

interest rate of 5.4%. The net proceeds of \$6,932,000 were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments to the call date on the refunded bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds have been removed from revenue bonds payable. The accounting loss on defeasance of debt was immaterial, and there was no economic gain or loss.

As of June 30, 1999, the Administration had \$44,295,000 of debt defeased. The loss of \$4,185,000 from the defeasance is being deferred and amortized through interest expense through the year 2011.

Maryland State Lottery Agency (Lottery) — Notes Payable —

As of June 30, 1999, the Lottery had notes payable outstanding related to the financing of certain gaming equipment. The balance outstanding as of June 30, 1999, is \$2,890,000. Payments of principal and interest, at rates ranging from 4.5% to 6.7% are to be made through 2002.

C. Long Term Obligations — Component Units:

Higher Education Fund —

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 4.3% to 7.2% on the revenue bonds with the rate being 3.0% on the mortgage loans payable. In June 1992, and during the year ended June 30, 1999, the University System of Maryland (System) 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 2.6% to 6.15%, 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. Maturities of principal are as follows (amounts expressed in thousands).

Years Ending June 30,	Notes Payable and Other Long-Term Debt	Revenue Bonds	Total
2000	\$ 2,349	\$ 33,565	\$ 35,914
2001	2,326	35,568	37,894
2002	2,395	33,347	35,742
2003	2,344	35,775	38,119
2004	2,480	36,320	38,800
2005 and thereafter	34,246	493,895	528,141
	<u>\$46,140</u>	<u>\$668,470</u>	<u>\$714,610</u>

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 February 25, 1999, the System issued \$117,835,000 of 1999 Series A Revenue Bonds, and used \$27,955,000 of the proceeds to advance refund \$9,070,000 of 1991 Series B Revenue Bonds, \$3,475,000 of 1992 Series A Revenue Bonds, and \$13,585,000 of 1993 Series A Revenue Bonds. The advance refunding of Revenue Bonds, while resulting in an accounting loss of \$293,000, reduced future debt service requirements by \$2,149,000. The refinancings 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 \$1,442,000.

Obligations under capital leases of \$7,833,000 exist as of June 30, 1999, bearing interest at annual rates ranging from 4.6% to 7.2%. 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, 1999 (amounts expressed in thousands).

Years Ending June 30,	Amount
2000	\$ 1,005
2001	981
2002	1,019
2003	830
2004	831
2005 and thereafter	8,448
Total future minimum payments	\$13,114
Less: Amount representing interest	5,281
Present value of net minimum payments	<u>\$ 7,833</u>