

Under Section 2-603 of the State's Finance and Procurement Article, the State lends U.S. Government securities held by the Lottery to broker-dealers and other entities (borrowers). The State Treasurer's Office controls the program and authorizes all transactions. 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. The collateral cannot be pledged or sold by the State unless the borrower defaults. 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.

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, 2000. Furthermore, as of June 30, 2000, the State had no credit risk exposure to borrowers because the fair value of collateral for the securities loaned was at least 100% of the fair value of the related securities, as follows (amounts expressed in thousands).

	Fair Value		
	Loaned Securities	Collateral Received	Percent Collateralized
Securities – US Treasury obligations	\$154,234	\$154,386	100.1%

D. Investments-Fiduciary Funds:

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.

The Pension Trust Funds (Trusts) in accordance with State Personnel and Pensions Article Section 21-122 of the Annotated