DEFERRED COMPENSATION PLAN
SECTION 457
Baltimore, Maryland

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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Independent Auditor's Report

The Board of Trustees
Maryland Teachers and State Employees
Supplemental Retirement Plans
Baltimore, Maryland

We have audited the accompanying statements of net assets available for plan benefits of the Maryland State Employees Deferred Compensation Plan (the Plan), a fiduciary fund of the State of Maryland as of December 31, 2005 and 2004, and the related statements of changes in net assets available for plan benefits for the years then ended, which collectively comprise the Plan's basic financial statements. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits as of December 31, 2005 and 2004, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baltimore, Maryland
March 31, 2006

MARYLAND STATE EMPLOYEES
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Maryland State Employees Deferred Compensation Plan financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2005 and 2004. Please read it in conjunction with the Plan's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by $42.8 million during the current year from $1.128 billion at December 31, 2004 to $1.171 billion at December 31, 2005. Net assets available for plan benefits increased by $65.3 million from $1.062 billion at December 31, 2003 to $1.128 billion at December 31, 2004. Increases are due to the combination of market increases and payroll contributions in excess of distributions.
- The Plan had a net investment gain of $89 million for the year ended December 31, 2004 and a $62 million investment gain for the year ended December 31, 2005. The Plan had a net investment gain of $152 million for the year ended December 31, 2003. These investment gains are attributable to the favorable market conditions.
- Employee contributions increased from $55.3 million for the year ended December 31, 2004 to $57.8 million for the year ended December 31, 2005. Employee contributions increased from $53.1 million for the year ended December 31, 2003 to $55.3 million for the year ended December 31, 2004. This increase is primarily due to changes in maximum deferral amounts as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) effective January 1, 2002.
- Mutual fund rebates increased from $1.1 million for the years ended December 31, 2004 and 2003 to $1.3 million for the year ended December 31, 2005.
- Distributions to participants decreased from $76.9 million for the year ended December 31, 2004 to $75.3 million for the year ended December 31, 2005. Distributions to participants increased from $65.8 million for the year ended December 31, 2003 to $76.9 million for the year ended December 31, 2004.
- Administrative expenses increased from $2.6 million for the year ended December 31, 2004 to $3.3 million for the year ended December 31, 2005. Administrative expenses decreased from $2.9 million for the year ended December 31, 2003 to $2.6 million for the year ended December 31, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets in the State of Maryland's financial statements.

MARYLAND STATE EMPLOYEES
DEFERRED COMPENSATION PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Plan's net assets available for plan benefits increased during the year ended December 31, 2005 by $42,827,998 from $1,128,146,822 to $1,170,974,820. The Plan's net assets available for plan benefits increased during the year ended December 31, 2004 by $65,346,458 from $1,062,800,364 to $1,128,146,822. These increases are a result of favorable market conditions and increases in employee contributions partially offset by distributions to participants. The analysis below focuses on net assets available for plan benefits (Table 1) and changes in net assets available for plan benefits (Table 2).

Table 1
Net Assets Available for Plan Benefits

	2005	2004	2003
Investments	$ 1,159,663,061	$ 1,118,042,168	$ 1,056,020,926
Cash surrender value of life insurance contracts	3,767,628	3,912,494	4,123,709
Cash	887,767	887,757	-
Receivables	6,675,750	5,336,759	2,694,029
Total assets	1,170,994,206	1,128,179,178	1,062,838,664
Accounts payable	19,386	32,356	38,300
Net assets available for plan benefits	$ 1,170,974,820	$ 1,128,146,822	$ 1,062,800,364

Table 2
Changes in Net Assets Available for Plan Benefits

	2005	2004	2003
Additions:			
Employee contributions	$ 57,805,559	$ 55,252,547	$ 53,138,993
Mutual fund rebates	1,320,784	1,093,117	1,031,594
Investment income	62,425,619	88,629,416	152,088,972
Deductions:			
Distributions	75,307,660	76,922,437	65,777,380
Administrative expenses	3,331,462	2,609,053	2,892,684
Life insurance premiums	84,842	97,132	113,026
Increase in plan net assets	$ 42,827,998	$ 65,346,458	$ 137,476,469

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Chief Financial Officer of the Maryland Teachers and State Employees Retirement Plans at the William Donald Schaefer Tower, Suite 200, 6 St. Paul Street, Baltimore, Maryland 21202-1608.

MARYLAND STATE EMPLOYEES
DEFERRED COMPENSATION PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2005 and 2004

	2005	2004
ASSETS		
INVESTMENTS	$1,159,663,061	$1,118,042,168
CASH SURRENDER VALUE OF LIFE INSURANCE CONTRACTS	3,767,628	3,912,494
CASH	887,767	887,757
RECEIVABLES		
Employee contributions	44,867	24,848
Asset fees	123,661	175,969
Loans receivable	6,507,222	5,135,942
TOTAL ASSETS	1,170,994,206	1,128,179,178
LIABILITIES		
ACCOUNTS PAYABLE	19,386	32,356
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$1,170,974,820	$1,128,146,822

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements

MARYLAND STATE EMPLOYEES
DEFERRED COMPENSATION PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2005 and 2004

	2005	2004
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
EMPLOYEE CONTRIBUTIONS	$ 57,805,559	$ 55,252,547
MUTUAL FUND REBATES	1,320,784	1,093,117
INVESTMENT INCOME:		
MUTUAL FUND INVESTMENT INCOME	39,183,385	64,794,142
INTEREST INCOME:		
NATIONWIDE FIXED ANNUITIES	5,748,124	6,148,988
INVESTMENT CONTRACT POOLS	14,287,449	12,704,122
ANNUITY PAYOUT RESERVES	3,027,954	4,997,892
LOAN INCOME	275,570	159,335
CHANGE IN CASH SURRENDER VALUE OF LIFE INSURANCE	(96,863)	(175,063)
TOTAL ADDITIONS	121,551,962	144,975,080
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
DISTRIBUTIONS TO PARTICIPANTS	75,307,660	76,922,437
ADMINISTRATIVE EXPENSES	3,331,462	2,609,053
LIFE INSURANCE PREMIUMS	84,842	97,132
TOTAL DEDUCTIONS	78,723,964	79,628,622
NET INCREASE	42,827,998	65,346,458
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	1,128,146,822	1,062,800,364
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF YEAR	$ 1,170,974,820	$ 1,128,146,822

These financial statements should be read only in connection with
the accompanying summary of significant accounting policies
and notes to financial statements

MARYLAND STATE EMPLOYEES
DEFERRED COMPENSATION PLAN
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

General

The Maryland State Employees Deferred Compensation Plan (the Plan) was established by an executive order of the Governor of the State of Maryland on August 15, 1974. The Plan operates pursuant to the provision of Title 35 of the State Personnel & Pensions Article of the Maryland Code and a Plan document adopted by the Plan's Board of Trustees (the Board).

Contributions

Under the Plan provisions, eligible employees, as defined under Title 35 of the Maryland Code, may contribute to the Plan through payroll deductions. In accordance with Section 457 of the Internal Revenue Code (IRC), the Plan limits the amount of an individual's annual contributions to an amount not to exceed the lesser of $14,000 or 100% of the individual's gross annual salary, or if appropriate, adjusted gross salary. Individuals age 50 or over may make an additional "catch-up" contribution effective for tax years after December 31, 2001. For 2005, the additional "catch-up" contribution is $4,000. An additional catch-up is allowed for previous missed contributions for participants within three years of retirement. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. An employee's interest in his/her account is fully vested at all times. The State of Maryland (the State) does not make any contributions to the Plan but the State has the option to make certain matching contributions to a separate tax qualified 401(a) plan (The State of Maryland Match Plan) contingent on employee contributions to this Plan. The State offers additional deferred compensation plans and individuals may be subject to aggregate contribution limitations based on participation in these plans.

Employee contributions receivable represent amounts withheld from employees' pay but not remitted to the investment carriers at December 31. Contributions are credited by the applicable investment carrier upon receipt from the State.

Participant Accounts

Under provisions of the Small Business Job Protection Act of 1996 (SBJPA), which became effective for plan years beginning after December 31, 1996, assets of IRC Section 457 plans must be held in a trust, custodial account, or annuity contract for the exclusive benefit of employees and beneficiaries. At December 31, 2005 and 2004, the Plan met the requirements of the SBJPA.

Employees electing to contribute to the Plan have the following investment options:

- Investment contract pool consisting of various fixed earnings investments underwritten by various insurance and other financial institutions.

- Variable earnings investments consisting of various mutual funds.

Participant Accounts (Continued)

- Annuity payout options offered by Nationwide® Life Insurance Company (Nationwide Life) and Metropolitan Life Insurance Company (Metropolitan Life).

Some of the Plan's investments are still held in certain investment options, listed below, which are not available for new deferrals.

- Fixed annuities underwritten by Nationwide Life.

- Life insurance contracts underwritten by Unum Life Insurance Company of America (Unum Life), formerly Commercial Life Insurance Company. Existing life insurance contracts are eligible for premium payments through salary deferral.

Payment of Benefits

Employees investing in the Plan may withdraw the value of their accounts upon termination of employment from the State, because of financial hardship, if approved by the Board, or in order to satisfy minimum distribution requirements of the IRC.

Employees are eligible to receive benefits under the Plan subject to Internal Revenue Service regulations at the time they separate from service or suffer disability. Upon such separation or disability, employees may select various payout options, which include lump sum, periodic or annuity payments. Purchased annuity payout options are offered by Nationwide Life and Metropolitan Life.

At retirement or termination of employment, employees investing in life insurance contracts may continue to make premium payments directly to the insurance carrier or they may receive the cash surrender value of the policies. At the time of the death of an employee, the face value of the insurance contract is payable to the beneficiary.

In the case of death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Participant Loans

Participants may borrow from their accrued benefit balance in accordance with applicable IRS regulations. The maximum amount a participant may borrow is equal to the lesser of (a) 50% of their accrued benefit, or (b) $50,000. Interest on the loan is determined by the Board but not to exceed the maximum rate permitted under all applicable laws.

All loans must be repaid on a periodic basis not less than quarterly over a period not to exceed five years, with the exception of loans used to acquire, construct, reconstruct or substantially rehabilitate a dwelling that is to be used as a principal residence. Such loans shall provide for repayment over a period not to exceed fifteen years.

Significant accounting policies followed by the Plan are as follows:

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

INVESTMENT VALUATION AND INCOME RECOGNITION

Fixed earnings investments, represented by investment contract pools are valued at cost plus interest recorded. The investment contract pool is managed by an affiliate of the insurance company ING under a management agreement. It consists of book value instruments such as investment contracts, pooled funds and separate account insurance and/or bank investment contracts. New contracts are awarded periodically based upon a competitive bid process. Selection criteria for investment contract providers includes the size and financial stability of the carrier and the interest rate guaranteed for the contract period.

During 1997, a Master Trust was established to hold the investment contract pools underlying this investment option. Under the Master Trust arrangement, contributions of participants who elect this investment option for the Maryland State Employees Deferred Compensation Plan, the State of Maryland Savings and Investment Plan, and/or the State of Maryland Match Plan and Trust are combined and held in the trust. Each Plan has an undivided interest in the investment contract pools held by the trust and each Plan's ownership is represented by its proportionate dollar interest. Interest rates are reset quarterly based on prior quarters' performance.

INVESTMENT VALUATION (CONTINUED)

Other fixed earnings investments are valued at contract value, which represents contributions received plus interest earned to date less applicable charges and amounts withdrawn.

Variable earnings investments are presented at fair value based on published quotations or net asset value as provided by the investment carrier. Purchases and sales of investments are recorded on a trade-date basis.

Assets held for annuity payout reserves are valued at the actuarially determined present value of estimated future distributions.

CASH SURRENDER VALUE

Participants have made premium payments on life insurance contracts through salary deferral. The cash surrender value of these contracts are based on reporting by the life insurance company.

MUTUAL FUND REBATES

Mutual fund rebates represent amounts received from mutual fund investment providers for the benefit of the participants under expense reimbursement arrangements. Amounts recorded are those rebates actually received by the Plan during the year. These amounts are periodically redistributed on a pro-rata basis to current participants in the mutual fund that paid the rebate.

NOTE 1 – INVESTMENTS AND DEPOSITS

Investments held by the Plan including a discontinued group insurance contract and annuity reserves held by Nationwide Life and Metropolitan Life, agents of the Plan, at December 31, 2005 and 2004, were as follows:

	Fair and Carrying Value	
	2005	**2004**
Fixed earnings investment – Investment Contract Pool	$ 343,117,283	$ 328,052,247
Variable earnings investments:		
Legg Mason Value Trust Fund, Inc. – Institutional Class	115,978,603	112,155,720
Washington Mutual Investors Fund, Inc.SM – Class A	104,016,429	103,500,565
Fidelity Puritan Fund	94,550,408	94,029,669
Vanguard Institutional Index Fund – Institutional Shares	74,659,473	74,980,279
Fidelity Growth and Income Portfolio	72,498,367	76,971,541
Dreyfus MidCap Index Fund, Inc.	49,679,637	-
Euro Pacific Growth Fund – Class A	38,721,286	23,821,109
T. Rowe Price Small-Cap Stock Fund, Inc.	29,314,0 82	24,329,651
The Growth Fund of America – Class A	26,654,745	20,796,855
Lord Abbett Mid-Cap Value Fund – Class A	20,966,750	10,330,763
Scudder Flag Investors Value Builder Fund, Inc. – Institutional	13,912,344	14,863,079
Delaware Group Trend Fund, Inc. – Trend Fund Institutional	10,704,607	12,532,470
Federated U.S. Government Securities Fund. – 2 to 5 years Institutional Shares	9,277,656	10,013,709
PIMCO Total Return Fund – Institutional Shares	5,780,498	3,099,360
T. Rowe Price International Funds, Inc.– International Stock Fund	-	4,456,633
INVESCO Dynamics Fund – Investor Class	-	48,434,035
AIM Equity Funds, Inc. – AIM Constellation Fund – Class A	-	3,656
	1,009,832,168	962,371,341
Nationwide Life annuity payout reserves	27,015,161	29,196,302
Metropolitan Life annuity payout reserves	6,547,485	6,930,630
Discontinued investment option - Nationwide Life Fixed Annuities	116,268,247	119,543,895
Total investments	$ 1,159,663,061	$ 1,118,042,168

The Nationwide Life fixed annuities reflect investments made by the Plan under fixed insurance contracts with Nationwide Life.

NOTE 1 – INVESTMENTS AND DEPOSITS (CONTINUED)

Investment contract pool interest income is recorded based upon a blended rate of the contractual interest of all investment contracts in force during the period. These amounts are credited to the participants accounts prior to charges for administration expenses charged by the Administrator and the Board of the Plan. The blended gross interest rate was 4.59% at December 31, 2005 and ranged from 4% to 4.59% during the year ended December 31, 2005 (4.00% at December 31, 2004 and ranged from 4.00% to 4.25% during the year then ended).

Interest income on investments in Nationwide Life fixed annuities and annuity payout reserves is recorded as earned on an accrual basis. Beginning in 1982, based upon the date of contribution, Nationwide Life initiated a plan for paying different rates to specific pools of money. The gross interest rate paid on fixed annuity contributions was 4.85% at December 31, 2005 and ranged from 4.85% to 5.05% for the year then ended and 5.10% at December 31, 2004 and ranged from 5.10% to 5.30% during the year ended December 31, 2004.

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds. Earnings are accrued to individual participants' accounts based upon the investment performance of the specific options selected.

Title 35 of the State Personnel & Pensions Article of the Maryland Code defines the types of securities authorized as appropriate investments for the Plan and the conditions for making investment transactions. The Plan is authorized to invest in regulated investment companies, annuity or investment contracts, real estate investment trust funds and common investment pools composed of stocks or bonds, whether such funds are managed by the Board itself or other entities selected by the Board.

The Plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of December 31, 2005 the Plan had the following investments and maturities in its investment contract pool and four of its mutual funds which include investments in bonds.

	Valuation	**Weighted Average Maturity**
Investment Contract Pool	$ 343,117,283	5.06 years
Mutual funds:		
Fidelity Puritan Fund	94,550,408	7.00
Scudder Flag Investment Value Builder Fund, Inc.	13,912,344	5.50
Federated US Government Securities Fund – 2 to 5 years institutional shares	9,277,656	4.02
PIMCO Total Return Fund – Institutional shares	5,780,498	6.11

NOTE 1 – INVESTMENTS AND DEPOSITS (CONTINUED)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and have responsibility for managing their exposure to fair value loss.

The investment contract pool and the mutual funds are unrated.

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Plan’s deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan’s name.

All deposits of the Plan are held on behalf of the Plan by the State of Maryland in accordance with the formal deposit policy for custodial credit risk of the State and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

NOTE 2 – LIFE INSURANCE

The amount of life insurance in force with Unum Life was approximately $13,391,870 and $14,264,601 at December 31, 2005 and 2004, respectively.

NOTE 3 – ADMINISTRATIVE EXPENSES

The Board has appointed Nationwide® Retirement Solutions, Inc. (NRS), as the Plan administrator under an administrative services contract. NRS is a subsidiary of Nationwide Financial Services, Inc., the owner of Nationwide Life and provider of certain fixed annuities to the Plan.

The current five year contract with NRS to provide administrative services to the Plan (and certain related plans) under Board authority became effective January 1, 2003. Under the agreement, NRS provides administrative services to the Plan, such as account statements, monitoring the Plan’s financial transactions, participant relations, and general management. Fees were charged by NRS at an annual rate of .23% in 2005 and 2004 against the variable, investment contract pool and fixed annuity assets.

NOTE 3 – ADMINISTRATIVE EXPENSES (CONTINUED)

During 2005 and 2004, an additional charge of 0.07% and 0.11%, was imposed by the Board for its expenses (staff, auditor, consultants, education and other administrative expenses). The fees are collected directly from participant's accounts. The annual cap on participant charges was $1,800 and $1,700 for 2005 and 2004, respectively.

Participants choosing to exercise the loan options are assessed an origination fee of $50.

The cash balance in the accompanying financial statements at December 31, 2005 and 2004 represents charges assessed by the Board from all deferred compensation plans and held as pooled cash by the Maryland State Treasurer in excess of expenses paid on behalf of the Board. By State law, this amount does not revert to the general fund of the State but constitutes a dedicated fund or reserve for use by the Plan, pursuant to the usual State appropriation process. The cash reserve balance was $887,767 and $887,757 as of December 31, 2005 and 2004, respectively. In addition, the appropriated funds and cash reserves are carried on the 457 Plan financial statements as a matter of historical practice, arising from the period prior to 1990 when the 457 Plan was the only Plan operated by the Board and all 457 Plan assets, including the cash reserves were general non-trust funds of the State.

NOTE 4 – TAX STATUS

The United States Treasury Department advised on January 17, 1975, that the Plan constituted a qualified deferred compensation plan under the IRC and, therefore, the amounts of compensation deferred by employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate. The Treasury Department has reaffirmed the tax status of the Plan on different occasions in connection with plan amendments, the latest being May 25, 1976. In the opinion of legal counsel, the Plan continues to be a qualified deferred compensation plan under Section 457 of the IRC.

The Department of Health, Education and Welfare advised on September 26, 1974, that amounts deferred under the Plan represent remuneration for employment and, therefore, constitute wages under Section 209 of the Social Security Act. Consequently, the amounts deferred are subject to social security taxes in the year deferred. The Department of Health, Education and Welfare further advised that under Section 203(b) of the Social Security Act, benefit payments under the Plan do not constitute earnings and thus are not subject to social security taxes in the year received.

NOTE 5 – RELATED PARTIES

Certain members of the Board of Trustees are participants in the Plan.

THE STATE OF MARYLAND
SAVINGS AND INVESTMENT PLAN
SECTION 401(k)
Baltimore, Maryland

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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Independent Auditor's Report

The Board of Trustees
Maryland Teachers and State Employees
Supplemental Retirement Plans
Baltimore, Maryland

We have audited the accompanying statements of net assets available for plan benefits of The State of Maryland Savings and Investment Plan (the Plan), a fiduciary fund of the State of Maryland as of December 31, 2005 and 2004, and the related statements of changes in net assets available for plan benefits for the years then ended, which collectively comprise the Plan's basic financial statements. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baltimore, Maryland
March 31, 2006

This discussion and analysis of The State of Maryland Savings and Investment Plan's financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2005 and 2004. Please read it in conjunction with the Plan's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased from $710 million at December 31, 2004 to $802 million at December 31, 2005. Net assets available for plan benefits increased from $595 million at December 31, 2003 to $710 million at December 31, 2004. Increases are due to the combination of market increases and payroll contributions in excess of distributions.
- The Plan had a net investment gain of $61.2 million for the year ended December 31, 2004 and a $45.1 million gain for the year ended December 31, 2005. The Plan had a net investment gain of $102.9 million for the year ended December 31, 2003. These investment gains are attributable to the favorable market conditions.
- Employee contributions increased from $84.7 million for the year ended December 31, 2004 to $86.3 million for the year ended December 31, 2005. This increase is partially due to changes in maximum deferral amounts as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) effective July 1, 2002 and the State reinstituting the deferred contributions match program effective July 1, 2005. Employee contributions decreased from $85.5 million for the year ended December 31, 2003 to $84.7 million for the year ended December 31, 2004. This decrease is primarily attributed to the State eliminating the deferred contributions match program July 1, 2003.
- Mutual fund rebates increased from $665,000 for 2004 to $915,000 for 2005. Mutual fund rebates decreased from $687,000 for 2003 to $665,000 for 2004.
- Distributions to participants increased from $29.3 million for 2004 to $37.8 million for 2005. Distributions to participants increased from $27.6 million for 2003 to $29.3 million for 2004.
- Administrative expenses increased from $2.1 million for 2004 to $2.2 million for 2005. Administrative expenses increased from $1.9 million for 2003 to $2.1 million for 2004.

Overview of the Financial Statements

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets in the State of Maryland's financial statements.

The Plan's net assets available for plan benefits increased during the year ended December 31, 2005 by $92,345,735 from $709,710,027 to $802,055,762. The Plan's net assets available for plan benefits increased during the year ended December 31, 2004 by $115,055,460 from $594,654,567 to $709,710,027. These increases are a result of favorable market conditions and increases in employees contributions partially offset by distributions to participants. The analysis below summarizes net assets available for plan benefits (Table 1) and changes in net assets available for plan benefits (Table 2).

Table 1
Net Assets Available for Plan Benefits

	2005	2004	2003
Investments	$ 794,862,380	$ 703,641,411	$ 589,412,646
Receivables	7,193,382	6,068,616	5,241,921
Cash and cash equivalents	50,607	50,607	50,607
Total assets	802,106,369	709,760,634	594,705,174
ACCOUNTS PAYABLE	50,607	50,607	50,607
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$ 802,055,762	$ 709,710,027	$ 594,654,567

Table 2
Changes in Net Assets Available for Plan Benefits

	2005	2004	2003
Additions:			
Employee contributions	$ 86,342,964	$ 84,646,299	$ 85,530,045
Mutual fund rebates	915,010	665,007	686,974
Investment income	45,139,069	61,227,785	102,909,184
Deductions:			
Distributions	37,809,148	29,311,067	27,629,302
Administrative expenses	2,242,160	2,172,564	1,873,474
Increase in plan net assets	$ 92,345,735	$ 115,055,460	$ 159,623,427

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Chief Financial Officer of the Maryland Teachers and State Employees Retirement Plans at the William Donald Schaefer Tower, Suite 200, 6 St. Paul Street, Baltimore, Maryland 21202-1608.

THE STATE OF MARYLAND SAVINGS AND INVESTMENT PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2005 and 2004

	2005	2004
ASSETS		
INVESTMENTS		
FIXED EARNINGS INVESTMENTS:		
CONTRACT POOL	$181,923,082	$159,661,086
VARIABLE EARNINGS INVESTMENTS, AT FAIR VALUE:		
LEGG MASON VALUE TRUST FUND, INC. – INSTITUTIONAL CLASS	118,144,161	104,224,905
VANGUARD INSTITUTIONAL INDEX FUND – Institutional Shares	91,892,135	87,235,159
WASHINGTON MUTUAL INVESTORS FUND SM, INC. – CLASS A	66,789,238	61,778,423
FIDELITY PURITAN FUND	65,663,397	60,933,603
FIDELITY GROWTH AND INCOME PORTFOLIO	51,432,854	50,206,861
DREYFUS MIDCAP INDEX FUND, INC.	41,724,145	-
EUROPACIFIC GROWTH FUND – CLASS A	37,634,839	21,275,628
T. ROWE PRICE SMALL-CAP STOCK FUND, INC.	36,060,173	28,965,353
THE GROWTH FUND OF AMERICA – CLASS A	35,633,617	27,184,215
LORD ABBETT MID-CAP VALUE FUND – CLASS A	17,897,772	9,507,711
FEDERATED US GOVERNMENT SECURITIES FUND – 2-5 YEARS INSTITUTIONAL SHARES	17,507,212	18,169,788
SCUDDER FLAG INVESTORS VALUE BUILDER FUND, INC. – INSTITUTIONAL	14,135,730	14,186,352
DELAWARE TREND FUND, INC. – TREND FUND INSTITUTIONAL	13,546,886	14,607,050
PIMCO TOTAL RETURN FUND – INSTITUTIONAL SHARES	4,908,873	2,683,872
AIM DYNAMICS FUND – INVESTOR CLASS	-	37,334,417
T. ROWE PRICE INTERNATIONAL FUNDS, INC. – INTERNATIONAL STOCK FUND	-	5,683,988
SUSPENSE	(31,734)	3,000
TOTAL INVESTMENTS	794,862,380	703,641,411
RECEIVABLES		
LOANS RECEIVABLE	7,139,280	6,033,618
CONTRIBUTIONS RECEIVABLE	54,102	34,998
TOTAL RECEIVABLES	7,193,382	6,068,616
CASH AND CASH EQUIVALENTS	50,607	50,607
TOTAL ASSETS	802,106,369	709,760,634
LIABILITIES		
ACCOUNTS PAYABLE	50,607	50,607
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$802,055,762	$709,710,027

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

THE STATE OF MARYLAND SAVINGS AND INVESTMENT PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2005 and 2004

	2005	2004
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
INVESTMENT INCOME		
MUTUAL FUND INVESTMENT INCOME	$37,540,636	$55,167,637
INTEREST INCOME	7,598,433	6,060,148
TOTAL INVESTMENT INCOME	45,139,069	61,227,785
EMPLOYEE CONTRIBUTIONS	86,342,964	84,646,299
MUTUAL FUND REBATES	915,010	665,007
TOTAL ADDITIONS	132,397,043	146,539,091
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
DISTRIBUTIONS TO PARTICIPANTS	37,809,148	29,311,067
ADMINISTRATIVE EXPENSES	2,242,160	2,172,564
TOTAL DEDUCTIONS	40,051,308	31,483,631
NET INCREASE	92,345,735	115,055,460
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	709,710,027	594,654,567
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF YEAR	$802,055,762	$709,710,027

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

General

The State of Maryland (the State) Savings and Investment Plan (the Plan) was established by the State on July 1, 1985. The Plan is designed to be a tax-qualified 401(k) profit sharing plan under Internal Revenue Code (the Code) Sections 401(a) and 401(k).

On December 19, 1988, the Board of Trustees received a favorable determination letter from the Internal Revenue Service (IRS) that the provisions of the Plan and accompanying trust met the requirements for a qualified plan under Section 401(a) of the Code, including the provision of federal tax law restricting states from using qualified Section 401(k) plans unless they were adopted prior to the effective date provisions contained in the Tax Reform Act of 1986.

Effective December 31, 1990, the IRS issued a private letter ruling to the State allowing employees to make a direct transfer of contributions (and associated earnings) previously made to the State's defined benefit pension plan (Pension Transfer Account). Rollover contributions remain tax deferred until benefits are paid to the employees.

Contributions

Under Plan provisions, eligible employees of the State or any governmental agencies of the State may contribute to the Plan through payroll deductions (Regular Account). In accordance with Section 402(g) of the Code, the Plan limits the amount of an individual's annual contributions to an amount not to exceed the lesser of $14,000 or approximately 100% of their annual gross salary (as defined) for the Plan year. Individuals age 50 or over may make an additional "catch-up" contribution effective for tax years after December 31, 2001. For 2005, the additional "catch-up" contribution is $4,000. This limit is subject to an annual cost of living adjustment. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The State of Maryland offers additional deferred compensation plans and individuals may be subject to aggregate contribution limitations based on participation in these plans.

Employee contributions receivable represent amounts withheld from employees' pay but not remitted to the investment carriers at December 31. Contributions are credited by the applicable investment carrier upon receipt from the State.

Participant Accounts

Employee contributions are fully vested at all times. The State does not make any contributions to the Plan but the State has the option to make certain matching contributions to a separate tax qualified 401(a) plan (The State of Maryland Match Plan) contingent on employee contributions to this plan.

Participant Accounts (Continued)

Employees electing to contribute to the Plan have the following investment options:

- Investment contract pool consisting of fixed earnings investments underwritten by various insurance and other financial institutions.
- Variable earnings investments consisting of various mutual funds.

Payment of Benefits

Employees may withdraw the value of their account upon termination of employment from the State or because of financial hardship if approved by the Plan's Board of Trustees (the Board).

Employees are eligible to receive benefits under the Plan subject to Internal Revenue Service (IRS) regulations upon retirement, attainment of age 59 ½, disability, death, termination of employment with the State, or financial hardship. Employees may select various payout options as provided by the Plan.

At death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Participant Loans

Participants may borrow from their accrued benefit balance in accordance with applicable IRS regulations. The maximum amount a participant may borrow is equal to the lesser of (a) 50% of their accrued benefit, or (b) $50,000. Interest on the loan is determined by the Board but not to exceed the maximum rate permitted by all applicable laws.

All loans must be repaid on a periodic basis not less than quarterly over a period not to exceed five years, with the exception of loans used to acquire, construct, reconstruct or substantially rehabilitate a dwelling that is to be used as a principal residence. Such loans shall provide for repayment over a period not to exceed fifteen years.

Significant accounting policies followed by the Plan are as follows:

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

INVESTMENT VALUATION AND INCOME RECOGNITION

Fixed earnings investments, represented by investment contract pools, are valued at cost plus interest recorded. The investment contract pool is managed by an affiliate of the insurance company ING under a management agreement. It consists of book value instruments such as investment contracts, pooled funds and separate account insurance and/or bank investment contracts. New contracts are awarded periodically based upon a competitive bid process. Selection criteria for investment contract providers include the size and financial stability of the carrier and the interest rate guaranteed for the contract period.

During 1997, a Master Trust was established to hold the investment contract pools underlying this investment option. Under the Master Trust arrangement, contributions of participants who elect this investment option for the Maryland State Employees Deferred Compensation Plan, the State of Maryland Savings and Investment Plan, and/or the State of Maryland Match Plan and Trust are combined and held in the trust. Each Plan has an undivided interest in the investment contract pools held by the trust and each Plan’s ownership is represented by its proportionate dollar interest. Interest rates are reset quarterly based on prior quarters’ performance.

The Board relies on an independent discretionary manager for selection of contracts in the Investment Contract Pool.

Mutual fund investments are presented at fair value at each December 31 based on published quotations or the net asset value reported by the investment carrier. All purchases and sales of investments are recorded on a trade-date basis.

Investments include participants’ current payroll deferrals, which are held by the Plan, and one-time pension rollover contributions, which are held in the Plan’s name by the State.

The suspense balance consists of amounts pending investment or distribution.

Earnings are accrued to individual participants’ accounts based upon the investment performance of the specific options selected.

MUTUAL FUND REBATES

Mutual fund rebates represent amounts received from mutual fund investment providers for the benefit of the participants under expense reimbursement arrangements. Amounts recorded are those rebates actually received by the Plan during the year. These amounts are periodically redistributed on a pro-rata basis to the current participants in the mutual fund that paid the rebate.

NOTE 1 – INVESTMENTS AND INVESTMENT INCOME

Title 35 of the State Personnel & Pensions Article of the Maryland Code defines the types of securities authorized as appropriate investments for the Plan and the conditions for making investment transactions. The Plan is authorized to invest in regulated investment companies, annuity or investment contracts, real estate investment trust funds and common investment pools composed of stocks or bonds, whether such funds are managed by the Board itself or other entities selected by the Board.

The Plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of December 31, 2005 the Plan had the following investments and maturities in its investment contract pool and four of its mutual funds which include investments in bonds.

	Valuation	Weighted Average Maturity
Investment Contract Pool	$ 181,923,082	5.06 years
Mutual funds:		
Fidelity Puritan Fund	65,663,397	7.00
Federated US Government Securities Fund – 2 to 5 years institutional shares	17,507,212	4.02
Scudder Flag Investment Value Builder Fund, Inc – Institutional	14,135,730	5.50
PIMCO Total Return Fund – Institutional shares	4,908,873	6.11

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and have responsibility for managing their exposure to fair value loss.

The investment contract pool and the mutual funds are unrated.

Investment contract pool interest income is recorded based upon a blended rate of the contractual interest of all investment contracts in force during the period. These amounts are credited to the participant's accounts prior to charges for administration expenses charged by the Administrator and the Board of the Plan. The blended gross interest rate was 4.59% at December 31, 2005 and ranged from 4% to 4.59% during the year then ended (4% at December 31, 2004 and ranged from 4.00% to 4.25% during the year then ended).

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

NOTE 2 – CASH AND CASH EQUIVALENTS

Cash held by the Plan represents amounts remaining from the Pension Transfer Account from participant fees. Custodial credit risk is the risk that, in the event of a bank failure, the Plan's deposits may not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (a) uncollateralized, (b) collateralized with securities held by the pledging financial institution, or (c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Plan's name.

The cash is invested in overnight repurchase agreements, which are collateralized by securities held in the name of the State of Maryland by a third-party agent and is administrated by the State of Maryland Supplemental Retirement Agency and are not exposed to custodial credit risk as defined by Governmental Accounting Standards Board Statement No. 40.

NOTE 3 – ADMINISTRATIVE EXPENSES

The Board has appointed Nationwide® Retirement Solutions, Inc. (NRS), as the Plan administrator under an administrative services contract. NRS is a subsidiary of Nationwide Financial Services, Inc., the owner of Nationwide Life Insurance Company.

The current five year contract with NRS to provide administrative services to the Plan (and certain related plans) under Board authority became effective January 1, 2003. Under the agreement, NRS provides administrative services to the Plan, such as account statements, monitoring the Plan's financial transactions, participant relations, and general management. Fees were charged by NRS at an annual rate of 0.23% in 2005 and 2004 against the variable, investment contract pool and fixed annuity assets. During 2005 and 2004, an additional charge of 0.07% and 0.11%, was imposed by the Board for its expenses (staff, auditor, consultants, education and other administrative expenses). The fees are collected directly from participant's accounts. The annual cap on participant charges was $1,800 and $1,700 for 2005 and 2004, respectively.

Participants choosing to exercise the loan option are assessed an origination fee of $50.

NOTE 4 – TAX STATUS

In the opinion of legal counsel, the Plan is exempt from federal income taxes under Section 401(k) and 401(a) of the Code and, therefore, the amounts of compensation contributed by the employees participating in the Plan are not subject to federal income tax withholding nor are the employee's amount includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate.

NOTE 5 – RELATED PARTIES

Certain members of the Board of Trustees are participants in the Plan.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
SECTION 403(b)
Baltimore, Maryland

FINANCIAL STATEMENTS
DECEMBER 31, 2005 AND 2004

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Independent Auditor's Report

The Board of Trustees
Maryland Teachers and State Employees
Supplemental Retirement Plans
Baltimore, Maryland

We have audited the accompanying statements of net assets available for plan benefits of the State of Maryland Tax Sheltered Annuity Plan (the Plan), a fiduciary fund of the State of Maryland as of December 31, 2005 and 2004, and the related statements of changes in net assets available for plan benefits for the years then ended, which collectively comprise the Plan's basic financial statements. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baltimore, Maryland
March 31, 2006

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the State of Maryland Tax Sheltered Annuity Plan's financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2005 and 2004. Please read it in conjunction with the Plan's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by approximately $2 million during the current year from $67.3 million at December 31, 2004 to approximately $69.3 million at December 31, 2005. Net assets available for plan benefits increased by approximately $4.3 million from $63 million at December 31, 2003 to approximately $67.3 million at December 31, 2004. Increases are due to the combination of market increases and payroll contributions in excess of distributions.
- The Plan had a net investment gain of $12.3 million for the year ended December 31, 2003, a net investment gain of $6.2 million for the year ended December 31, 2004, and a net investment gain of $4 million for the year ended December 31, 2005. These investment gains are attributable to favorable market conditions.
- Employee contributions increased from $2.6 million for the year ended December 31, 2004 to $2.9 million for the year ended December 31, 2005. This increase is partially due to changes in maximum deferral amounts as a result of the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) effective July 1, 2002 and the State reinstituting the deferred contributions matching program effective July 1, 2005. Employee contributions decreased from $2.7 million for the year ended December 31, 2003 to $2.6 million for the year ended December 31, 2004. This decrease is primarily attributed to the State eliminating the deferred contributions matching program on July 1, 2003.
- Mutual fund rebates increased from $122,000 for 2004 to $147,000 for 2005. Mutual fund rebates increased from $83,000 for 2003 to $122,000 for 2004.
- Distributions to participants increased from $4.4 million for 2004 to $4.8 million for 2005. Distributions to participants increased from $3.5 million for 2003 to $4.4 million for 2004.
- Administrative expenses decreased from $219,000 in 2004 to $208,000 in 2005. Administrative expenses increased from $199,000 in 2003 to $219,000 in 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets in the State of Maryland's financial statements.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Plan's net assets available for plan benefits increased during the year ended December 31, 2005 by $2,013,404 from $67,323,565 to $69,336,969. The Plan's net assets available for plan benefits increased during the year ended December 31, 2004 by $4,361,227 from $62,962,338 to $67,323,565. This increase relates primarily to favorable market conditions and employee contributions partially offset by distributions to participants. The analysis below summarizes the net assets available for plan benefits (Table 1) and the changes in net assets available for plan benefits (Table 2).

Table 1
Net Assets Available for Plan Benefits

	2005	2004	2003
Investments	$ 69,182,331	$ 67,138,365	$ 62,668,745
Receivables	154,638	185,200	293,593
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$ 69,336,969	$ 67,323,565	$ 62,962,338

Table 2
Changes in Net Assets Available for Benefits

	2005	2004	2003
Additions:			
Employee contributions	$ 2,895,313	$ 2,637,312	$ 2,661,956
Mutual fund rebates	147,405	122,028	83,478
Investment income	4,027,072	6,237,768	12,292,184
Deductions:			
Distributions	4,848,153	4,416,482	3,513,266
Administrative expenses	208,233	219,399	199,478
Increase in net assets	$ 2,013,404	$ 4,361,227	$ 11,324,874

FINANCIAL CONTACT

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Chief Financial Officer of the Maryland Teachers and State Employees Retirement Plans at the William Donald Schaefer Tower, Suite 200, 6 St. Paul Street, Baltimore, Maryland 21202-1608

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2005 and 2004

ASSETS

	2005	**2004**
INVESTMENTS		
Fixed earnings investment, at contract value		
Great-West Fixed Investment Fund	$ 5,298,279	$ 5,522,734
Variable earnings investments, at fair value:		
Legg Mason Value Trust Fund, Inc. – Institutional Shares	12,110,036	12,015,440
Fidelity Puritan Fund	8,867,780	8,841,033
Washington Mutual Investors Fund SM, Inc. – Class A	8,422,580	8,672,471
Dreyfus Mid-Cap Index Fund, Inc.	5,859,309	-
Vanguard Institutional Index Fund – Institutional Shares	5,840,100	5,836,392
Fidelity Growth and Income Portfolio	5,245,670	5,718,172
AIM Dynamics Fund – Investors Class	-	5,538,541
Vanguard Prime Money Market Fund – Investor Shares	4,638,270	4,528,707
Euro Pacific Growth Fund – Class A	3,866,771	2,762,734
The Growth Fund of America® – Class A	1,970,305	1,578,326
Scudder Flag Investors Value Builder Fund, Inc. – Institutional	1,828,788	1,830,560
T. Rowe Price Small-Cap Stock Fund, Inc.	1,776,408	1,534,109
Lord Abbett Mid-Cap Value Fund – Class A	1,371,476	705,533
Delaware Trend Fund, Inc. – Trend Fund Institutional	957,424	1,132,207
PIMCO Total Return Fund – Institutional Shares	880,509	443,798
T. Rowe Price International Funds, Inc. – International Stock Fund	-	297,343
Federated US Government Securities Fund: 2-5 years Institutional shares	251,557	181,006
Suspense	(2,931)	(741)
Total variable earnings investments	63,884,052	61,615,631
Total investments	69,182,331	67,138,365
RECEIVABLES		
Contributions receivable	1,163	2,917
Loans receivable	153,475	182,283
Total receivables	154,638	185,200

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2005 and 2004

NET ASSETS AVAILABLE FOR PLAN BENEFITS	$ 69,336,969	$ 67,323,565

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2005 and 2004

	2005	2004
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
Employee contributions	$ 2,895,313	$ 2,637,312
Mutual fund rebates	147,405	122,028
Investment income:		
Mutual fund investment income	3,786,470	5,974,048
Interest income	240,602	263,720
	7,069,790	8,997,108
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
Distributions to participants	4,848,153	4,416,482
Administrative expenses	208,233	219,399
	5,056,386	4,635,881
NET INCREASE	2,013,404	4,361,227
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	67,323,565	62,962,338
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF YEAR	$ 69,336,969	$ 67,323,565

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

General

The State of Maryland (the State) Tax Sheltered Annuity Plan (the Plan) was established by the Board of Trustees of the Maryland Teachers and State Employees Supplemental Retirement Plan (the Board) pursuant to Title 35 of the State Personnel & Pensions Article of the Maryland Code.

Contributions

Under Plan provisions, eligible employees of the State or any governmental agencies of the State may contribute to the Plan through payroll deductions, so long as they are eligible to purchase a 403(b) contract or custodial account under federal tax law. In accordance with Section 403(b) of the Internal Revenue Code (the Code), the Plan limits the amount of an individual's annual contributions to the lesser of $14,000, an employee's maximum exclusion allowance (as defined), or 100% of compensation (as defined). Individuals age 50 or over may make an additional "catch-up" contribution effective for tax years after December 31, 2001. For 2005, the additional "catch-up" contribution is $4,000. Amounts contributed by employees are deferred for federal and state income tax purposes until benefits are paid to the employees. The State offers additional deferred compensation plans and individuals may be subject to aggregate contribution limitations based on participation in these plans.

Employee contributions receivable represent amounts withheld from employees' pay but not remitted to the investment carriers at December 31. Contributions are credited by the applicable investment carrier upon receipt from the State.

Participant Accounts

Employee contributions are fully vested at all times. The State does not make any contributions to the Plan but the State has the election to make certain matching contributions to a separate tax qualified 401(a) Plan (The State of Maryland Match Plan) contingent on employee contributions to this plan.

Employees electing to contribute to the Plan have the following investment options:

- Variable earnings investments consisting of various mutual funds.
- Fixed earnings investment fund underwritten by Great-West Life Assurance Company (Great-West). This investment option is no longer available for new contributions in the Plan.

Payment of Benefits

Employees may withdraw the value of their account upon termination of employment with the State or because of financial hardship if approved by the Plan's Board of Trustees.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

Payment of Benefits **(C**ontinued**)**

Employees are eligible to receive benefits under the Plan subject to Internal Revenue Service regulations upon termination of employment with the employer, attainment of age 59 ½ , retirement, death, disability, or financial hardship. Employees may select various payout options as provided under the Plan.

In the case of death, with certain exceptions, any amount due under the participant's account is paid to the participant's beneficiary or the participant's estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Participant Loans

Participants may borrow from their accrued benefit balance in accordance with applicable IRS regulations. The maximum amount a participant may borrow is equal to the lesser of (a) 50% of their accrued benefit, or (b) $50,000. Interest on the loan is determined by the Board but not to exceed the maximum rate permitted by all applicable laws.

All loans must be repaid on a periodic basis not less than quarterly over a period not to exceed five years, with the exception of loans used to acquire, construct, reconstruct or substantially rehabilitate a dwelling that is to be used as a principal residence. Such loans shall provide for repayment over a period not to exceed fifteen years.

Significant accounting policies followed by the Plan are as follows:

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
December 31, 2005 and 2004

INVESTMENT VALUATION AND INCOME RECOGNITION

Variable earnings investments are presented at fair value based on published quotations or net asset value as provided by the investment carrier. All purchases and sales of investments are recorded on a trade-date basis. All investments are held in the Plan's name by Bank of America, the custodian for the Plan.

The suspense balance consists of amounts pending investment or distribution.

MUTUAL FUND REBATES

Mutual fund rebates represent amounts received from mutual fund investment providers for the benefit of the participants under expense reimbursement arrangements. Amounts recorded are those rebates actually received by the Plan during the year. These amounts are periodically redistributed on a pro-rata basis to the current participants in the mutual fund that paid the rebate.

STATE OF MARYLAND
TAX SHELTERED ANNUITY PLAN
NOTES TO FINANCIAL STATEMENTS
December 31, 2005 and 2004

NOTE 1 – INVESTMENTS AND INVESTMENT INCOME

Title 35 of the State Personnel & Pensions Article of the Maryland Code defines the types of securities authorized as appropriate investments for the Plan and the conditions for making investment transactions. The Plan is authorized to invest in regulated investment companies, annuity or investment contracts, real estate investment trust funds and common investment pools composed of stocks or bonds, whether such funds are managed by the Board itself or other entities selected by the Board.

The fixed earnings investment with the Great-West Fixed Investment Fund is valued at contract value, which represents cost plus interest credited at guaranteed rates (subject to quarterly market adjustments, as reported by Great-West at December 31). These amounts are credited to the participants' accounts prior to charges for administration expenses charged by the Administrator and the Board of the Plan. The gross interest rate paid on contributions to this investment was 4% in 2005 and 2004, respectively.

The Plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of December 31, 2005 the Plan had the following investments and maturities in five of its mutual funds which include investments in bonds.

	Valuation	Weighted Average Maturity
Great-West Fixed Investment Fund	$ 5,298,279	6.40
Mutual Funds:		
Fidelity Puritan Fund	8,867,780	7.00
Vanguard Prime Money Market Fund – Investors shares	4,638,270	.11
Scudder Flag Investment Value Builder Fund, Inc.	1,828,788	5.50
PIMCO Total Return Fund – Institutional shares	880,509	6.11
Federated US Government Securities Fund – 2 to 5 years institutional shares	251,557	4.02

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and has responsibility for managing their exposure to fair value loss.

The mutual funds are unrated.

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

Earnings are accrued to individual participants' accounts based upon the investment performance of the specific options selected.

NOTE 2 – ADMINISTRATIVE EXPENSES

The Board has appointed Nationwide® Retirement Solutions, Inc. (NRS), as the Plan administrator under an administrative services contract. NRS is a subsidiary of Nationwide Financial Services, Inc., the owner of Nationwide Life Insurance Company.

The current five year contract with NRS to provide administrative services to the Plan (and certain related plans) under Board authority became effective January 1, 2003. Under the agreement, NRS provides administrative services to the Plan, such as account statements, monitoring the Plan's financial transactions, participant relations, and general management. Fees were charged by NRS at an annual rate of 0.23% in 2005 and 2004 against the variable, investment contract pool and fixed annuity assets. During 2005 and 2004, an additional charge of .07% and .11% respectively, was imposed by the Board for its expenses (staff, auditor, consultants, education and other administrative expenses). The fees are collected directly from participant's accounts. The annual cap on participant charges was $1,800 and $1,700 for 2005 and 2004, respectively.

Participants choosing to exercise the loan options are assessed an origination fee of $50.

NOTE 3 – TAX STATUS

In the opinion of the State's legal counsel, the Plan is a qualified tax sheltered annuity plan under Section 403(b) of the Code and, therefore, the amounts of compensation contributed by the employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate.

NOTE 4 – RELATED PARTIES

Certain members of the Board of Trustees are participants in the Plan.

THE STATE OF MARYLAND
MATCH PLAN AND TRUST
SECTION 401(a)
Baltimore, Maryland

FINANCIAL STATEMENTS
December 31, 2005 and 2004

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Independent Auditor's Report

The Board of Trustees
Maryland Teachers and State Employees
Supplemental Retirement Plans
Baltimore, Maryland

We have audited the accompanying statements of net assets available for plan benefits of The State of Maryland Match Plan and Trust (the Plan), a fiduciary fund of the State of Maryland as of December 31, 2005 and 2004, and the related statements of changes in net assets available for plan benefits for the years then ended, which collectively comprise the Plan's basic financial statements. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for plan benefits of the Plan as of December 31, 2005 and 2004, and the changes in net assets available for plan benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Baltimore, Maryland
March 31, 2006

THE STATE OF MARYLAND
MATCH PLAN AND TRUST
MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of The State of Maryland Match Plan and Trust's financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2005 and 2004. Please read it in conjunction with the Plan's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- Net assets available for plan benefits increased by approximately $14.1 million during the current year from $81.8 million at December 31, 2004 to $95.9 million at December 31, 2005. Net assets available for plan benefits increased by approximately $5 million from $76.8 million at December 31, 2003 to approximately $81.8 million at December 31, 2004. Increases are due to the combination of market increases and payroll contributions in excess of distributions.

- The Plan had a net investment gain of $14.7 million for the year ended December 31, 2003, a net investment gain of $7.4 million for the year ended December 31, 2004, and a net investment gain of $5.1 million for the year ended December 31, 2005. These investment gains are attributable to favorable market conditions.

- Employer and employee contributions increased from $19,000 for the year ended December 31, 2004 to $11.9 million for the year ended December 31, 2005. This increase corresponds to the State reinstituting its matching contributions to the Plan effective July 1, 2005. Employer and employee contributions decreased from $2.5 million for the year ended December 31, 2003 to $19,000 for the year ended December 31, 2004. This decrease corresponds to the State eliminating matching contributions to the Plan effective July 1, 2003.

- Mutual fund rebates increased from $88,500 during 2004 to $118,200 for 2005. Mutual fund rebates decreased from $172,000 during 2003 to $88,500 for 2004.

- Distributions to participants increased from $2.2 million for the year ended December 31, 2004 to $2.8 million for the year ended December 31, 2005. Distributions to participants increased from $1.8 million for the year ended December 31, 2003 to $2.2 million for the year ended December 31, 2004.

- Administrative expenses decreased from $262,000 for the year ended December 31, 2004 to $253,000 for the year ended December 31, 2005. Administrative expenses increased from $230,000 for the year ended December 31, 2003 to $262,000 for the year ended December 31, 2004.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of the Statements of Net Assets Available for Plan Benefits and the Statements of Changes in Net Assets Available for Plan Benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the Statement of Fiduciary Net Assets in the State of Maryland's financial statements.

The Plan's net assets available for plan benefits increased during the year ended December 31, 2005 by $14,061,259 from $81,823,548 to $95,884,807. The Plan's net assets available for plan benefits increased during the year ended December 31, 2004 by $5,042,467 from $76,781,081 to $81,823,548. This increase relates to an increase in employer and employee contributions as a result of the State reinstating its match in July 2005 partially offset by distributions to participants. The analysis below summarizes net assets available for plan benefits (Table 1) and changes in net assets available for plan benefits (Table 2).

Table 1
Net Assets Available for Plan Benefits

	2005	2004	2003
Investments	$95,884,720	$ 81,823,485	$ 76,780,995
Receivables	87	63	86
Net assets available for plan benefits	$95,884,807	$81,823,548	$76,781,081

Table 2
Changes in Net Assets Available for Plan Benefits

	2005	2004	2003
Additions:			
Employer and employee contributions	$11,891,617	$ 19,092	$ 2,486,316
Mutual fund rebates	118,206	88,561	172,182
Investment earnings	5,114,213	7,403,571	14,743,893
Deductions:			
Distributions	2,809,622	2,206,489	1,786,887
Administrative expenses	253,155	262,268	229,989
Increase in plan net assets	$14,061,259	$ 5,042,467	$15,385,515

Financial Contact

The Plan's financial statements are designed to present users with a general overview of the Plan's finances and to demonstrate the trustee's accountability. If you have questions about the report or need additional financial information, contact the Chief Financial Officer of the Maryland Teachers and State Employees Retirement Plans at the William Donald Schaefer Tower, Suite 200, 6 St. Paul Street, Baltimore, Maryland 21202-1608.

THE STATE OF MARYLAND MATCH PLAN AND TRUST
STATEMENTS OF NET ASSETS AVAILABLE FOR PLAN BENEFITS
December 31, 2005 and 2004

	2005	2004
ASSETS		
INVESTMENTS		
FIXED EARNINGS INVESTMENT AT CONTRACT VALUE:		
CONTRACT POOL	$19,670,312	$16,597,306
VARIABLE EARNING INVESTMENTS, AT FAIR VALUE:		
LEGG MASON VALUE TRUST FUND, INC. – INSTITUTIONAL CLASS	16,220,354	14,051,391
VANGUARD INSTITUTIONAL INDEX FUND – Institutional Shares	14,013,592	12,407,378
FIDELITY GROWTH AND INCOME PORTFOLIO	7,767,179	7,077,443
FIDELITY PURITAN FUND	7,691,411	6,745,953
WASHINGTON MUTUAL INVESTORS FUND SM, INC. – CLASS A	7,687,690	6,768,049
DREYFUS MID-CAP INDEX FUND, INC.	5,252,677	-
THE GROWTH FUND OF AMERICA, INC. – CLASS A	4,199,019	3,250,218
T. ROWE PRICE SMALL-CAP STOCK FUND, INC.	3,820,256	3,088,592
EURO PACIFIC GROWTH FUND – CLASS A	3,445,374	1,766,393
SCUDDER FLAG INVESTORS VALUE BUILDER FUND, INC. – INSTITUTIONAL	1,650,170	1,553,837
FEDERATED US GOVERNMENT SECURITIES FUND – 2-5 YEARS INSTITUTIONAL SHARES	1,597,369	1,454,064
DELAWARE TREND FUND, INC. – TREND FUND INSTITUTIONAL	1,548,402	1,486,437
LORD ABBETT MID-CAP VALUE FUND – CLASS A	1,138,147	469,843
PIMCO TOTAL RETURN FUND – INSTITUTIONAL SHARES	182,426	85,901
AIM DYNAMICS FUND – INVESTORS CLASS	136	4,410,684
T. ROWE PRICE INTERNATIONAL FUNDS, INC. – INTERNATIONAL STOCK FUND	-	611,343
SUSPENSE	206	(1,347)
TOTAL INVESTMENTS	95,884,720	81,823,485
RECEIVABLES		
CONTRIBUTIONS RECEIVABLE	87	63
NET ASSETS AVAILABLE FOR PLAN BENEFITS	$95,884,807	$81,823,548

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

THE STATE OF MARYLAND MATCH PLAN AND TRUST
STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR PLAN BENEFITS
Years Ended December 31, 2005 and 2004

	2005	**2004**
ADDITIONS TO NET ASSETS ATTRIBUTED TO		
INVESTMENT INCOME		
MUTUAL FUND INVESTMENT INCOME	$ 4,358,452	$ 6,745,401
INTEREST INCOME	755,761	658,170
TOTAL INVESTMENT INCOME	5,114,213	7,403,571
EMPLOYEE CONTRIBUTIONS	44,544	19,092
EMPLOYER CONTRIBUTIONS	11,847,073	-
MUTUAL FUND REBATES	118,206	88,561
TOTAL ADDITIONS	17,124,036	7,511,224
DEDUCTIONS FROM NET ASSETS ATTRIBUTED TO		
DISTRIBUTIONS TO PARTICIPANTS	2,809,622	2,206,489
ADMINISTRATIVE EXPENSES	253,155	262,268
TOTAL DEDUCTIONS	3,062,777	2,468,757
NET INCREASE	14,061,259	5,042,467
NET ASSETS AVAILABLE FOR PLAN BENEFITS, BEGINNING OF YEAR	81,823,548	76,781,081
NET ASSETS AVAILABLE FOR PLAN BENEFITS, END OF YEAR	$95,884,807	$ 81,823,548

These financial statements should be read only in connection with the accompanying summary of significant accounting policies and notes to financial statements.

GENERAL

The Plan was established by the State of Maryland on July 1, 1999 (commencement date). The Plan is designed to be a tax-qualified 401(a) defined contribution matching plan under Internal Revenue Code (the Code) Section 401(a).

Contributions

Under Plan provisions, the State shall contribute 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 statutory ceiling amount contributed to the Plan for each participant is $600. A participant may receive more than $600 in matching contributions during the Plan's fiscal year, but may not exceed the maximum $600 contribution for any State fiscal year. The $600 maximum contribution for each participant was reduced to $500 for the fiscal year beginning July 1, 2002. The matching contribution was eliminated effective July 1, 2003, but the match has been reestablished and eligible employees will receive up to $400 each year effective July 1, 2005.

Employer contributions receivable represent amounts due from the State but not remitted to the investment carriers at December 31. Contributions are credited by the applicable investment carrier upon receipt from the State.

Participant Accounts

An employee's interest in his/her account is fully vested at all times. An employee may elect to invest contributions made on his or her behalf in the following investment options:

- Investment contract pool consisting of fixed earnings investments underwritten by various insurance and other financial institutions.
- Variable earnings investments consisting of various mutual funds.

With the consent of the Board of Trustees, an employee may pay over to the Plan any amount which constitutes a rollover contribution as set forth by Section 402(c) or 408(d)(3) of the Code. The Board may also accept a direct transfer of funds from an eligible retirement plan as authorized by the Plan and the Internal Revenue Code.

Payment of Benefits

Employees may withdraw the value of their account upon termination of employment from the State or because of financial hardship if approved by the Plan's Board of Trustees.

Employees are eligible to receive benefits under the Plan subject to Internal Revenue Service regulations upon retirement, attainment of age 65, disability, death, termination of employment with the State, or financial hardship. Employees may select various payout options as provided by the Plan.

Payment of Benefits (Continued)

At death, with certain exceptions, any amount due under the participant's account is paid to the beneficiary or the estate.

Distributions to participants are recorded at the time withdrawals are made from participant accounts.

Significant accounting policies followed by the Plan are as follows:

BASIS OF ACCOUNTING

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and present the net assets available for plan benefits and the net changes in those assets.

USE OF ESTIMATES IN PREPARING FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from those estimates.

INVESTMENT VALUATION AND INCOME RECOGNITION

Fixed earnings investments, represented by investment contract pools, are valued at cost plus interest recorded. The investment contract pool is managed by an affiliate of the insurance company ING under a management agreement. It consists of book value instruments such as investment contracts, pooled funds and separate account insurance and/or bank investment contracts. New contracts are awarded periodically based upon a competitive bid process. Selection criteria for investment contract providers include the size and financial stability of the carrier and the interest rate guaranteed for the contract period.

During 1997, a Master Trust was established to hold the investment contract pool underlying the fixed investment option. Under the Master Trust arrangement, contributions of participants who elect this investment option for the Maryland State Employees Deferred Compensation Plan, the State of Maryland Savings and Investment Plan, and/or the State of Maryland Match Plan and Trust are combined and held in the trust. Each Plan has an undivided interest in the investment contract pool held by the trust and each Plan's ownership is represented by its proportionate dollar interest. Interest rates are reset quarterly based on prior quarters' performance.

INVESTMENT VALUATION AND INCOME RECOGNITION (CONTINUED)

The Board relies on an independent discretionary manager for selection of contracts in the Investment Contract Pool.

Variable earnings investments are presented at fair value based on published quotations or the net asset value reported by the investment carrier. All purchases and sales of investments are recorded on a trade-date basis.

The suspense balance consists of amounts pending investment or distribution.

MUTUAL FUND REBATES

Mutual fund rebates represent amounts received from mutual fund investment providers for the benefit of the participants under expense reimbursement arrangements. Amounts recorded are those rebates actually received by the Plan during the year. Those amounts are periodically redistributed on a pro-rata basis to the current participants in the mutual fund that paid the rebate.

NOTE 1 – INVESTMENTS AND INVESTMENT INCOME

Title 35 of the State Personnel & Pensions Article of the Maryland Code defines the types of securities authorized as appropriate investments for the Plan and the conditions for making investment transactions. The Plan is authorized to invest in regulated investment companies, annuity or investment contracts, real estate investment trust funds and common investment pools composed of stocks or bonds, whether such funds are managed by the Board itself or other entities selected by the Board.

The Plan conforms to the reporting requirements of Governmental Accounting Standards Board Statement No. 40. As of December 31, 2005 the Plan had the following investments and maturities in its investment contract pool and four mutual funds which include investments in bonds.

	Valuation	Weighted Average Maturity
Investment Contract Pool	$ 19,670,312	5.06 years
Mutual funds:		
Fidelity Puritan Fund	7,691,411	7.00
Scudder Flag Investment Value Builder Fund, Inc. - Institutional	1,650,170	5.50
Federated US Government Securities Fund – 2 to 5 years institutional shares	1,597,369	4.02
PIMCO Total Return Fund – Institutional shares	182,426	6.11

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Since all investments are participant directed, all risks exist at the participant level. Each individual within the Plan has the ability to liquidate their positions on demand and have responsibility for managing their exposure to fair value loss.

The investment contract pool and the mutual funds are unrated.

Investment contract pool interest income is recorded based upon a blended rate of the contractual interest of all investment contracts in force during the period. These amounts are credited to the participants accounts prior to charges for administration expenses charged by the Administrator and the Board of the Plan. The blended gross interest rate was 4.00% at December 31, 2005 and ranged from 4% to 4.59% during the year then ended (4.59% at December 31, 2004 and ranged from 4.00% to 4.25% during the year then ended).

Mutual fund investment income consists of dividends earned and realized and unrealized gains and losses attributable to the mutual funds.

Earnings are accrued to individual participants' accounts based upon the investment performance of the specific options selected.

NOTE 2 – ADMINISTRATIVE EXPENSES

The Board has appointed Nationwide® Retirement Solutions, Inc. (NRS), as the Plan administrator under an administrative services contract. NRS is a subsidiary of Nationwide Financial Services, Inc., the owner of Nationwide Life Insurance Company.

The current five year contract with NRS to provide administrative services to the Plan (and certain related plans) under Board authority became effective January 1, 2003. Under the agreement, NRS provides administrative services to the Plan, such as account statements, monitoring the Plan's financial transactions, participant relations, and general management. Fees were charged by NRS at an annual rate of 0.23% in 2005 and 2004 against the variable, investment contract pool and fixed annuity assets. During 2005 and 2004, an additional charge of 0.07% and 0.11%, was imposed by the Board for its expenses (staff, auditor, consultants, education and other administrative expenses). The fees are collected directly from participant's accounts. The annual cap on participant charges was $1,800 and $1,700 for 2005 and 2004, respectively.

NOTE 3 – TAX STATUS

In the opinion of the State's legal counsel, the Plan is exempt from Federal income taxes under 401(a) of the Code and, therefore, the amounts of compensation contributed by the State on behalf of employees participating in the Plan are not subject to federal income tax withholding nor are they includable in taxable income until actually paid or otherwise made available to the participant, the participant's beneficiary, or the participant's estate.

NOTE 4 – RELATED PARTIES

Certain members of the Board of Trustees are participants in the Plan.

MARYLAND TEACHERS AND STATE EMPLOYEE

SUPPLEMENTAL RETIREMENT PLANS

PAYROLL DEFERRAL PLANS

Baltimore, Maryland

AGREED-UPON PROCEDURES

December 31, 2005

This report would be required according to ATTACHMENT K

ATTACHMENT K– AGREED UPON PROCEDURES

Independent Accountant's Report on

Applying Agreed-Upon Procedures

Procedures

1. Obtain the surrender audit reports listing all surrenders made during the audit period and select 25 participants from each of the Plans.

    a. Obtain the request for surrender form and appropriate tax withholdings forms.
    b. Recalculate the tax withholding for mathematical accuracy.
    c. Examine the file noting the transfer to the payout phase was performed in accordance with the participant's request.
    d. Examine the payout calculation, recalculate the benefit payment amount based on the request form, and assess appropriate application of any charge.
    e. Verify appropriate treatment of after tax dollars pre-1986 contributions.

2. Select a non-statistical random sample of participants as noted below:

    a. Obtain the participant trial balances for the end of the period and select 25 active participants from each of the Plans to test as follows:

        i. Send negative confirmations directly to the participants to confirm their transactions for the year including contributions, surrenders, income and plan asset fees.

        ii. Examine participant enrollment records noting that participants are properly enrolled in the appropriate plan.

        iii. Examine the participant's file noting that the allocation to various investment options (for the last contribution in the audit period) was performed in accordance with the participant's request. For those allocations requested via the voice response system, send negative confirmations directly to the participants to confirm that the actual allocation agrees with their request.

        iv. For the participants selected, obtain their quarterly statements for the period ended December 31, 2005 and perform the following:

            (1) Determine that the plan asset fees charged to a participant's account for all Plans in total do not exceed the annual limitation of $1,800.

            (2) Recalculate plan asset fees charged during the year using average investment balances within 10%.

(3) Test the statements for mathematical accuracy by footing the total column.

v. For those participants selected who had contributions to a fixed investment option in the audit period, recalculate interest credited to the participant's account for the year using average investment balances and average contract rates published by the carriers within 10%.

vi. For any participants from the active sample above with contributions to variable investment options, perform the following:

(1) Recalculate, with administrator assistance, the earnings credited to the participant for a selected fund for the year within 10%.

(2) Examine one transaction per participant during the year to determine that the transaction was recorded on the proper date and that the proper unit value was utilized to record the transaction.

b. Obtain the December 31, 2005 participant trial balances and select a non-statistical sample of 20 (5 from each Plan) inactive participants (those with no contributions in the year) to test as follows:

i. For those participants selected with a fixed investment option, recalculate interest credited to the participant account using average investment balances and average contract rates published by the carriers within 10%.

ii. For those participants selected with a variable investment option, recalculate, with administrator assistance, the earnings credited to the participant's account in the audit period, within 10%.

iii. For the participants selected, obtain their quarterly statements for the audit period and perform the following:

(1) Determine that the plan asset fees charged to a participant's account for all Plans in total do not exceed the annual limitation of $1,800.

(2) Test the statements for mathematical accuracy by footing the total column.

(3) Recalculate plan asset fees charged during the year on selected accounts using average investment balances within 10%.

c. Obtain the surrender audit reports and select 5 participants that purchased an annuity from each Plan that offers this option to test the payout phase as follows:

i. Examine the file noting the transfer to the annuity transaction was performed in accordance with the participant's request.

ii. Examine the annuitization calculation, recalculate the benefit payment amount based on the request form, and assess appropriate application of any charge.

iii. Trace each annuitized participant to the annuity payout reserve report to ascertain that they were properly included in the payout assets.

d. Obtain the inter-plan deferral coordination report for the year ended December 31, 2005 which identifies participants who appear to be in excess of maximum allowable deferrals and select 15 participants (5 from each Plan except the 401(a) Plan). For those selected, verify the existence of documentation that supports either, that deferrals are in compliance with catch-up provisions of the Internal Revenue Code (IRC) or that the participant has been informed that excess deferrals may have been made.