

In accordance with retirement-replacement-betterment accounting principles the cost of toll facilities is not depreciated. Repairs, maintenance and replacements are charged to operations in the period incurred. Additions and betterments are capitalized.

The cost of property, plant and contributed equipment of the Maryland Environmental Service is not depreciated and such amount is not material in relation to the combined enterprise funds. Depreciation of the cost of purchased equipment is provided on the straight-line basis over an estimated useful life of three years. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues and Prizes:

Revenues and prizes of the Maryland State Lottery are generally recognized as drawings are held. Certain prizes are payable in deferred installments. Such liabilities are recorded at the present value of amounts payable in the future.

Provisions for Insurance and Loan Losses:

Current provisions are made for estimated losses resulting from insurance of 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.

Workers' compensation claims are recognized as expenses in the period incurred. Annually, the consulting actuary for the State Accident Fund estimates the liability for injuries incurred but not reported, the future liability on claims before the commission, and permanent awards. These liabilities are reported as accrued insurance losses.

Inventories:

Inventories of the Maryland Transportation Authority, State Use Industries and the nonexpendable trust fund are stated at the lower of cost, using the first-in, first-out method, or market.

Enterprise Funds Reserved Retained Earnings:

Retained earnings of the Maryland Transportation Authority in the amount of \$115,305,000 is reserved for the payment of debt service related to the revenue bonds, major project maintenance requirements and improvements, betterments, enlargements, or capital additions.

Retained earnings of the Maryland State Lottery in the amount of \$2,358,000 is reserved for the payment of unclaimed prizes.

Retained earnings of the Maryland Higher Education Loan Corporation in the amount of \$363,000 is reserved for the purchase of defaulted loans.

Nonexpendable and Pension Trust Fund Balances:

Fund balances of nonexpendable and pension trust funds are restricted to the purpose of the fund and are reported as fund balance reserves.

D. Higher Education and University Hospital Fund:

Basis of Accounting:

The accounts of the higher education institutions and the University of Maryland Hospital are maintained and reported on the accrual basis of accounting.

Fund Accounting:

The financial activities of the higher education institutions and the University of Maryland Hospital are recorded in funds which classify the various transactions by specified activities or objectives. Fund balances of such funds are reported as reserved for higher education programs and higher education general endowment and similar funds.