

C. Enterprise Funds and Pension Trust Funds:

Basis of Accounting:

The accounts of the enterprise funds and pension trust 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.

Grants:

Federal reimbursement type grants are recorded as revenues when the related expenditures, or 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. Repairs and maintenance are charged to operations in the period incurred. Replacements, additions and betterments are capitalized.

Lottery Revenues, Prizes and Operating Transfers:

Revenues and prizes of the Maryland State Lottery Agency (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. State law requires the Lottery to transfer to the State revenues in excess of amounts allocated to prize awards, operating expenses and capital expenditure payments. The excess revenues from selected games are transferred to the Maryland Stadium Authority. The excess revenues from all other games are transferred to the State's general fund.

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.

The Maryland Deposit Insurance Fund Corporation provides for insurance losses at the time a member savings and loan association requires financial assistance or when such assistance is anticipated. These amounts are reviewed periodically and adjusted as required based on the financial and economic conditions at the time.

Inventories:

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

Enterprise Funds Reserved Retained Earnings:

Retained earnings of Maryland Environmental Service in the amount of \$2,927,000 are reserved for furtherance of program development activities as determined by its board of directors.

D. Higher Education Fund:

Basis of Accounting:

The accounts of the higher education institutions are maintained and reported on the accrual basis of accounting except for the recognition of tuition and fees revenue, and depreciation, as explained below.

Fund Accounting:

The financial activities of the higher education institutions are recorded in funds which classify the various transactions by specified activities or objectives. Fund balances of current restricted, loan and endowment funds are reported as reserved for higher education programs and higher education general endowment funds.