds					
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund		Capital Projects Fund	Total
	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Estimated Revenues	Actual Revenues	Actual Revenues	Actual Revenues
Taxes:												
Property tax		$ 633	$ 294,642	$ 296,851							$ 98,010	$ 395,494
Franchise and corporation tax	$ 142,640	131,439										131,439
Death taxes	171,645	184,725										184,725
Admission and amusement tax			1,554	1,470								1,470
Alcoholic beverages tax	25,108	25,754										25,754
Motor vehicle fuel taxes	11,983	12,266	674,915	690,311								702,577
Income taxes	5,234,309	5,044,884	79,405	108,591								5,153,475
Sales and use taxes	2,635,530	2,642,478	31,400	44,309								2,686,787
Tobacco taxes	210,409	209,873	27	8								209,881
Motor vehicle titling taxes			594,000	650,210								650,210
Insurance company taxes	192,662	193,718										193,718
Horse racing taxes			7,794	3,122								3,122
Shellfish taxes				193								193
Boxing, wrestling or sparring taxes			16	9								9
Boat titling tax			24,491	26,563								26,563
Energy generation tax			40,472	46,737								46,737
Emergency telephone system tax			42,499	42,716								42,716
Total taxes	8,624,286	8,445,770	1,791,215	1,911,090							98,010	10,454,870
Other:												
Licenses and permits	42,231	39,161	309,973	335,849								375,010
Fees for services	108,999	103,677	373,753	350,733								454,410
Fines and costs	77,934	100,992	216,440	256,122								357,114
Sales to the public	3,432	4,549	57,546	68,948								73,497
Commissions and royalties	65	50	69,758	80,592								80,642
Rentals	27	898	60,905	62,329								63,227
Interest on investments	72,623	93,712	14,493	18,109							3,120	114,941
Interest on loan repayments			5,500	6,468								6,468
Miscellaneous	198,561	164,911	79,493	39,923								204,834
Colleges and universities							$1,403,337	$1,350,638	$774,122	$742,849		2,093,487
Federal reimbursements and grants			67,275	64,533	$5,156,703	$4,740,467						4,805,000
Other reimbursements	106,337	119,775	319,686	264,755								384,530
Bond issues:												
State - general purpose			116	1,235							528,033	529,268
Consolidated transportation bonds			210,000	150,000								150,000
State reimbursements	400,988	651,327	476,664	256,310							259,329	1,166,966
Appropriated from general fund							961,262	961,262				961,262
Trust funds			17,546	13,032								13,032
Revolving accounts		3,870	21,810	33,871								37,741
Total revenues	$9,635,483	$9,728,692	$4,092,173	$3,913,899	$5,156,703	$4,740,467	$2,364,599	$2,311,900	$774,122	$742,849	$888,492	$22,326,299

Schedule of Budget and Actual Expenditures and Encumbrances by Major Function, Budgetary Basis, for the year ended June 30, 2002

(Expressed in Thousands)

	Annual Budgeted Funds											
							Higher Education Funds					
	General Fund		Special Fund		Federal Fund		Current Unrestricted Fund		Current Restricted Fund		Capital Projects Fund	Total
Expenditures and Encumbrances by Major Function*	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Final Budget	Actual	Actual	Actual
Payments of revenue to civil divisions of the State	$123,853	$123,853										$123,853
Public debt	103,455	103,455	$ 410,823	408,815								512,270
Legislative	56,702	56,702										56,702
Judicial review and legal	359,020	357,049	21,970	19,265	3,561	3,135						379,449
Executive and administrative control	347,016	343,981	77,782	71,180	111,886	101,696						516,857
Financial and revenue administration	169,464	166,160	68,325	67,857								234,017
Budget and management	66,990	66,270	19,621	17,845								84,115
Retirement and pension			21,245	21,052								21,052
General services	52,037	52,036	2,550	1,989	930	618						54,643
Transportation and highways			2,309,066	2,251,230	828,631	753,108						3,004,338
Natural resources and recreation	85,150	84,428	172,295	167,580	31,338	23,820						275,828
Agriculture	32,699	32,699	51,480	50,667	6,223	3,909						87,275
Health, hospitals and mental hygiene	2,693,858	2,693,539	249,530	218,703	2,051,828	2,028,981						4,941,223
Human resources	482,711	482,710	91,618	88,711	992,967	942,125						1,513,546
Labor, licensing and regulation	28,457	28,390	17,289	10,453	154,792	135,425						174,268
Public safety and correctional services	767,903	767,900	116,784	111,384	15,655	12,981						892,265
Public education	4,406,520	4,403,984	138,452	126,779	750,680	678,651	$2,364,599	$2,314,765	$774,122	$744,405		8,268,584
Housing and community development	47,398	47,366	48,982	45,166	163,511	118,540						211,072
Business and economic development	83,680	83,680	71,983	67,978	792	620						152,278
Environment	57,467	57,467	146,281	139,305	26,005	20,791						217,563
Juvenile services	162,164	161,270	221	148	16,798	12,909						174,327
State police	226,025	225,948	55,876	54,881	1,106	433						281,262
State reserve fund	233,384	233,384										233,384
Loan accounts											$933,038	933,038
Reversions:												
Current year reversions	(25,000)											-
Prior year reversions		(31,167)		(59,081)		(36,960)		(950)		(149)		(128,307)
Total expenditures and encumbrances	$10,560,953	$10,541,104	$4,092,173	$3,881,907	$5,156,703	$4,800,782	$2,364,599	$2,313,815	$774,122	$744,256	$933,038	$23,214,902

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the Financial Section, result from differences in the classification of prior year encumbrances and expenditures.

STATE OF MARYLAND

Schedule of Changes in Fund Equities - Budgetary Basis
for the year ended June 30, 2002

(Expressed in Thousands)

	General Fund	Special Fund		Federal Fund	Higher Education		Capital Projects Fund	Total
		Other Special	Debt Service		Current Unrestricted Fund	Current Restricted Fund		
Fund equities, July 1, 2001	$ 1,776,881	$ 765,873	$ 43,630	-	$ 313,668	$ 4,707	$701,211	$ 3,605,970
Increase:								
Revenues	9,728,692	3,628,841	285,058	$4,740,467	2,311,900	742,849	888,492	22,326,299
Decrease:								
Appropriations	10,585,953	3,681,350	410,823	5,156,703	2,364,599	774,122		
Less: Current year reversions	(13,682)	(149,177)	(2,008)	(318,961)	(49,834)	(29,717)		
Prior year reversions	(31,167)	(59,081)		(36,960)	(950)	(149)		
Expenditures and encumbrances*	10,541,104	3,473,092	408,815	4,800,782	2,313,815	744,256	933,038	23,214,902
Changes to encumbrances during fiscal year 2002	(26,547)	1,212		17,599	(1,133)	70		(8,799)
Expenditures	10,514,557	3,474,304	408,815	4,818,381	2,312,682	744,326	933,038	23,206,103
Transfers in (out)	231,304	(906)	117,482	77,914	(1,566)	72	(367,526)	56,774
Fund equities, June 30, 2002	$ 1,222,320	$919,504	$ 37,355	$ -	$ 311,320	$ 3,302	$289,139	$ 2,782,940
Fund Balance:								
Reserved:								
Encumbrances	$ 235,108	$ 447,975		$ 177,874	$ 5,376	$ 283	$493,960	$ 1,360,576
State reserve fund	678,071							678,071
Loans and notes receivable		10,485	15,954					26,439
Shore erosion loan programs		9,633						9,633
Unreserved:								
Designated for:								
General long-term debt service			21,401					21,401
2003 operations	413,546							413,546
Undesignated surplus (deficit)	(104,405)	451,411		(177,874)	305,944	3,019	(204,821)	273,274
Total	$ 1,222,320	$ 919,504	$ 37,355	$ -	$ 311,320	$ 3,302	$289,139	$ 2,782,940

*Appropriation and expenditure differences between this statement and the "Statement of Revenues, Expenditures and Encumbrances and Changes in Fund Balances - Budget and Actual - Budgetary General and Special" included in the Financial Section, result from differences in the classification of prior year encumbrances and expenditures.

Schedule of Funds Transferred to Political Subdivisions
for the year ended June 30, 2002 (1)

(Expressed in Thousands)

Subdivision (2)	State Sources				Other Sources			Assessed Value of Real and Personal Property (2)	Amount Per $100 of Assessed Value
	Shared Revenues	Direct Grants and Appropriations	Debt Service	Total	Federal Funds	State Administered Local Revenue	Total		
Allegany	$ 6,274	$ 83,984	$ 2,261	$ 92,519	$ 19,590	$ 19,264	$ 131,373	$ 2,400,125	$5.47
Anne Arundel	25,969	303,722	9,555	339,246	51,349	313,989	704,584	35,718,709	1.97
Baltimore County	35,537	529,637	16,503	581,677	136,300	445,595	1,163,572	44,461,844	2.62
Calvert	4,953	96,738	1,899	103,590	30,182	45,110	178,882	5,994,754	2.98
Caroline	4,117	37,397	3,368	44,882	9,146	8,980	63,008	1,315,136	4.79
Carroll	11,230	118,216	4,758	134,204	14,367	76,689	225,260	9,613,245	2.34
Cecil	6,346	82,661	1,769	90,776	15,878	38,301	144,955	4,898,286	2.96
Charles	7,692	117,986	6,668	132,346	19,498	58,494	210,338	8,196,799	2.57
Dorchester	4,702	35,642	1,967	42,311	12,277	9,199	63,787	1,561,926	4.08
Frederick	14,600	158,077	14,010	186,687	19,892	111,903	318,482	13,153,137	2.42
Garrett	5,345	41,255	1,163	47,763	12,522	10,253	70,538	1,980,420	3.56
Harford	12,995	171,036	7,498	191,529	24,236	129,239	345,004	12,853,978	2.68
Howard	13,031	156,972	5,831	175,834	19,412	193,168	388,414	21,634,597	1.80
Kent	2,373	20,176	486	23,035	7,682	8,756	39,473	1,384,894	2.85
Montgomery	36,812	399,246	22,187	458,245	71,775	871,462	1,401,482	81,979,029	1.71
Prince George's	31,844	687,365	18,882	738,091	126,625	344,371	1,209,087	41,781,816	2.89
Queen Anne's	4,621	60,206	5,969	70,796	24,378	26,997	122,171	3,324,736	3.67
St. Mary's	5,959	67,456	6,918	80,333	12,730	46,236	139,299	5,223,319	2.67
Somerset	2,815	30,662	1,479	34,956	11,150	5,420	51,526	730,901	7.05
Talbot	3,744	16,644	2,260	22,648	6,844	18,757	48,249	3,740,071	1.29
Washington	9,689	104,231	4,664	118,584	22,295	52,716	193,595	6,855,806	2.82
Wicomico	7,471	89,447	4,237	101,155	23,056	32,892	157,103	3,856,417	4.07
Worcester	5,572	27,390	1,053	34,015	13,206	17,205	64,426	6,646,348	0.97
Baltimore City	176,884	972,809	10,538	1,160,231	322,642	195,687	1,678,560	19,135,706	8.77
Total	$440,575	$4,408,955	$155,923	$5,005,453	$1,027,032	$3,080,683	$9,113,168	$338,441,999	

(1) In addition to the amounts shown for counties and Baltimore City, $187,601,000 was distributed to municipalities within the counties.

(2) Source: Fifty-eighth Report of the Department of Assessments and Taxation, dated January 2002. Assessed value of property is 100%.

STATE OF MARYLAND

Schedule of Taxes Receivable from Collectors of State Property Taxes June 30, 2002

(Expressed in Thousands)

Political Subdivision	Taxes Receivable		
	Current Year	Prior Years	Total
Allegany	$ 125	$ 84	$ 209
Anne Arundel	(261)	658	397
Baltimore County	217	224	441
Calvert	143	27	170
Caroline	2	8	10
Carroll	22	76	98
Cecil	28	225	253
Charles	20	13	33
Dorchester	91	37	128
Frederick	46	10	56
Garrett	95	21	116
Harford	37	66	103
Howard	50	714	764
Kent	54	9	63
Montgomery	(665)	1,697	1,032
Prince George's.	203	179	382
Queen Anne's	8	6	14
St. Mary's	73	63	136
Somerset	63	21	84
Talbot	69	14	83
Washington	14	(3)	11
Wicomico	3	43	46
Worcester	142	38	180
Baltimore City	592	1,703	2,295
Total	$1,171	$5,933	$7,104

STATISTICAL SECTION

Schedule of Estimated Revenues - Budgetary Basis
for the year ending June 30, 2003

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Income taxes	$5,374,263	$ 94,159				$ 5,468,422
Retail sales and use tax and licenses	2,767,476	20,300				2,787,776
Motor vehicle fuel taxes and licenses	12,076	695,900				707,976
Motor vehicle tax and licenses	9,300	803,400				812,700
Property taxes	47,269	333,390 (1)				380,659
Insurance company taxes, licenses and fees	196,772					196,772
Franchise and corporation taxes	172,609					172,609
State tobacco tax and licenses	212,949					212,949
Alcoholic beverages taxes and licenses	25,547					25,547
Death taxes	159,828					159,828
Miscellaneous taxes, fees and other revenues	101,274	28,160 (2)				129,434
Budgeted tobacco settlement recoveries		151,101				151,101
Horse racing taxes and licenses		4,368				4,368
District courts fines and costs	72,058					72,058
Interest on investments	70,259	5,000				75,259
Hospital patient recoveries	63,886					63,886
Legislative	228					228
Judicial review and legal	59,618	16,523	$ 3,396			79,537
Executive and administrative control	1,855	65,720	102,865			170,440
Financial and revenue administration	1,644	14,963				16,607
Budget and management	1,184	17,516				18,700
State lottery agency	430,029	51,983				482,012
Retirement and pension		54,443				54,443
General services	62	1,683	1,141			2,886
Transportation and highways		770,990	874,472			1,645,462
Natural resources and recreation	581	74,073	25,224			99,878
Agriculture	295	17,385	2,406			20,086
Health, hospitals and mental hygiene	7,014	80,263	2,125,136			2,212,413
Human resources	1,575	74,481	980,936			1,056,992
Labor, licensing and regulation	13,654	7,601	151,765			173,020
Public safety and correctional services	6,967	103,772	6,200			116,939
Public education	2,715	45,595	707,714	$2,339,253	$716,888	3,812,165
Housing and community development	674	40,678	163,175			204,527
Business and economic development		51,478	528			52,006
Environment	350	80,899	24,741			105,990
Juvenile justice	275	257	15,243			15,775
State police	2,621	55,348	1,095			59,064
Total estimated revenues	$9,816,907	$3,761,429	$5,186,037	$2,339,253	$716,888	$21,820,514 (3)

(1) Includes $283,197,516 recorded in the Debt Service Fund for accounting purposes.

(2) Includes $28,159,636 recorded in the Debt Service Fund for accounting purposes.

(3) Amounts are reported at July 1, 2002, and do not reflect revisions, if any, subsequent to that date.

Schedule of General, Special, Federal, Current Unrestricted and Current Restricted Fund Appropriations - Budgetary Basis for the year ending June 30, 2003

(Expressed in Thousands)

	General Fund	Special Fund	Federal Fund	Current Unrestricted Fund	Current Restricted Fund	Total
Payments of revenue to civil divisions of the State	$ 149,901					$ 149,901
Public debt	94,020	$ 311,357 (1)				405,377
Legislative	59,046					59,046
Judicial review and legal	346,554	16,623	$ 3,396			366,573
Executive and administrative control	133,804	67,613	102,865			304,282
Financial and revenue administration	170,053	66,947				237,000
Budget and management	38,167	17,516				55,683
Retirement and pension		21,127				21,127
General services	54,579	1,683	1,141			57,403
Transportation and highways		2,389,749	874,472			3,264,221
Natural resources and recreation	82,257	115,206	25,224			222,687
Agriculture	29,243	32,675	2,406			64,324
Health, hospitals and mental hygiene	2,837,677	208,650	2,125,136			5,171,463
Human resources	475,181	74,482	980,936			1,530,599
Labor, licensing and regulation	29,351	11,028	151,765			192,144
Public safety and correctional services	782,402	103,772	6,200			892,374
Public education	4,598,038	93,341	707,714	$2,339,253	$716,888	8,455,234
Housing and community development	30,266	41,678	163,175			235,119
Business and economic development	75,128	51,478	528			127,134
Environment	50,531	80,899	24,741			156,171
Juvenile justice	170,928	257	15,243			186,428
State police	234,093	55,348	1,095			290,536
State reserve fund	181,029					181,029
Total appropriations	$10,622,248	$3,761,429	$5,186,037	$2,339,253	$716,888	$22,625,855 (2)

(1) Recorded in the Debt Service Fund for accounting purposes.

(2) Amounts are reported at July 1, 2002, and do not reflect revisions, if any, subsequent to that date.

Schedule of General Government Revenues by Source, Expenditures by Function and Other Sources (Uses) of Financial Resources and Changes in Fund Balances
General, Special Revenue, Debt Service and Capital Projects Funds
Last Ten Fiscal Years
(Expressed in Thousands)

	Year ended June 30,									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenues:										
Income taxes	$ 4,911,807	$ 5,741,664	$ 5,223,740	$ 4,845,406	$ 4,491,384	$ 4,084,147	$ 3,796,251	$ 3,669,027	$ 3,590,562	$ 3,303,678
Retail sales and use taxes	2,689,567	2,646,103	2,497,531	2,299,266	2,161,158	2,093,876	2,000,298	1,951,031	1,814,948	1,718,152
Motor vehicle taxes and fees	1,660,994	1,577,714	1,570,433	1,507,898	1,426,340	1,373,002	1,321,412	1,298,132	1,225,531	1,119,416
Other taxes	1,413,307	1,453,179	1,366,807	1,203,907	1,149,092	1,057,592	1,065,176	1,031,735	1,053,998	1,039,108
Other licenses and fees	610,009	450,768	459,063	328,442	289,414	208,009	211,817	216,621	193,216	197,255
Charges for services	814,332	875,717	793,722	758,698	737,099	658,583	670,901	803,183	691,597	630,597
Revenue pledged as security for bonds	41,161 (5)									
Interest and other investment income	108,214	288,936	193,897	174,945	151,443	138,893	114,986	100,626	56,120	35,158
Federal	4,931,908	4,451,010	3,973,662	3,681,692	3,509,817	3,726,882	3,357,959	3,277,297	2,630,278	2,530,226
Other	153,510	126,379	99,482	164,922	134,829	134,875	186,902	190,297	215,761	251,737
Total revenues	17,334,809	17,611,470	16,178,337	14,965,176	14,050,576	13,475,859	12,725,702	12,537,949	11,472,011	10,825,327
Expenditures:										
Current:										
General government	627,367	586,812	546,049	495,028	427,482	382,424	520,419	616,518	536,542	494,041
Education	5,675,065	3,888,180	3,626,739	3,440,054	3,239,233	3,025,536	2,818,909	2,637,338	2,497,869	2,389,155
Business and economic development	55,418	55,952	54,593	50,344	45,083	41,026	42,259	163,735	149,647	155,575
Labor, licensing and regulation	174,725	177,196	183,363	158,192	148,980	141,523	155,495			
Human resources	1,536,780	1,456,484	1,341,603	1,285,650	1,317,365	1,304,480	1,344,361	1,382,650	954,822	926,954
Health and mental hygiene	4,893,824	4,483,159	3,956,048	3,599,677	3,255,961	3,323,439	3,132,078	3,240,900	2,965,057	2,781,409
Environment	87,447	78,960	73,910	68,119	60,973	64,722	71,911	64,943	60,567	51,598
Transportation	1,103,756	1,070,893	1,007,331	979,560	859,460	860,986	859,208	783,786	752,679	692,454
Public safety and judicial	1,672,703	1,533,283	1,435,979	1,349,764	1,202,632	1,238,772	1,061,974	938,507	896,938	862,311
Housing and community development	168,580	121,602	103,804	106,604	97,661	80,390	67,093	69,611	75,746	102,725
Natural resources and recreation	167,160	150,850	147,179	131,541	122,113	125,269	123,681	116,530	114,678	111,559
Agriculture	91,562	75,990	59,552	53,078	42,202	38,138	43,010	34,872	28,774	27,185
Intergovernmental	1,375,043	1,336,429	1,186,985	1,151,315	1,109,755	1,036,094	933,700	937,236	784,990	700,119
Debt service	609,684	618,047	640,887	603,630	593,302	585,589	601,999	506,031	467,279	488,153
Capital outlays	1,415,740	1,343,570	1,121,889	1,106,875	1,044,187	1,137,356	1,047,936	1,075,888	784,555	759,224
Total expenditures	19,654,854	16,977,407	15,485,911	14,579,431	13,566,389	13,385,744	12,824,033	12,568,545	11,070,143	10,542,462
Excess (deficiency) of revenues over expenditures	(2,320,045)	634,063	692,426	385,745	484,187	90,115	(98,331)	(30,596)	401,868	282,865
Other sources(uses) of financial resources:										
Capital leases	44,294	70,793	54,489							
Direct financing leases			20,000	100,001	117,234	62,200	62,930	16,872	41,835	15,577
Proceeds from bond issues	615,846	422,890	202,417	483,805	514,190	460,000	469,504	566,384	416,780	332,419
Other long-term liabilities	119,460									
Proceeds from refunding bonds	117,458				113,340				802,701	303,218
Payments to escrow agents	(117,217)				(113,661)				(811,268)	(298,759)
Operating transfers in	1,453,353	1,644,746	1,321,917	1,179,676	1,020,788	920,843	910,063	1,033,400	759,879	313,804
Operating transfers in from component units		3,419	1,108	1,013	593	870	1,339			
Operating transfers out	(1,056,529)	(1,302,866)	(991,248)	(806,851)	(670,151)	(563,969)	(548,955)	(1,342,979)	(1,024,000)	(650,893)
Operating transfers out to component units		(1,041,524)	(918,000)	(824,170)	(773,628)	(711,032)	(680,339)			
Recognition of fund liability										(65,000)
Special Items	25,628									
Net other sources (uses) of financial resources	1,202,293	(202,542)	(309,317)	133,474	208,705	168,912	214,542	273,677	185,927	(49,634)
Excess (deficiency) of revenues over expenditures and net other sources (uses) of financial resources	(1,117,752)	431,521	383,109	519,219	692,892	259,027	116,211	243,081	587,795	233,231
Fund balance, July 1, 2001	3,763,280	3,331,759	2,948,650	2,429,431	1,736,539	1,476,480	1,360,269	1,117,188	529,393	137,467
Adjustments	(391,422) (4)					1,032 (3)				154,295 (2)
Fund balance, July 1, as restated	3,371,858					1,477,512				291,762
Equity transfers										4,400 (1)
Fund balance, June 30, 2002	$ 2,254,106	$ 3,763,280	$ 3,331,759	$ 2,948,650	$2,429,431	$1,736,539	$ 1,476,480	$ 1,360,269	$ 1,117,188	$ 529,393

Source: General Accounting Division, State Comptroller's Office

(1) During 1993 the Economic Development Loan Programs returned $4,400,000 to the General Fund. This return of contributed capital has been reported as an equity transfer.

(2) Effective July 1, 1992, the Maryland Transportation Authority's activities were recorded in the special revenue and debt service funds and its beginning equity was reclassified from the enterprise fund to the respective governmental funds.

(3) Effective July 1, 1996, investments of the general governmental funds were valued at fair value which is based on quoted market prices.

(4) Effective July 1, 2001, the beginning fund balance was restated forinventory. Also, Maryland Transportation Authority's activities were no longer recorded in the special revenue and debt service funds, and it's beginning equity was reclassified from the respective governmental funds to the enterprise funds.

(5) These revenues were previously recorded as federal revenue.

STATE OF MARYLAND

Schedule of Property Tax Levies and Collections
Last Ten Fiscal Years

(Expressed in Thousands)

Fiscal Year	Total Tax Levy	Current Tax Collections	Percentage of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percentage of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes	Percentage of Delinquent Taxes to Tax Levy
2002	$269,084	$268,041	99.61%	$1,824	$269,865	100.29%	$7,104	2.64%
2001	257,684	255,475	99.14	1,505	256,980	99.73	7,885	3.06
2000	251,496	246,835	98.15	3,819	250,654	99.67	7,181	2.86
1999	246,145	243,098	98.76	2,704	245,802	99.86	6,339	2.58
1998	241,010	238,358	98.90	2,890	241,248	100.10	5,996	2.49
1997	234,686	232,628	99.12	1,919	234,547	99.94	6,234	2.66
1996	228,683	226,618	99.10	1,063	227,681	99.56	6,095	2.67
1995	223,489	221,723	99.21	1,784	223,507	100.01	5,093	2.28
1994	216,513	214,560	99.10	2,193	216,753	100.11	5,111	2.36
1993	205,802	202,594	98.44	2,204	204,798	99.51	5,351	2.60

Source: State Comptroller's Office.

STATE OF MARYLAND

Schedule of Assessed and Estimated Actual
Value of Taxable Property
Last Ten Fiscal Years

(Expressed in Thousands)

	Real Property (1)		Personal Property (2)		Total (2)		Percentage of Total (3) Assessed to Total Estimated Actual Value
Fiscal Year	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2002	$318,778,365	$318,778,365			$318,778,365	$318,778,365	100.0%
2001	122,990,644	307,476,610			122,990,644	307,476,610	40.0
2000	116,643,135	291,607,838	$36,209,355	$36,209,355	152,852,490	327,817,193	46.6
1999	113,014,279	282,535,698	35,103,315	35,103,315	148,117,594	317,639,013	46.6
1998	109,893,050	274,732,625	34,570,947	34,570,947	144,463,997	309,303,572	46.7
1997	107,205,699	268,014,248	31,885,281	31,885,281	139,090,980	299,899,529	46.4
1996	104,968,536	262,421,340	31,084,278	31,084,278	136,052,814	293,505,618	46.4
1995	103,018,904	257,547,260	29,512,076	29,512,076	132,530,980	287,059,336	46.2
1994	100,517,470	251,293,675	29,194,598	29,194,598	129,712,068	280,488,273	46.2
1993	96,042,289	240,105,723	28,432,706	28,432,706	124,474,995	268,538,429	46.4

Source: The Forty-ninth through Fifty-eighth Report of the State Department of Assessments and Taxation.

(1) Utility operating real property is taxed at a different rate than other real property.

(2) Effective July 1, 2000 the value of taxable property excludes all personal property to reflect the exemption of all personal property from State property tax.

(3) The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of Market Value. This change was implemented on July 1, 2001.

Schedule of Property Tax Rates -
(Per $100 of Assessed Value)
Direct and Overlapping Governments
Last Ten Fiscal Years

	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
State of Maryland	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21	$0.21
Subdivisions:										
Allegany	2.46	2.46	2.47	2.47	2.47	2.47	2.48	2.50	2.50	2.48
Anne Arundel	2.40	2.40	2.36	2.36	2.38	2.38	2.38	2.35	2.38	2.46
Baltimore County	2.79	2.86	2.86	2.86	2.86	2.86	2.86	2.86	2.87	2.87
Calvert	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23	2.23
Caroline	2.38	2.38	2.38	2.38	2.42	2.48	2.48	2.49	2.49	2.49
Carroll	2.62	2.62	2.62	2.62	2.62	2.62	2.35	2.35	2.35	2.35
Cecil	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.45	2.50
Charles	2.54	2.49	2.49	2.44	2.44	2.44	2.44	2.44	2.28	2.28
Dorchester	2.20	2.18	2.18	2.20	2.20	2.21	2.24	2.24	2.24	2.24
Frederick	2.50	2.50	2.26	2.26	2.26	2.26	2.26	2.26	2.26	2.27
Garrett	2.59	2.59	2.59	2.59	2.59	2.59	2.24	2.24	2.19	2.24
Harford	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73	2.73
Howard	2.61	2.61	2.61	2.59	2.59	2.59	2.59	2.59	2.59	2.59
Kent	2.53	2.53	2.33	2.33	2.33	2.33	2.33	2.33	2.33	2.33
Montgomery	1.85	1.86	1.87	1.92	1.96	1.99	2.00	1.94	1.92	1.92
Prince George's	2.41	2.41	2.41	2.41	2.42	2.43	2.43	2.44	2.45	2.47
Queen Anne's	2.44	2.44	2.19	2.19	2.25	2.35	2.17	2.17	2.17	2.17
St. Mary's	2.27	2.27	2.08	2.08	2.08	2.11	2.13	2.18	2.27	2.32
Somerset	2.45	2.45	2.15	2.15	2.15	2.15	2.15	2.15	2.15	2.15
Talbot	1.39	1.39	1.39	1.39	1.39	1.39	0.95	0.65	0.65	0.66
Washington	2.37	2.37	2.31	2.31	2.31	2.21	2.21	2.21	2.21	2.21
Wicomico	2.68	2.71	2.25	2.25	2.25	2.25	2.25	2.15	2.15	2.15
Worcester	1.83	1.74	1.74	1.72	1.72	1.68	1.68	1.68	1.68	1.62
Baltimore City	5.82	5.82	5.82	5.82	5.85	5.85	5.85	5.85	5.90	5.90

Source: The Forty-ninth through Fifty-eighth Report of the State Department of Assessments and Taxation.

STATE OF MARYLAND

Schedule of Employment by Sector
For Calendar Year 2001

	Average Annual Employment	Total Wages (Expressed in Thousands)	Average Weekly Wage Per Worker
Government:			
State and local	316,170	$11,690,595,842	$ 711
Federal	126,782	7,587,059,567	1,151
Total government	442,952	19,277,655,409	837
Manufacturing	168,360	7,935,824,891	906
Natural Resources and Mining	6,278	189,293,186	580
Construction	164,880	6,651,175,722	776
Trade, Transportation, and Utilities	466,494	14,985,839,025	618
Information	58,380	3,258,676,939	1,073
Financial Activities	148,821	7,582,886,367	980
Professional and Business Services	358,310	16,065,561,444	862
Education and Health Services	307,161	10,694,657,487	670
Leisure and Hospitality	208,691	3,472,155,621	320
Unclassified and other Services	92,811	2,500,382,457	518
Total of all sectors	2,423,138	$92,614,108,548	$ 735

Source: Maryland Department of Labor, Licensing and Regulation, Office of Labor Market Analysis and Information Publication "Employment and Payroll 2001 Annual Averages" issued August, 2002. This report reflects the new North American Industry Classification System (NAICS) coding revisions.

STATE OF MARYLAND

Schedule of Ratio of General Long-Term Debt
To Assessed Value and General Long-Term Debt Per Capita
Last Ten Fiscal Years

	(Expressed in Thousands)			Ratio of General Long-Term Debt to Assessed Value	General Long-Term Debt per Capita
Fiscal Year	Estimated Population	Assessed Value (1) (2)	General Long-Term Debt (3) (4)		
2002	5,375	$318,778,365	$4,930,943	1.55%	$917
2001	5,297	122,990,644	4,403,986	3.58	831
2000	5,172	152,852,490	4,397,360	2.88	850
1999	5,135	148,117,594	4,599,452	3.11	896
1998	5,094	144,463,997	4,495,614	3.11	883
1997	5,072	139,090,980	4,352,687	3.13	858
1996	5,042	136,052,814	4,248,263	3.12	843
1995	5,046	132,530,980	4,145,961	3.13	822
1994	4,965	129,712,068	3,852,680	2.97	776
1993	4,908	124,474,995	3,680,482	2.96	750

(1) Source: The Forty-ninth through Fifty-eighth Report of the State Department of Assessments and Taxation. Amounts shown are the State's assessable base only.

(2) The Maryland General Assembly passed legislation at the 2000 Session to change the system of real property assessment from 40% to 100% of Market Value. This change was implemented on July 1, 2001.

(3) Source: State Comptroller's Office.

(4) Includes all long-term general obligation and transportation bonds and excludes capital lease obligations.

Schedule of Ratio of Annual Debt Service for General Long-Term Debt to Total General Expenditures Last Ten Fiscal Years

Fiscal Year	(Expressed in Thousands) Principal	Interest	Total Debt Service (1)	Total General Expenditures (2)	Ratio of Debt Service to General Expenditures
2002	$406,850	$202,834	$609,684	$19,654,854	3.10%
2001	397,581	220,466	618,047	16,977,407	3.64
2000	406,047	234,840	640,887	15,485,911	4.14
1999	374,882	228,748	603,630	14,579,431	4.14
1998	364,154	229,148	593,302	13,566,389	4.37
1997	358,850	226,739	585,589	13,385,744	4.37
1996	370,675	231,324	601,999	12,824,033	4.69
1995	282,189	223,842	506,031	12,568,545	4.03
1994	229,725	237,554 (3)	467,279	11,070,143	4.22
1993	251,539	236,614	488,153	10,542,462	4.63

(1) As of July 1, 2001, the debt service total does not include debt service of the Maryland Transportation Authority.

(2) Includes general, special revenue, debt service and capital projects funds.

(3) Includes payments made in advance to refunding escrow account.

Source: General Accounting Division, State Comptroller's Office.

Schedule of Taxes Pledged to Consolidated Transportation Bonds and Net Revenues as Defined for Purposes of Consolidated Transportation Bonds Coverage Tests (1)

Last Ten Fiscal Years

(Expressed in Thousands)

	Year ended June 30,									
	2002	2001	2000	1999	1998	1997	1996	1995	1994	1993
Revenues:										
Taxes and fees:										
Taxes pledged to bonds	$1,046,715	$1,027,808	$ 981,548	$ 934,051	$ 857,816	$ 839,928	$ 813,072	$ 771,765	$ 727,557	$ 633,974
Other taxes and fees	238,303	219,426	220,672	214,483	198,101	196,044	187,558	216,995	198,356	234,828
Total taxes and fees	1,285,018	1,247,234	1,202,220	1,148,534	1,055,917	1,035,972	1,000,630	988,760	925,913	868,802
Operating revenues	297,489	303,206	311,909	267,946	241,357	218,874	203,891	212,767	198,618	162,751
Investment income	3,724	10,423	10,206	10,142	10,933	9,108	13,646	12,705	10,144	3,412
Other	25,950	24,619	19,361	15,486	14,228	9,913	21,670	7,613	11,620	11,229
Total revenues	1,612,181	1,585,482	1,543,696	1,442,108	1,322,435	1,273,867	1,239,837	1,221,845	1,146,295	1,046,194
Administration, operation and maintenance expenditures	1,044,908	979,318	913,059	868,439	808,439	769,977	784,816	709,180	689,029	623,929
Less: federal funds	(50,396)	(29,418)	(24,723)	(20,472)	(11,530)	(19,966)	(21,520)	(17,567)	(21,904)	(19,279)
Total	994,512	949,900	888,336	847,967	796,909	750,011	763,296	691,613	667,125	604,650
Net revenues	$ 617,669	$ 635,582	$ 655,360	$ 594,141	$ 525,526	$ 523,856	$ 476,541	$ 530,232	$ 479,170	$ 441,544
Maximum annual principal and interest requirements	$ 138,183	$ 127,060	$ 127,060	$ 133,267	$ 133,267	$ 142,769	$ 140,269	$ 140,269	$ 136,032	$ 126,146
Ratio of net revenues to maximum annual principal and interest requirements	4.47	5.00	5.16	4.46	3.94	3.67	3.40	3.78	3.52	3.50
Ratio of taxes pledged to bonds to maximum annual principal and interest requirements	7.57	8.09	7.73	7.01	6.44	5.88	5.80	5.50	5.35	5.03

Source: The Secretary's Office of the Department of Transportation.

(1) Under the terms of the bond authorizing resolutions, additional Consolidation Transportation Bonds may be issued, provided, among other conditions, that (i) total receipts, less administration, operation and maintenance expenditures for the proceeding fiscal year equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued and that (ii) total proceeds from pledged taxes equal at least two times maximum annual debt service on all Consolidated Transportation Bonds outstanding and to be issued.

STATE OF MARYLAND

Schedule of Demographic Statistics
Last Ten Fiscal Years

Fiscal Year	Population (1)	Per Capita Income (2)	School Enrollment (3)	Unemployment Rate (4)
2002	5,375,156	N/A	1,049,733	4.6%
2001	5,296,586	$35,188	1,040,020	3.8
2000	5,171,634	33,872	1,017,574	3.3
1999	5,134,808	32,166	1,009,870	4.0
1998	5,094,000	30,023	998,085	4.8
1997	5,072,000	28,671	985,180	5.0
1996	5,042,438	27,618	977,828	5.1
1995	5,046,050	26,333	964,389	5.0
1994	4,965,000	21,040	949,659	5.6
1993	4,908,000	23,920	933,768	6.4

Sources:
(1) U.S. Department of Commerce, Bureau of Census.
(2) U.S. Department of Commerce, Bureau of Economic Analysis.
(3) State Department of Education.
(4) State Department of Labor, Licensing and Regulation.
N/A Not available at this date.

STATE OF MARYLAND

Schedule of Property Value
Last Ten Fiscal Years
(Expressed in Thousands)

Fiscal Year	Commercial	Residential	Agricultural	Nontaxable (1)
2002	$74,076,446	$237,905,138	$6,796,781	$45,976,472
2001	71,349,851	228,827,421	7,299,338	45,085,992
2000	66,881,659	218,631,511	6,094,667	44,277,708
1999	64,219,071	212,366,454	5,950,173	43,541,916
1998	62,377,451	205,239,920	7,115,253	42,687,496
1997	61,626,974	200,557,837	5,829,437	41,642,651
1996	59,843,316	197,628,263	5,541,304	41,317,411
1995	62,013,692	190,112,779	5,420,789	40,235,799
1994	64,464,686	181,420,690	5,408,299	40,235,799
1993	64,006,823	170,912,747	5,186,153	39,302,632

Source: State Department of Assessment and Taxation.

STATE OF MARYLAND

Schedule of Miscellaneous Statistics

June 30, 2002

Date of Ratification	1788
Form of Government	Legislative - Executive - Judicial
Miles of State Highways	5,233
Land Area	9,844 square miles
State Police Protection:	
Number of Stations	26
Number of State Police	1,630
Higher Education (Universities, Colleges and Community Colleges):	
Number of Campuses in State	29
Number of Educators	7,776
Number of Students	223,797
Recreation:	
Number of State Parks and Forests	61
Area of State Parks	91,920 acres
Area of State Forests	135,656 acres
Employees	99,310

Sources: State Comptroller's Office, General Accounting Division and Central Payroll Bureau, Maryland Manual @ www.mdarchives.state.md.us/msa/mdmanual, Department of Natural Resources.

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