

*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.

*Lottery Revenues, Prizes and Operating Transfers:*

Revenues and prizes of the Maryland State Lottery Agency (Lottery) are primarily 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, a blended component unit. 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 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, using the first-in, first-out method, or market.

*D. Component Units, Higher Education Fund:*

*Basis of Accounting:*

The financial statements of the Higher Education Fund have been prepared in accordance with the American Institute of Certified Public Accountants' Industry Audit Guide "Audits of Colleges and Universities", and, therefore, are presented as a separate column in the component units classification.

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 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.

Unrestricted revenue is accounted for in the current unrestricted fund. Restricted gifts, grants, endowment income and other restricted resources are accounted for in the current restricted fund, loan funds, endowment and plant funds. Revenue and expenditures are reported in the current restricted fund when financial resources are used for the current operating purposes for which they have been provided. Transactions related to the various student loan programs are accounted for in loan funds. Resources dedicated to the acquisition of and investment in property, plant and equipment are accounted for in the plant funds. To the extent current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books; (2) mandatory transfers, in the case of required provisions for debt repayment and interest, and equipment renewals and replacements; and (3) transfers of a nonmandatory nature in all other cases. General endowment funds are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and that only the income be utilized.