

STATE OF MARYLAND
Notes to General Purpose Financial Statements
for the year ended June 30, 1989

1. Financial Reporting Entity and Description of Funds and Account Groups:

The accompanying financial statements of the State of Maryland present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the changes in financial position of the enterprise funds and pension trust fund.

The financial statements of the State have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the State's accounting policies are described below:

A. Reporting Entity:

The financial statements include the various departments, agencies, and other organizational units governed by the General Assembly and/or constitutional officers of the State of Maryland.

In evaluating how to define the government for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the entity was made by applying the criteria set forth in GAAP. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the State's ability to exercise oversight responsibility. The most significant evidence of this ability is financial interdependency. Other evidence of the ability to exercise oversight responsibility includes, but is not limited to, the selection of governing authority, appointment of management, constitutional officers' ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the State and/or its citizens or is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the State is able to exercise oversight responsibilities.

Based on the application of these criteria, the following component units are included within the reporting entity:

- Maryland Industrial Development Financing Authority
- Maryland Housing Fund
- Community Development Administration
- Maryland Small Business Development Financing Authority
- Maryland Water Quality Revolving Loan Fund
- Maryland Food Center Authority
- Maryland Transportation Authority
- Maryland State Lottery
- Maryland Environmental Service
- State Use Industries
- Maryland Higher Education Loan Corporation
- Maryland Deposit Insurance Fund Corporation
- Maryland Stadium Authority
- Unemployment Insurance Program
- Maryland Retirement and Pension Systems
- University of Maryland System
- St. Mary's College of Maryland
- Morgan State University