

4. Cash and Cash Equivalents 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.

Investments are classified as to 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 credit risk except for those investments where the State owns units of a whole rather than specific securities, 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 and guaranteed investment contracts, mutual funds, real estate, venture capital and investments held by borrowers under securities