Maryland Transportation Authority

Financial statements
For the year ended June 30, 2001
Together with report of independent public accountants

ANDERSEN

Report of independent public accountants

To the Maryland Transportation Authority:

We have audited the accompanying balance sheet – all fund types and account groups of the Maryland Transportation Authority (the Authority – an agency of the State of Maryland) as of June 30, 2001, and the related statements of revenues, expenditures, other sources and uses of financial resources and changes in fund balances – all governmental fund types for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. 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 provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Maryland Transportation Authority as of June 30, 2001, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Baltimore, Maryland
October 5, 2001

Maryland Transportation Authority

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Maryland Transportation Authority

Balance sheet – all fund types and account groups
As of June 30, 2001
(in thousands)

	Governmental fund types			Account groups		Totals
	General	Debt service	Capital projects	General fixed assets	General long-term debt	(memorandum only)
Assets:						
Cash and cash equivalents	$ 102,457	$ —	$ —	$ —	$ —	$ 102,457
Restricted cash and cash equivalents	32,873	94,868	22,793	—	—	150,534
Investments, at fair value	143,199	—	—	—	—	143,199
Restricted investments, at fair value	44,185	—	13,865	—	—	58,050
Intergovernmental receivable	14,110	—	—	—	—	14,110
Inventory	677	—	—	—	—	677
Accounts receivable	1,860	—	—	—	—	1,860
Accrued interest	2,562	146	252	—	—	2,960
Property, plant and equipment	—	—	—	2,164,439	—	2,164,439
Direct financing leases receivable	—	—	—	58,671	—	58,671
Investment in CDC	1,625	—	—	—	—	1,625
Amounts available for:						
Revenue bonds	—	—	—	—	47,557	47,557
Special obligation revenue bonds	—	—	—	—	47,457	47,457
Amounts to be provided for:						
Retirement of revenue bonds	—	—	—	—	165,089	165,089
Retirement of special obligation revenue bonds	—	—	—	—	40,473	40,473
Retirement of accrued annual leave	—	—	—	—	4,069	4,069
Retirement of accrued workers' compensation costs	—	—	—	—	3,908	3,908
Total assets and other debits	$ 343,548	$ 95,014	$ 36,910	$ 2,223,110	$ 308,553	$ 3,007,135

The accompanying notes are an integral part of this balance sheet.

Maryland Transportation Authority

Balance sheet – all fund types and account groups
As of June 30, 2001
(Continued)
(in thousands)

	Governmental fund types			Account groups		Totals
	General	Debt service	Capital projects	General fixed assets	General long-term debt	(memorandum only)
Liabilities:						
Accounts payable and accrued liabilities	$ 10,785	$ —	$ 2,919	$ —	$ —	$ 13,704
Deferred revenue	3,225	—	—	—	—	3,225
Revenue bonds payable	—	—	—	—	212,646	212,646
Special obligation revenue bonds payable	—	—	—	—	87,930	87,930
Accrued annual leave	—	—	—	—	4,069	4,069
Accrued workers' compensation costs	—	—	—	—	3,908	3,908
Total liabilities	14,010	—	2,919	—	308,553	325,482
Commitments and contingencies						
Fund balances and other credits:						
Investment in fixed assets	—	—	—	2,164,439	—	2,164,439
Investment in direct financing leases	—	—	—	58,671	—	58,671
Fund balances–						
Reserved:						
Encumbrances	27,719	—	33,991	—	—	61,710
Inventory	677	—	—	—	—	677
Intergovernmental receivables	12,435	—	—	—	—	12,435
Investment in CDC	1,625	—	—	—	—	1,625
Unreserved:						
Designated for debt service – revenue bonds	—	47,557	—	—	—	47,557
Designated for debt service – special obligation revenue bonds	—	47,457	—	—	—	47,457
Designated for activities	17,603	—	—	—	—	17,603
Undesignated	269,479	—	—	—	—	269,479
Total fund balances and other credits	329,538	95,014	33,991	2,223,110	—	2,681,653
Total liabilities, fund balances and other credits	$ 343,548	$ 95,014	$ 36,910	$ 2,223,110	$ 308,553	$ 3,007,135

The accompanying notes are an integral part of this balance sheet.

Maryland Transportation Authority

Statement of revenues, expenditures, other sources and uses of financial resources and changes in fund balances – all governmental fund types
For the year ended June 30, 2001
(in thousands)

	Governmental fund types			Totals
	General	Debt service	Capital projects	(memorandum only)
Revenues:				
Toll revenue	$ 150,149	$ —	$ —	$ 150,149
Interest and other investment income	18,721	1,917	2,616	23,245
Concession income	7,561	—	—	7,561
Intergovernmental revenue	27,496	31,629	—	59,125
Other	2,196	—	—	2,196
Total revenues	206,123	33,546	2,616	242,285
Expenditures:				
Current:				
Collection, police patrol and maintenance expenditures	80,478	—	—	80,478
Major repairs, replacements and insurance	40,164	—	—	40,164
General and administrative	6,858	755	—	7,613
Capital outlays	4,381	—	18,087	22,468
Debt service:				
Principal retirement	—	22,305	—	22,305
Interest	—	14,094	—	14,094
Total expenditures	131,881	37,154	18,087	187,122
Excess (deficiency) of revenues over expenditures	74,242	(3,608)	(15,471)	55,163
Other sources (uses) of financial resources:				
Direct financing lease payments	19,870	—	—	19,870
Proceeds from sale of property	—	—	2,120	2,120
Operating transfers	(48,070)	19,980	28,090	—
Excess of revenues over expenditures and other sources and uses of financial resources	46,042	16,372	14,739	77,153
Fund balances, June 30, 2000	283,496	78,642	19,252	381,390
Fund balances, June 30, 2001	$ 329,538	$ 95,014	$ 33,991	$ 458,543

The accompanying notes are an integral part of this statement.

1. Organization and purpose:

The Maryland Transportation Authority (the Authority), an agency of the State of Maryland, was established by statute to act on behalf of the Maryland Department of Transportation. The Authority is responsible for the supervision, financing, construction, operation and maintenance of the State's toll facilities in accordance with a Trust Agreement dated December 1, 1985, and supplemented as of May 1, 1987, July 15, 1989, May 15, 1991, September 1, 1991, August 15, 1992, October 15, 1994 and April 15, 1998, relating to the Maryland Transportation Authority – Transportation Facilities Projects Revenue Bonds, Series 1991, 1992 and 1998 and Special Obligation Revenue Bonds, Series 1994 (collectively referred to as the Trust Agreement).

The Authority is responsible for various projects (the Transportation Facilities Projects), the revenues from which have been pledged to the payment of the bonds issued under the Trust Agreement. The Transportation Facilities Projects consist of the following:

Potomac River Bridge – Harry W. Nice Memorial Bridge

Chesapeake Bay Bridge – William Preston Lane, Jr. Memorial Bridge

Baltimore Harbor Tunnel – Patapsco Tunnel

Baltimore Outer Harbor Bridge – Francis Scott Key Bridge

Northeastern Expressway – John F. Kennedy Memorial Highway

Fort McHenry Tunnel

In addition to the above facilities, the Authority is permitted to construct and/or operate other projects, the revenues from and for which are also pledged to the payment of the bonds issued under the Trust Agreement unless and until, at the Authority's option, such revenues are otherwise pledged. These additional projects currently include the following:

Susquehanna River Bridge – Thomas J. Hatem Memorial Bridge

Seagirt Marine Terminal

Airport Facilities Projects – Baltimore/Washington International Airport

Airport Parking Garage

Masonville Phase I Auto Terminal

2. Financial statements and descriptions of funds and account groups:

Financial statements

The Authority utilizes the governmental fund accounting method for financial reporting purposes. The accompanying financial statements present the financial position and results of operations of the general, debt service and capital projects funds of the Authority, and the financial position of the Authority's general fixed assets and general long-term debt account groups. The budget and actual statement is not presented in the accompanying financial statements as the Authority's budget is not appropriated by the Maryland General Assembly in accordance with the provisions of Maryland State law.

Fund accounting

The financial activities are recorded in individual funds classified by type as described below. Each fund is deemed to be a separate accounting entity. The financial position and operations of each fund are accounted for in separate self-balancing accounts which represent the fund's assets, liabilities, fund balances, revenues and expenditures.

General fund

Transactions related to resources obtained, the uses of which are restricted to specific purposes, are accounted for in the general fund. The general fund includes resources used for operations (other than debt service and capital projects) of the Authority.

Debt service fund

Transactions related to resources obtained and used for the payment of interest and principal on special obligation and revenue bonds are accounted for in the debt service fund.

Capital projects fund

Transactions related to resources to be used for the acquisition or construction of major capital facilities of the Authority are accounted for in the capital projects fund.

General fixed assets account group

General fixed assets acquired or constructed for use by the Authority in the conduct of its activities are reflected at cost in the general fixed assets account group at the time of acquisition or construction. Capitalized costs also include the cost of improvements, enlargements, betterments and certain direct internal expenses incurred during the construction phase. The general fixed asset account group is not adjusted for these costs upon subsequent replacement; as such, replacements are accounted for as a period cost and are included in the general fund expenditure caption: major repairs, replacements and insurance. Depreciation is not provided for general fixed assets. Infrastructure assets, consisting principally of highways, roads, bridges and tunnels, are recorded in the general fixed assets account group, given the nature of the Authority's revenues.

General long-term debt account group

Bonds payable, accrued annual leave costs and accrued workers' compensation costs are reflected in the general long-term debt account group.

3. Significant accounting policies:

The accounting policies of the Authority conform to accounting principles generally accepted in the United States as applied to governmental units. The following is a summary of accounting policies.

Basis of presentation

The accounts of the general, debt service and capital projects funds are maintained and reported using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are susceptible to accrual and recognized in the financial statements when they are measurable and available to finance operations during the year or to liquidate liabilities existing as of the end of the fiscal year. Expenditures and liabilities are recognized when obligations are incurred and will be liquidated with current available reserves, except:

- Interest on long-term obligations reflected in the general long-term debt account group is recognized in the debt service fund when it becomes payable.

- 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. As of June 30, 2001, accumulated earned but unused annual leave for employees is accounted for in the general long-term debt account group. Annual leave is recorded as expenditures of the general fund when paid.

- Obligations for retirement costs, workers' compensation costs and employees' vested annual leave and sick leave are recorded as expenditures of the general fund when paid.

- Encumbrances, represented by executed and unperformed purchase orders and contracts approved by the Authority, are recorded as reservations of fund balance as of the end of the fiscal year.

Totals (memorandum only)

The "Totals (memorandum only)" column represents an aggregation of the individual funds within the financial statements of the Authority and does not represent consolidated financial information.

Cash and cash equivalents

The Authority considers all investments with original maturities of three months or less at the time of purchase to be cash equivalents.

Investments

Investments are carried at fair value with all income, including unrealized changes in the fair value of investments, reported as interest and other investment income in the accompanying financial statements.

The Trust Agreement requires that the Authority's investments in repurchase agreements be fully collateralized by the Trustee. Such investments held by the Authority as of June 30, 2001, were collateralized.

Investments are classified as to credit risk by the three categories described below:

Category 1	Insured or registered, or securities held by the Authority or its agent in the Authority's name.
Category 2	Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Authority's name.
Category 3	Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent, but not in the Authority's name.

Revenue recognition

The Authority recognizes toll revenue as vehicles pass through toll facilities. All other revenue is recognized on an accrual basis as earned.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting periods. Actual results could differ from those estimates.

New accounting principle (GASB 34)

In June 1999, the Government Accounting Standards Board issued Statement No. 34, "Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments". The statement establishes financial reporting standards for state and local governments. It establishes that the basic financial statements and required supplementary information for general purpose governments should consist of management's discussion and analysis, basic financial statements, including government-wide financial statements, fund financial statements and notes to the financial statements, and required supplementary information. The Authority is in the process of assessing the impact of this Statement and will implement it as of the effective date for fiscal periods beginning after June 15, 2001.

4. Cash and cash equivalents and investments:

Cash and cash equivalents as of June 30, 2001, consisted of amounts deposited with a single financial institution in various accounts, many of which have companion overnight repurchase accounts.

Investments as of June 30, 2001, consisted of United States Government and Agency obligations and Banker's Acceptances. All such investments are stated at fair value and are classified as to credit risk as Category 1.

In accordance with the Trust Agreement, the Authority has established and maintains certain restricted accounts. Funds have been deposited in these accounts and are restricted for the payment of debt service related to the revenue bonds, major maintenance project requirements, and improvements, betterments, enlargements or capital additions. The aggregate balance of these restricted accounts as of June 30, 2001, included in restricted cash and cash equivalents and restricted investments, was approximately $208,584,000.

The Authority's restricted cash accounts as of June 30, 2001, are as follows (in thousands):

	General	Debt service	Capital projects	Total
Trust agreement	$ 32,873	$ 24,410	$ 21,707	$ 78,990
Special obligation debt (Notes 6 and 10)	—	47,133	—	47,133
Revenue bond debt service (Note 6)	—	23,325	—	23,325
PFC future asset additions (Note 10)	—	—	1,086	1,086
	$ 32,873	$ 94,868	$ 22,793	$ 150,534

The Authority's restricted investment accounts as of June 30, 2001, are as follows (in thousands):

	General	Debt service	Capital projects	Total
Trust agreement	$ 44,185	$ —	$ 13,865	$ 58,050

5. Property, plant and equipment:

A summary of the changes in the Authority's fixed assets accounts, for the year ended June 30, 2001, was as follows (in thousands):

	June 30, 2000	Additions and net transfers	Disposals	June 30, 2001
Land and improvements	$ 101,922	$ 26	$ 2,120	$ 99,828
Structures improvements	2,036,268	15,147	—	2,051,415
Equipment	7,102	—	—	7,102
Construction in progress	4,926	1,168	—	6,094
	$ 2,150,218	$ 16,341	$ 2,120	$ 2,164,439

6. Changes in general long-term debt:

Changes in general long-term debt for the year ended June 30, 2001, are summarized as follows (in thousands):

	Revenue bonds payable	Special obligation revenue bonds payable	Accrued annual leave	Accrued workers' compensation costs
Balance, June 30, 2000	$ 221,144	$ 97,530	$ 3,623	$ 2,633
Bond accretion	4,207	—	—	—
Bond principal repayments	(12,705)	(9,600)	—	—
Net increase in accrued annual leave	—	—	446	—
Net increase in accrued workers' compensation costs	—	—	—	1,275
Balance, June 30, 2001	$ 212,646	$ 87,930	$ 4,069	$ 3,908

Revenue bonds

The 1991 and 1992 Revenue Bonds issued in accordance with the provisions of the 1985 Trust Agreement, as supplemented, and interest thereon do not constitute a debt or a pledge of the faith and credit of the State of Maryland or the Maryland Department of Transportation, but are payable solely from the revenues of the Transportation Facilities Projects of the Authority.

Revenue Bonds outstanding as of June 30, 2001, consisted of the following:

1991 revenue bonds:		
Serial bonds maturing in annual installments ranging from $6,765,000 to $9,380,000 from July 1, 2001 to July 1, 2006, with interest ranging from 6.20% to 6.50%, payable semiannually.	$	33,165,000
1992 revenue bonds:		
Current interest serial bonds maturing in annual installments ranging from $6,485,000 to $14,570,000 from July 1, 2001 to July 1, 2013, with interest rates ranging from 5.30% to 5.80%, payable semiannually.		66,060,000
Capital appreciation bonds maturing in annual installments of original principal and an accreted amount ranging from $3,000,000 to $15,420,000 from July 1, 2004 to July 1, 2015, with approximate yield to maturity of 6% to 6.35%.		70,386,000
Current interest term bonds with interest payable semiannually at 5.75%, due July 1, 2015.		27,020,000
1998 revenue refunding bonds:		
Serial bonds maturing in annual installments ranging from $195,000 to $9,510,000, from July 1, 2001 to July 1, 2006 with interest rates ranging from 4.20% to 5.00%, payable semiannually.		16,015,000
Total	$	212,646,000

Debt service requirements on the 1991, 1992 and 1998 Revenue Bonds are as follows (in thousands):

Year-ending June 30,	Principal	Accreted amount	Interest	Total
2002	$ 13,445	$ —	$ 8,150	$ 21,595
2003	14,240	—	7,378	21,618
2004	19,855	—	6,547	26,402
2005	15,277	6,928	5,388	27,593
2006	22,780	—	4,845	27,625
2007	24,080	—	3,588	27,668
2008	6,197	9,223	2,268	17,688
2009	5,781	9,634	2,268	17,683
2010	5,433	9,982	2,268	17,683
2011	5,080	10,335	2,268	17,683
2012	4,773	10,642	2,268	17,683
2013	4,468	10,947	2,268	17,683
2014	13,237	2,183	2,268	17,688
2015	13,897	2,233	1,554	17,684
2016	14,611	2,278	799	17,688
	$ 183,154	$ 74,385	$ 54,125	$ 311,664

With respect to the 1991 Revenue Bonds, the bonds maturing after July 1, 2001, are subject to redemption, at the Authority's option on or after July 1, 2001. The redemption prices range from 100 percent to 102 percent 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 debt service fund on the balance sheet. 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, 2001, include an accreted amount of $29,492,000.

On April 15, 1998, the Authority issued $16,380,000 in revenue refunding bonds with a premium of $186,000 and interest rates ranging from 3.8 percent to 5.0 percent to advance refund $15,240,000 of certain outstanding 1991 series revenue bonds with interest rates ranging from 6.0 percent to 6.5 percent. The net proceeds of $16,309,000 (after a payment of $257,000 in underwriters discount and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result these bonds are considered to be defeased and the liability for these bonds has been removed from the general long-term debt account group. The Authority advance refunded certain of its 1991 series bonds to reduce its total debt service payments over the subsequent 8 years by $459,000.

Special obligation revenue bonds

During the year ended June 30, 1994, the Authority issued $162,580,000 of Special Obligation Revenue Bonds, Series 1994 (the Series 1994 Bonds), to finance a portion of the costs of certain projects (the Airport Facilities Projects) located at Baltimore/Washington International Airport. (See Note 10).

The Special Obligation Revenue Bonds are payable as to principal and interest solely from Passenger Facility Charges (PFCs) 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 PFCs.

In July 2000, the Authority made $5,570,000 in principal redemption payments in excess of the required payments. This excess payment completes the redemption payments for the Series 1994 Bonds.

Special Obligation Revenue Bonds outstanding as of June 30, 2001, consisted of:

Series 1994 bonds, maturing as scheduled below, with interest rates ranging from 5.50% to 6.30%, payable semiannually.	$87,930,000

Debt service requirements on the Special Obligation Revenue Bonds are as follows (in thousands):

Year-ending June 30,	Principal	Interest	Total
2002	$ 4,240	$ 5,307	$ 9,547
2003	4,470	5,078	9,548
2004	4,715	4,832	9,547
2005	4,980	4,568	9,548
2006	5,265	4,284	9,549
2007	5,565	3,981	9,546
2008	5,895	3,654	9,549
2009	6,245	3,300	9,545
2010	6,630	2,918	9,548
2011	7,045	2,504	9,549
2012	7,490	2,060	9,550
2013	7,955	1,592	9,547
2014	8,455	1,094	9,549
2015	8,980	566	9,546
	$ 87,930	$ 45,738	$ 133,668

According to federal regulations, any excess arbitrage must be rebated to the U.S. Treasury. Rebatable arbitrage must be determined and reported at least every five years. An interim arbitrage rebate analysis report on the 1994 PFC bonds was prepared for the Authority. On May 15, 2001, the Authority approved a payment to the federal government of approximately $849,000, representing a rebate payment of $755,000 and a late payment charge of $94,000. The payment was made and filed with the Internal Revenue Service in fiscal year 2001 and included in the general and administrative expense in the debt service fund.

7. Retirement plans:

Maryland State Retirement and Pension System

The Authority contributes to the Maryland State Retirement and Pension System (the System), established by the State to provide pension benefits for State employees and employees of 129 participating entities within the State. While the System is an agent multiple employer public employee retirement system, the Authority accounts for the plan as a cost-sharing multiple employer public employee retirement system as a separate valuation is not performed for the Authority and the Authority's only obligation to the plan is its required annual contributions. The System is considered part of the State's financial reporting entity and is not considered a part of the Authority's reporting entity. The System prepares a separate Comprehensive Annual Report which can be obtained from the Maryland State Retirement and Pension System at State Office Building, 301 West Preston Street, Baltimore, Maryland 21201.

Plan description

The System, which is administered in accordance with Article 73B of the Annotated Code of Maryland, consists of the several plans which are managed by the Board of Trustees for the System. All State employees and employees of the participating entities are eligible for coverage by the plans.

The System provides retirement, death and disability benefits in accordance with State statutes. Vesting begins after completing 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) 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 after completing 30 years of service credit regardless of age, or at age 62 or older with specified years of service credit. A member of the Employees' Pension System is eligible for full retirement benefits upon the earlier of attaining age 62, with specified year of eligibility service, or accumulating 30 years of eligibility service regardless of age.

The annual pension allowance for a State employee member of the Employees' Pension System equals 1.2 percent of the member's highest three years' average final salary (AFS), multiplied by the number of years of creditable service accumulated prior to July 1, 1998, plus 1.4 percent of the member's AFS, multiplied by the number of years of creditable service accumulated subsequent to June 30, 1998. The annual retirement allowance equal 1/55 (1.8 percent) of the member's AFS multiplied by the number of years of accumulated creditable service.

A member of the Law Enforcement Officers' Pension System is eligible for full retirement benefits upon the earlier of attaining age 50 or accumulating 25 years of eligibility service regardless of age. The annual retirement allowance for a member who is covered under the retirement plan provisions equals 1/50 (2.0 percent) of the member's AFS multiplied by the number of years of accumulated creditable service up to 30 years, plus 1/ 100 (10 percent) of the member's AFS multiplied by the number of years accumulated creditable service in excess of 30 years. The annual pension allowance for a member who is covered under the pension plan provisions equals 1.0 percent of the member's AFS up to the social security integration level (SSIL), plus 1.7 percent of the member's AFS in excess of the SSIL, multiplied by the number of years of accumulated creditable service. A member retiring prior to age 62 receives a service pension allowance of 1.7 percent of the member's AFS for each year of accumulated creditable service, until attaining age 62.

Funding policy

The Authority's required contributions are based upon actuarial valuations. Effective July 1, 1980, in accordance with the law governing the System, all benefits of the System are funded in advance. The entry age normal cost method is the actuarial cost method used. Members of the Retirement System are required to contribute to the System a fixed percentage of their regular salaries and wages (7 percent or 5 percent depending on the retirement plan selected). Members of the Pension System are required to contribute to the System 5 percent of their regular salaries and wages which exceed the social security wage contributions. Contributions are deducted from each member's salary and wage payments and are remitted to the System on a regular, periodic basis.

The Authority made its required contributions during fiscal years ending June 30, 2001, 2000 and 1999, of $5,964,000, $5,576,000 and $4,766,000, respectively.

The Authority's intergovernmental revenue for the year ended June 30, 2001, was as follows (in thousands):

	Fund type	
	General	Debt service
Maryland State Highway Administration	$ 6,053	$ —
Maryland Port Administration	11,304	—
Maryland Aviation Administration	7,910	31,629
Baltimore City	2,104	—
Other	125	—
	$ 27,496	$ 31,629

Maryland State Highway Administration

The Maryland State Highway Administration (SHA) shares with the Authority funds used for the maintenance of I-95. The Authority has recognized $6,000,000 of revenue related to these shared expenses for the year ended June 30, 2001.

SHA performs certain inspection, testing, engineering and payroll processing functions for which they are reimbursed by the Authority. The expenditures for these services were approximately $262,000 for the year ended June 30, 2001, and are included in general and administrative expenditures in the accompanying financial statements.

Maryland Port Administration

The Authority has constructed and leases the Seagirt Marine Terminal and the Intermodel Container Facility to the Maryland Port Administration (MPA). The Authority accounts for this lease as an operating lease as no transfer of ownership will occur at the end of the lease term. The term of the agreement expires June 30, 2012 and payments are renegotiated every three years. In addition, the MPA pays for the Authority police to monitor the leased facilities. The intergovernmental income for the fiscal year ended June 30, 2001, was approximately $11,304,000.

The Authority has loaned funds to MPA to construct Berth 4 at the Seagirt Marine Terminal. This loan bears interest at 2.9 percent. As of June 30, 2001, the outstanding principal balance was approximately $10,922,000 and is included in intergovernmental receivables in the accompanying financial statements. Payments will continue for 33 years after completion of the construction.

The Authority has a direct financing lease with the MPA. The present value of the direct financing lease as of June 30, 2001, is as follows (in thousands):

	Masonville Project
2002	$ 1,633
2003	1,633
2004	1,633
2005	1,633
2006	1,633
2007 and thereafter	22,871
Total	31,036
Less: Unearned income	12,075
Net investment in direct financing lease	$ 18,961

On April 21, 1998, the Authority and MPA entered into a capital lease agreement whereby the Authority would finance an amount not to exceed $20,000,000, and MPA will design, engineer, construct and operate the Masonville Phase I Auto Terminal. Payments shall be made to the Authority in twenty equal installments, including interest at a rate of 5.50 percent, beginning June 30 in the year following the completion of construction. As of the year ended June 30, 2001, construction had not been completed on the Masonville Phase I Auto Terminal.

Maryland Aviation Administration

The Authority has direct financing leases with the Maryland Aviation Administration (MAA). The present value of the direct financing leases as of June 30, 2001, is as follows (in thousands):

	Airport facilities projects
2002	$ 9,547
2003	9,548
2004	9,548
2005	9,548
2006	9,548
2007 and thereafter	85,928
Total	133,667
Less: Unearned income	45,738
Less: Restricted cash and investments	48,219
Net investment in direct financing lease	$ 39,710

The Authority borrowed funds to finance the development and construction of certain airport facilities projects at Baltimore/Washington International Airport. The Authority leases these airport facilities project assets to MAA under a capital lease expiring on the date at which the Authority has recovered all of its costs related to the airport facilities projects. MAA funds the lease through payment to the Authority of all PFCs received even if the receipts are in excess of the required capital lease payment. Excess PFCs and interest accrued on the excess are used to reduce future capital lease payments.

On July 1, 1996, the Authority and MAA entered into a capital lease agreement whereby the Authority would finance and MAA would develop, construct and operate the Airport Parking Garage Expansion at Baltimore/Washington International Airport. The lease terminated in fiscal year 2001 when MAA made its last scheduled payment.

The Authority provides police and traffic control services to MAA at MAA properties. MAA paid the Authority $7,910,000 for costs associated with this function for the year ended June 30, 2001.

Baltimore City

In 1991, the Authority and the Mayor and City Council of Baltimore (the City) agreed to transfer operations and ownership of Interstate Highways I-95 and I-395 located in Baltimore City from the City to the Authority. In consideration, the City agreed to pay the Authority an annual sum equal to $7,500,000, less any Federal funds attracted by I-95 and I-395; however, in no event shall the cash payments by the City exceed $5,000,000 in any given year. During fiscal year 2001, $2,104,000 was paid by the City to the Authority, pursuant to such agreement.

Maryland State Police

The Maryland State Police patrol the John F. Kennedy Memorial Highway and provide K-9 Services at the Baltimore/Washington International Airport. The Authority reimburses the State Police for the costs of providing these services, including an allowance for overhead. The cost for these services was approximately $4,281,000 for the year ended June 30, 2001.

11. Litigation:

The Authority is a defendant in a number of claims and suits resulting from capital and maintenance contracts and other operational matters. The Authority plans to vigorously defend these claims. In the opinion of the Authority's management, the settlement of these claims will not have a material adverse effect on the accompanying financial statements.

12. Canton Development Corporation:

In 1987, the Authority acquired 100 percent of Canton Development Corporation (CDC) for $1,625,000. CDC owns 100 percent of the Canton Railroad Company (CRC). The Authority accounts for CDC on the cost basis and includes the purchase price. The investment in CDC is included in the general fund as CDC was purchased for the benefit of the State of Maryland's economy. Ownership of CDC and CRC allows the Authority to assure access of freight into and out of the Seagirt Marine Terminal. The $1,625,000 investment for CDC is restricted in the fund balance.

Summary financial information about CDC as of and for the year ended December 31, 2000, is as follows (in thousands):

Balance sheet		
Current assets	$	1,466
Total assets		5,503
Current liabilities		474
Total liabilities		834
Stockholder's equity		4,669

Statement of income		
Operating revenue	$	2,583
Net income		(168)

13. Related party transaction:

In January 2000, the Authority entered into a note receivable with CDC in the amount of $300,000. The note accrues interest at the rate of 7.25% and is receivable in equal monthly installments of $4,564 through January 2007. The balance outstanding as of June 30, 2001, is approximately $279,000. The loan proceeds are being used for the construction of a new office building, and the loan is being collateralized by that building.