

The Maryland Transportation Authority's policy of accounting for toll facilities is pursuant to "betterment accounting", whereby property costs represent a historical accumulation of costs expended to acquire rights-of-way and to construct, reconstruct, and place in operation the various projects and related facilities. Costs also include the cost of improvement, enlargement, betterments and certain general and administrative expenses incurred during the construction phase. Subsequent betterments are capitalized. All such costs are not reduced for subsequent replacements, as such replacements are accounted for as a period cost. Such period costs are included in operation and maintenance of facilities. Depreciation of the projects and related facilities is not included as an operating expense or otherwise provided. These policies are consistent with practices followed by similar entities within the toll bridge, turnpike and tunnel industry.

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.

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 Maryland Transportation Authority and State Use Industries 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 State Lottery in the amount of \$2,264,000 are reserved for the payment of unclaimed prizes.

Retained earnings of Maryland Environmental Service in the the amount of \$1,152,000 are reserved for furtherance of program development activities.

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 as explained below concerning the recognition of tuition and fees revenue and depreciation.

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 operated by the educational institutions are accounted for in loan funds. Resources dedicated to the acquisition 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.