

*Capital Outlays:*

Principally all capital expenditures for the acquisition or construction of State general fixed assets are reported as capital outlays in the capital projects fund.

*C. Enterprise Funds, Pension Trust Funds and Component Units — Proprietary Funds:*

*Basis of Accounting:*

The accounts of the enterprise funds, pension trust funds and component units — proprietary funds are maintained and reported using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. For the enterprise funds and proprietary fund component units the State has selected the option to apply all applicable GASB pronouncements and only FASB Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989.

*Grants:*

Revenues from federal reimbursement type grants are recorded when the related expenses are incurred.

*Property, Plant and Equipment:*

Significant property, plant and equipment of enterprise funds are stated at cost. Depreciation of the cost of property, plant and equipment of the enterprise funds is provided on the straight-line basis over estimated useful lives of 25 to 50 years for depreciable real property, 5 to 10 years for building improvements, and 3 to 10 years for equipment. Construction period interest is capitalized. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

*Debt Refinancing:*

The gain or loss associated with enterprise fund debt refinanced is deferred and amortized to interest expense over the life of the debt.

*Lottery Revenues, Prizes and Operating Transfers:*

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily recognized when drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditures. The excess revenues from certain select games are transferred to the State's general fund, which then transfers the amounts to the Maryland Stadium Authority for operations and to cover the State's capital lease payments to the Maryland Stadium Authority.

*Provisions for Insurance and Loan Losses:*

Current provisions are made for estimated losses resulting from insuring loans and uncollectible loans. Loss provisions are based on the current status of insured and direct loans, including delinquencies, economic conditions, loss experience, estimated value of collateral and other factors which may affect their realization.

*Inventories:*

Inventories of the enterprise funds are stated at the lower of cost or market, using the first-in, first-out method.

*D. Component Units — Higher Education Fund:*

*Basis of Accounting:*

The financial statements of the Higher Education Component Unit have been prepared in accordance with Governmental Accounting Standards which allow colleges and universities to follow the American Institute of Certified Public Accountants' reporting model.

The accounts of the higher education institutions are maintained and reported on the accrual basis of accounting except for tuition and fees revenue and depreciation expense as explained in the following paragraphs.