

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2011

Performed as Special Assistant Auditors for the
Auditor General, State of Illinois

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2011

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STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2011

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STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

AGENCY OFFICIALS

Secretary (Current)	Ann L. Schneider
Secretary (2/28/09 to 7/30/11)	Gary Hannig
Acting Chief Operating Officer	Marsha Campos
Chief of Staff	Marva Boyd
Assistant Secretary	Vacant
Chief Counsel	Ellen Schanzle-Haskins
Chief Internal Auditor	Stephen Kirk
Director, Office of Finance and Administration	Matthew Hughes
Director, Office of Business and Workforce Diversity	Frank McNeil
Director, Office of Communications	John Webber
Acting Director, Office of Legislative Affairs	Samantha Fields
Director, Office of Planning and Programming	Charles Ingersoll
Director, Office of Quality Compliance and Review	Jeff Heck
Director, Division of Aeronautics	Susan Shea
Director, Division of Highways	Bill Frey
Director, Division of Public and Intermodal Transportation	Joseph Shacter
Interim Director, Division of Traffic Safety	John Webber

Agency main offices are located at:

2300 S. Dirksen Parkway
Springfield, IL 62764

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying basic financial statements of the State of Illinois, Department of Transportation (Department) was performed by Sikich LLP as special assistants for the Auditor General.

Based on their audit, the auditors expressed an unqualified opinion on the Department's basic financial statements.

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings listed in the table of contents as findings 11-3, 11-4 and 11-5. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as findings 11-1 and 11-2.

- 11-1 Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements
- 11-2 Inaccurate commodities inventory records
- 11-3 Weaknesses in the reporting of capital assets
- 11-4 Weaknesses in the reporting of deferred revenues
- 11-5 Weaknesses in the reporting of accounts payable

PRIOR FINDING NOT REPEATED

- A. Failure to report fiscal year 2009 due to/due from balances

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on May 7, 2012. Attending were:

Department of Transportation

Marsha Campos, Acting Chief Operating Officer
Stephen Kirk, Chief Internal Auditor
Matt Hughes, Director Office of Finance and Administration
Tony Small, Deputy Director Office of Finance and Administration
Aaron Weatherholt, Deputy Director Division of Highways
Jim Reinhart, Bureau Chief Business Services
Lori Campbell, Section Chief Business Services
Lori A. Beeler, Audit Coordinator
Justan Mann, Acting Engineer of Operations
Geno Koehler, Policy and Safety Manager

Office of the Auditor General

Peggy Hartson, Audit Manager

Sikich LLP – Special Assistant Auditors

Nick Appelbaum, Partner
Greg Fiedler, Supervisor

The responses to the recommendations were provided by Secretary Ann L. Schneider in a letter dated May 15, 2012.



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 2, the financial statements of the Department are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 12, as of July 1, 2010, the Department adopted the reporting and disclosure requirements of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 16, 2012 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis and budgetary comparison information for any of its funds that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The combining General Fund, Motor Fuel Tax Fund, and nonmajor fund financial statements and schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining General Fund, Motor Fuel Tax Fund, and nonmajor fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, the Comptroller, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

Schmit LLP

Springfield, Illinois
May 16, 2012

State of Illinois
Department of Transportation

Statement of Net Assets

June 30, 2011 (Expressed in Thousands)

	<u>Governmental Activities</u>
ASSETS	
Unexpended appropriations	\$ 1,030,200
Cash equity with State Treasurer	105,006
Cash and cash equivalents	2,384
Securities lending collateral equity with State Treasurer	3,002
Receivables, net:	
Intergovernmental	385,166
Other	19,502
Due from other State funds	575,918
Due from State of Illinois component units	59,906
Inventories	51,283
Loans receivable, net	28,418
Capital assets not being depreciated	2,408,411
Capital assets being depreciated, net	14,435,781
Total assets	<u>19,104,977</u>
LIABILITIES	
Accounts payable and accrued liabilities	509,934
Intergovernmental payables	855,435
Due to other State funds	16,792
Due to State of Illinois component units	137,688
Obligations under securities lending of State Treasurer	3,002
Long term obligations:	
Due within one year	9,359
Due subsequent to one year	68,448
Total liabilities	<u>1,600,658</u>
NET ASSETS	
Invested in capital assets, net of related debt	16,824,224
Restricted for:	
Transportation programs	54,242
Debt service	2,357
Unrestricted net assets	623,496
Total net assets	<u>\$ 17,504,319</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Transportation

Statement of Activities

For the Year Ended June 30, 2011 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Transportation	\$ 4,378,291	\$ 40,686	\$ 603,187	\$ (2,176,108)
Intergovernmental	578,575	-	-	(578,575)
Interest	1,178	-	-	(1,178)
Total governmental activities	<u>\$ 4,958,044</u>	<u>\$ 40,686</u>	<u>\$ 603,187</u>	<u>(2,755,861)</u>
General revenues and transfers				
Sales tax				172,105
Appropriations from State Resources				17,173,758
Reappropriation to future year(s)				(12,656,164)
Lapsed appropriations				(195,776)
Receipts collected and transmitted to State Treasury				(1,873,131)
Net change in liabilities for reappropriated accounts				63,804
Other revenues				819
Interest and investment income				922
Amount of SAMS transfers-in				(516,891)
Amount of SAMS transfers-out				1,174,744
Transfers-in				450,345
Transfers-out				<u>(76,540)</u>
Total general revenues and transfers				<u>3,717,995</u>
Change in net assets				962,134
Net assets, July 1, 2010				16,542,185
Net assets, June 30, 2011				<u>\$ 17,504,319</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Transportation

Balance Sheet-Governmental Funds

June 30, 2011 (Expressed in Thousands)

	General Funds	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
ASSETS					
Unexpended appropriations	\$ 64,961	\$ 579,448	\$ 63,786	\$ 322,005	\$ 1,030,200
Cash equity with State Treasurer	10,098	1,652	6	93,034	104,790
Cash and cash equivalents	-	14	13	2,357	2,384
Securities lending collateral equity with State Treasurer	-	-	-	3,002	3,002
Intergovernmental receivables, net	34	271,434	-	113,698	385,166
Other receivables, net	160	19,073	27	242	19,502
Due from other Department funds	-	22,911	15,456	16,247	54,614
Due from other State funds	393,780	3,274	-	178,771	575,825
Due from State of Illinois component units	-	59,905	-	-	59,905
Inventories	-	51,283	-	-	51,283
Loans receivable, net	456	-	-	27,962	28,418
Total assets	\$ 469,489	\$ 1,008,994	\$ 79,288	\$ 757,318	\$ 2,315,089
LIABILITIES					
Accounts payable and accrued liabilities	\$ 31,218	\$ 225,568	\$ 60,920	\$ 192,145	\$ 509,851
Intergovernmental payables	427,163	195,796	2,704	229,772	855,435
Due to other Department funds	173	517	-	54,107	54,797
Due to other State funds	-	15,768	175	849	16,792
Due to State of Illinois component units	-	136,385	-	1,303	137,688
Obligations under securities lending of State Treasurer	-	-	-	3,002	3,002
Unavailable revenue	160	18,716	-	103,906	122,782
Total liabilities	458,714	592,750	63,799	585,084	1,700,347
FUND BALANCES					
Nonspendable portion of:					
Loans and notes receivable	456	-	-	-	456
Inventories	-	51,283	-	-	51,283
Restricted	10,195	-	-	46,404	56,599
Committed	90	364,961	-	154,084	519,135
Assigned	-	-	15,489	328	15,817
Unassigned	34	-	-	(28,582)	(28,548)
Total fund balances	10,775	416,244	15,489	172,234	614,742
Total liabilities and fund balances	\$ 469,489	\$ 1,008,994	\$ 79,288	\$ 757,318	\$ 2,315,089

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Transportation
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2011
(Expressed in Thousands)

Total fund balances-governmental funds \$ 614,742

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 16,844,192

Internal service funds are used to charge costs of air transportation activities to individual funds. The assets and liabilities of the Air Transportation Fund are reported as governmental activities in the Statement of Net Assets. 410

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds. 122,782

Some liabilities reported in the Statement of Net Assets do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:

Compensated absences	\$ (48,118)	
Capital lease obligations	(18)	
Auto liability claims	(8,421)	
Pollution remediation obligations	(1,300)	
Certificates of participation	(19,950)	
		(77,807)

Net assets of governmental activities \$ 17,504,319

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Transportation

Statement of Revenues, Expenditures, and
Changes in Fund Balances-Governmental Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

	General Funds	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ -	\$ -	\$ -	\$ 172,105	\$ 172,105
Motor fuel taxes	-	305,538	208,173	(513,711)	-
Operating grants - Federal	546	256,177	-	171,554	428,277
Capital grants - Federal	-	1,563,670	-	-	1,563,670
Other operating grants	124	65,341	-	23,916	89,381
Other capital grants	-	12,080	-	-	12,080
Licenses and fees	-	20,007	-	23	20,030
Other charges for services	-	18,875	-	441	19,316
Other	19,840	-	-	819	20,659
Interest and other investment income	-	-	-	922	922
Total revenues	20,510	2,241,688	208,173	(143,931)	2,326,440
EXPENDITURES					
Transportation	484,005	1,799,174	93,064	911,429	3,287,672
Intergovernmental	-	-	-	578,575	578,575
Debt service - principal	-	3	-	1,680	1,683
Debt service - interest	-	-	-	1,178	1,178
Capital outlays	-	418,692	513,849	972,870	1,905,411
Total expenditures	484,005	2,217,869	606,913	2,465,732	5,774,519
Excess (deficiency) of revenues over (under)expenditures	(463,495)	23,819	(398,740)	(2,609,663)	(3,448,079)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	79,035	6,400,287	1,410,080	9,284,356	17,173,758
Reappropriation to future year(s)	-	(4,096,559)	(787,746)	(7,771,859)	(12,656,164)
Lapsed appropriations	(832)	(84,960)	-	(109,984)	(195,776)
Receipts collected and transmitted to State Treasury	(21,544)	(1,849,844)	-	(1,743)	(1,873,131)
Net change in liabilities for reappropriated accounts	(144)	(274)	(17,343)	81,565	63,804
Amount of SAMS Transfers-in	-	(306,721)	(210,170)	-	(516,891)
Amount of SAMS Transfers-out	-	-	-	1,174,744	1,174,744
Transfers-in	411,845	-	-	54,994	466,839
Transfers-out	-	(4,241)	-	(88,793)	(93,034)
Capital lease financing	-	21	-	-	21
Net other sources (uses) of financial resources	468,360	57,709	394,821	2,623,280	3,544,170
Net change in fund balances	4,865	81,528	(3,919)	13,617	96,091
Fund balances, July 1, 2010, as restated	5,910	337,104	19,408	158,617	521,039
Decrease for changes in inventories	-	(2,388)	-	-	(2,388)
FUND BALANCES, JUNE 30, 2011	\$ 10,775	\$ 416,244	\$ 15,489	\$ 172,234	\$ 614,742

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois
Department of Transportation
Reconciliation of Statement of Governmental Funds Revenues, Expenditures,
and Changes in Fund Balances to Statement of Activities
For the Year Ended June 30, 2011
(Expressed in Thousands)

Net change in fund balances	\$	96,091
Change in inventories		<u>(2,388)</u>
		93,703
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlays exceeded depreciation in the current period.		817,523
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		1,683
Internal service funds are used to charge costs of certain activities to individual funds. The net income of the internal service funds is reported as governmental activities in the Statement of Activities.		4
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.		(2)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the increase in unavailable revenue over the prior year.		49,017
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are reported. This is the net book value of the capital assets disposed.		(1,690)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.		
Increase in compensated absence		(1,764)
Increase in capital leases		(18)
Decrease in auto liability claims		3,999
Increase in pollution remediation obligations		<u>(321)</u>
Change in net assets of governmental activities	\$	<u>962,134</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Transportation

Statement of Net Assets - Proprietary Fund

Air Transportation Revolving Fund (0309)

June 30, 2011 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
<hr/>	
ASSETS	
Cash equity with State Treasurer	\$ 216
Due from other Department funds	183
Due from other State funds	93
Due from component units	1
Total current assets	<u>493</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>83</u>
NET ASSETS	
Unrestricted	410
Total net assets	<u>\$ 410</u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Transportation

**Statement of Revenues, Expenses, and Changes in
Fund Net Assets - Proprietary Fund**

Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2011 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for sales and services	\$ 569
OPERATING EXPENSES	
Cost of sales and services	565
Total operating expenses	<u>565</u>
Operating income and change in net assets	4
NET ASSETS, JULY 1, 2010	<u>406</u>
NET ASSETS, JUNE 30, 2011	<u><u>\$ 410</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Transportation

Statement of Cash Flows - Proprietary Fund

Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2011 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 1
Cash received from transactions with other funds	641
Cash payments to suppliers for goods and services	(582)
Net cash provided by operating activities	<u>60</u>
Net increase in cash and cash equivalents	60
Cash and cash equivalents, July 1, 2010	<u>156</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2011	<u><u>\$ 216</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
OPERATING INCOME	\$ 4
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in due from other funds	74
(Increase) in due from component units	(1)
(Decrease) in accounts payable and accrued liabilities	(17)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u><u>\$ 60</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

(1) Organization

The Department of Transportation (the Department) is a part of the executive branch of government of the State of Illinois (State) and operates under the authority of and review of the Illinois General Assembly. The Department operates under a budget approved by the General Assembly in which resources primarily from the Road Fund and the State Construction Account are appropriated for the use of the Department. Activities of the Department are subject to the authority of the Office of the Governor, the State's chief executive officer, and other departments of the executive and legislative branches of government (such as the Department of Central Management Services, the Governor's Office of Management and Budget, the State Treasurer's Office, and the State Comptroller's Office) as defined by the Illinois General Assembly. All funds appropriated to the Department and all other cash received are under the custody and control of the State Treasurer, with the exception of locally-held retainage accounts authorized by State law.

The Department is organized to provide safe, cost-effective transportation for Illinois in ways that enhance quality of life, promote economic prosperity, and demonstrate respect for our environment.

(2) Summary of Significant Accounting Policies

The financial statements of the Department have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB). To facilitate the understanding of data included in the financial statements, summarized below are the more significant accounting policies.

(a) Financial Reporting Entity

As defined by GAAP, the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- 1) Appointment of a voting majority of the component unit's board and either (a) the primary government's ability to impose its will, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- 2) Fiscal dependency on the primary government.

Based upon the required criteria, the Department has no component units and is not a component unit of any other entity. However, because the Department is not legally separate from the State of Illinois, the financial statements of the Department are included in the financial statements of the State of Illinois. The State of Illinois' Comprehensive Annual Financial Report may be obtained by writing to the State Comptroller's Office, Division of Financial Reporting, 325 West Adams Street, Springfield, Illinois, 62704-1871.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2011 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The financial activities of the Department, which consist only of governmental activities, are reported under the transportation function in the State of Illinois' Comprehensive Annual Financial Report. A brief description of the Department's government-wide and fund financial statements is as follows:

Government-wide Statements. The government-wide statement of net assets and statement of activities report the overall financial activity of the Department. Eliminations have been made to minimize the double-counting of internal activities of the Department. The financial activities of the Department consist only of governmental activities, which are primarily supported by taxes, charges for services, and intergovernmental revenues.

The statement of net assets presents the assets and liabilities of the Department's governmental activities with the difference being reported as net assets. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

The statement of activities presents a comparison between direct expenses and program revenues for the transportation function of the Department's governmental activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Department's funds. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis on fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Department administers the following major governmental funds (or portions thereof in the case of shared funds) - see the State of Illinois Comprehensive Annual Financial Report:

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

General – This is the State’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The services which are administered by the Department and accounted for in the General Fund include, among others, public transportation and air transportation for the Governor and State Legislature on official business. Certain resources obtained from federal grants and used to support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Road – This fund accounts for the activities of the State highway programs including highway maintenance and construction, traffic control and safety, and administering motor vehicle laws and regulations. Funding sources include federal aid, State motor fuel taxes and various license and fee charges.

State Construction Account – This fund accounts for the construction, reconstruction, and maintenance of the State maintained highway system. Funding sources include a portion of motor vehicle registration fees, weight taxes, and transfers from the Motor Fuel Tax Fund.

Additionally, the Department reports the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for resources obtained from specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. Special revenue funds account for, among other things, federal grant programs, taxes levied with statutorily defined distributions, and other resources restricted as to purpose.

Debt Service – These funds account for governmental resources obtained and accumulated to pay interest and principal on general long-term debt issues.

Capital Projects – These funds account for resources obtained and used for the acquisition or construction of major capital facilities and other capital assets. Such resources are derived principally from proceeds of general and special obligation bond issues and certificates of participation.

Proprietary Fund Types:

Internal Service – This fund accounts for air travel provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis.

(c) Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include

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intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, principal and interest on formal debt issues, claims and judgments, and compensated absences are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Significant revenue sources which are susceptible to accrual include federal aid and motor fuel tax revenue. All other revenue sources including fines, penalties, licenses and other miscellaneous revenue are considered to be measurable and available only when cash is received.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund, Road Fund, State Construction Fund, and the Motor Fuel Tax Fund, Cycle Rider Safety Training Fund, Transportation Bond Series A Fund, Transportation Bond Series B Fund, Transportation Bond Series D Fund and General Obligation Bond Retirement and Interest Fund, nonmajor governmental funds, represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

In presenting these financial statements, certain unique accounts are used for the presentation of shared funds. The following accounts are used in these financial statements to present the Department's portion of shared funds:

Unexpended Appropriations

This "asset" account represents lapse period warrants processed by the State Comptroller's Office after June 30, annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

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Appropriations from State Resources

This "other financing source" account represents the final legally adopted appropriation according to SAMS records.

Reappropriation to Future Year(s)

This contra revenue account reduces current year's appropriations by the amount of the reappropriation to reflect the State's realignment of the budgetary needs to the subsequent year and avoid double counting of a portion of the appropriation in more than one fiscal year.

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For State Fiscal Year 2011, the Illinois General Assembly extended the lapse period from August 31, 2011 to December 31, 2011 to allow for the liquidation of all expenditure transactions for the year.

Net Change in Liabilities for Reappropriated Accounts

This account reflects the amount which should be added to or subtracted from the current year appropriation for shared funds to reflect the increase or decrease from prior year to current year for amounts included in obligations for reappropriated accounts which are liabilities at June 30 of the prior year and June 30 of the current year.

Receipts Collected and Transmitted to State Treasury

This "other financing use" account represents all cash receipts received during the fiscal year from SAMS records.

Amount of SAMS Transfers-In

This "other financing use" account represents cash transfers made by the Office of the Comptroller in accordance with statutory provisions to the corresponding fund during the fiscal year per SAMS records in which the Department did not make a deposit into the State Treasury.

Amount of SAMS Transfers-Out

This "other financing source" account represents cash transfers made by the Office of the Comptroller in accordance with statutory provision from the corresponding fund during the fiscal year per SAMS records in which a legally adopted appropriation was not charged.

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(e) Eliminations

Eliminations have been made in the government-wide statement of net assets to minimize the “grossing-up” effect on assets and liabilities within the governmental activities column of the Department. As a result, amounts reported in the governmental funds balance sheet and proprietary funds statement of net assets as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net assets. Amounts reported in the governmental funds balance sheet and proprietary funds statement of net assets as receivable from or payable to fiduciary funds have been included in the government-wide statement of net assets as receivable from and payable to external parties, rather than as internal balances. Also, eliminations have been made in the statement of activities to remove the “doubling-up” effect of interdepartmental internal service fund activity.

(f) Cash and Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments readily convertible to cash with maturities of less than 90 days at time of purchase. Cash and cash equivalents include cash on hand, petty cash funds, and cash held in local bank accounts such as retainage due to contractors.

(g) Inventories

For governmental funds, the Department recognizes the costs of inventories as expenditures when purchased. At year-end, physical counts are taken of significant inventories, consisting primarily of road salt and sand, traffic signs, and traffic sign materials, in governmental funds and are reported at cost on the average cost method. Inventories reported in governmental funds do not reflect current appropriable resources, and therefore, the Department reserves an equivalent portion of fund balance.

(h) Interfund Transactions

The Department has the following types of interfund transactions between Department funds and funds of other State agencies:

Services provided and used—sales and purchases of goods and services between funds for a price approximating their external exchange value. Interfund services provided and used are reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as interfund receivables and payables in the governmental funds balance sheets or the government-wide and proprietary statements of net assets.

Reimbursements—repayments from the funds responsible for particular expenditures or expenses to the funds that initially paid for them. Reimbursements are reported as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers—flows of assets (such as cash or goods) without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing uses in the funds making transfers and as other financing sources in the

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funds receiving transfers. In proprietary funds, transfers are reported after non-operating revenues and expenses.

The Department also has activity with the State of Illinois component units primarily related to research grants and purchases of services.

(i) Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at estimated fair value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Infrastructure	\$250,000	20-40
Land	100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Easements	25,000	5
Equipment	5,000	3-25

(j) Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary statements of net assets consists of unpaid, accumulated vacation and sick leave balances for Department employees. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The liability has been calculated based on the employees' current salary level and includes salary related costs (e.g., Social Security and Medicare taxes).

Legislation that became effective January 1, 1998 capped the paid sick leave for all State Employees' Retirement System members at December 31, 1997. Employees continue to accrue twelve sick days per year, but will not receive monetary compensation for any additional time earned after December 31, 1997. Sick days earned between 1984 and December 31, 1997 (with a 50% cash value) would only be used after all days with no cash value are depleted. Any sick

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days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(k) *Pollution Remediation Obligations*

In the government-wide Statement of Net Assets, pollution remediation obligations are reported at the current value of expected outlays to fund remediation costs using the expected cash flow technique. This technique measures the sum of probability-weighted amounts in a range of possible estimated amounts and uses all expectations about possible cash flows on a site-specific basis. Such ranges are weighted within 'most likely', 'worst case' and/or 'best case' scenarios and are based on actual remediation cost experience, remediation cost estimates and/or discrete cost remediation treatment possibilities. All reported obligation amounts are estimates and are subject to change resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In cases where remediation activities beyond site investigation/assessment or feasibility studies have not begun, remaining remediation costs are not reasonably estimable and liabilities for such cases are not reported.

(l) *Fund Balances*

In the fund financial statements, governmental funds report fund balances as a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. This hierarchy is made up of resources which are non-spendable, restricted, or unrestricted (committed, assigned and unassigned).

Non-spendable fund balance represents resources which relate to inventory or long-term receivables not expected to be converted to cash in the near term.

Restricted fund balance represents resources that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation.

Committed fund balance represents resources that are constrained on use for a specific purpose imposed generally by Governor and the State legislature. This constraint can only be removed or changed by the same action which established it. The action to constrain funds should occur prior to the end of the fiscal year.

Assigned fund balance represents resources that are intended by the Department to be used for a specific purpose. In all governmental funds, other than the General Fund, residual amounts are classified as assigned.

Unassigned fund balance represents resources that are available for any purpose. This classification is only reported in the General Fund, except in cases of negative fund balance reported in other governmental funds which are reported as unassigned.

When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed. Unrestricted resources which are committed are generally used before assigned resources and unassigned resources.

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(m) Net Assets

In the government-wide and proprietary fund statements of net assets, equity is displayed in three components as follows:

Invested in Capital Assets, Net of Related Debt – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. When both restricted and unrestricted resources are available for use, generally it is the State's policy to use restricted resources first, then unrestricted resources when they are needed.

Unrestricted – This consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

(n) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(o) New Accounting Pronouncements

Effective for the year ending June 30, 2011 the State adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. As a result of adopting this statement, several nonmajor governmental funds were reclassified from special revenue to general. In addition, transfers of designated revenues were reclassified from transfers in/out to the appropriate revenue in the fund which received the transfer.

In addition, the State adopted GASB Statement No. 59, *Financial Instruments Omnibus*, which updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. There was no significant impact on the Department's financial statements as a result of adopting this statement.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2012 the Department will adopt GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*, which clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider.

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GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, will be effective for the Department beginning with its year end June 30, 2013. The objective of the Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* will be effective for the Department beginning with its year end June 30, 2013. The objective of this statement is to provide financial reporting guidance for deferred outflows and inflows of resources and to rename the residual measure from "Net Assets" to "Net Position".

The Department has not yet determined the impact these statements will have on financial reporting.

(3) Deposits

(a) Deposits

The State Treasurer is the custodian of the State's cash and cash equivalents for funds maintained in the State Treasury. Deposits in the custody of the State Treasurer are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois' Comprehensive Annual Financial Report.

Cash on deposit for locally held funds had a carrying amount and bank balance of \$2.384 million at June 30, 2011.

(b) Securities Lending Transactions

Under the authority of the Treasurer's published investment policy that was developed in accordance with the State statute, the State Treasurer lends securities to broker-dealers and other entities for collateral that will be returned for the same securities in the future. The State Treasurer has, through a Securities Lending Agreement, authorized Deutsche Bank Group to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2011, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

The State Treasurer did not impose any restrictions during the fiscal year on the amount of the loans available or the eligible securities. In the event of borrower default, Deutsche Bank Group

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provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank Group is obligated to indemnify the State Treasurer if Deutsche Bank Group loses any securities, collateral or investments of the State Treasurer in Deutsche Bank Group's custody. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or Deutsche Bank Group.

During the fiscal year, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank Group and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2011 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$3.002 million at June 30, 2011.

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(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 393,780	Due from other State funds for June sales tax allocations, debt service payments and interfund borrowings.
Road	22,911	3,274	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State funds for services and reimbursements of expenditures incurred.
State Construction Account	15,456	-	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June.
Nonmajor governmental funds	16,247	178,771	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred and debt service payments and from other State funds for reimbursement of expenditures and interfund borrowings.
Internal service funds	183	93	Due from other Department funds and other State funds for air transportation services provided.
	<u>\$ 54,797</u>	<u>\$ 575,918</u>	

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The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to other Department and State of Illinois funds.

Fund	Due to		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 173	\$ -	Due to other Department Funds for downstate transit improvements and due to Department internal service funds for air transportation services received.
Road	517	15,768	Due to other Department funds for reimbursement of expenditures incurred and to other State funds for reimbursement of expenditures incurred and for services received.
State Construction Account	-	175	Due to other State funds for services received.
Nonmajor governmental funds	54,107	849	Due to other Department Funds for motor fuel tax allocation for June and to other State funds for services received and retirement costs.
	\$ 54,797	\$ 16,792	

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(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 411,845	Transfers from other State funds for sales tax allocation, debt service, and for other purposes.
Nonmajor governmental funds	54,994	-	Transfers from Motor Fuel Tax Fund for allocation pursuant to State statute and other Department nonmajor governmental funds for debt service and downstate public transportation purposes.
	<u>\$ 54,994</u>	<u>\$ 411,845</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2011, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 4,241	\$ -	Transfers to Department nonmajor governmental funds for debt service payments.
Nonmajor governmental funds	12,253	76,540	Transfers to other State funds for motor fuel tax allocation for June, administration of Railroad Safety program, and for other purposes.
	<u>\$ 16,494</u>	<u>\$ 76,540</u>	

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(c) Balances Due to/from State of Illinois Component Units

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred and services received.

<u>Component Unit</u>	<u>Road Fund</u>	<u>Internal Service Funds</u>
Illinois Toll Highway Authority	\$ 59,905	\$ -
Southern Illinois University	-	1
	<u>\$ 59,905</u>	<u>\$ 1</u>

The following balances (amounts expressed in thousands) at June 30, 2011 represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs.

<u>Component Unit</u>	<u>Due to</u>	
	<u>Road Fund</u>	<u>Nonmajor Governmental Funds</u>
Illinois Toll Highway Authority	\$ 132,495	\$ -
Western Illinois University	-	261
Illinois State University	-	377
Northern Illinois University	133	63
Southern Illinois University	408	219
University of Illinois	3,349	383
	<u>\$ 136,385</u>	<u>\$ 1,303</u>

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(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2011 was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2011</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 2,287,619	\$ 111,326	\$ 515	\$ -	\$ 2,398,430
Easements	1,916	1,248	-	-	3,164
Construction in progress	3,636	5,990	23	(2,786)	6,817
	<u>2,293,171</u>	<u>118,564</u>	<u>538</u>	<u>(2,786)</u>	<u>2,408,411</u>
Total capital assets not being depreciated					
Capital assets being depreciated:					
Infrastructure	24,286,855	1,771,641	938,926	-	25,119,570
Site improvements	2,497	-	-	-	2,497
Buildings and building improvements	125,449	-	-	2,786	128,235
Easements	4,154	1,637	956	-	4,835
Equipment	387,358	13,548	6,237	(450)	394,219
Capital leases - equipment	5	21	5	-	21
	<u>24,806,318</u>	<u>1,786,847</u>	<u>946,124</u>	<u>2,336</u>	<u>25,649,377</u>
Total capital assets being depreciated					
Less accumulated depreciation:					
Infrastructure	10,686,340	1,060,844	937,640	-	10,809,544
Site improvements	2,370	43	-	-	2,413
Buildings and building improvements	82,292	2,747	-	-	85,039
Easements	1,971	740	956	-	1,755
Equipment	298,152	23,512	6,371	(450)	314,843
Capital leases - equipment	5	2	5	-	2
	<u>11,071,130</u>	<u>1,087,888</u>	<u>944,972</u>	<u>(450)</u>	<u>11,213,596</u>
Total accumulated depreciation					
Total capital assets being depreciated, net					
	<u>13,735,188</u>	<u>698,959</u>	<u>1,152</u>	<u>2,786</u>	<u>14,435,781</u>
Governmental activity capital assets, net					
	<u>\$ 16,028,359</u>	<u>\$ 817,523</u>	<u>\$ 1,690</u>	<u>\$ -</u>	<u>\$ 16,844,192</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2011 was charged to the following function:

Transportation \$ 1,087,888

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(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2011 were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 46,354	\$ 27,747	\$ 25,983	\$ 48,118	\$ 2,982
Capital lease obligations	-	21	3	18	7
Auto liability claims	12,420	165	4,164	8,421	3,500
Pollution remediation obligations	979	1,000	679	1,300	1,100
Certificates of participation	21,630	-	1,680	19,950	1,770
Total	\$ 81,383	\$ 28,933	\$ 32,509	\$ 77,807	\$ 9,359

Compensated absences will be liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the Road Fund. Pollution remediation obligations have been liquidated by the applicable governmental fund that accounts for the related construction project.

(b) Capital lease obligations

The Department leases land, office facilities, office and computer equipment, and other assets with a historical cost and accumulated depreciation of \$21 thousand and \$2 thousand, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2011 are as follows:

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Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 7	\$ 1	\$ 8
2013	6	1	7
2014	5	-	5
	<u>\$ 18</u>	<u>\$ 2</u>	<u>\$ 20</u>

(c) Pollution remediation obligations

The Department has recorded pollution remediation obligations for investigations and remediation of contaminated soils generally consisting of soil sampling, disposal of impact soil, and installation of groundwater monitoring wells.

(d) Certificates of Participation

The Department financed the purchase of certain Department-owned real and personal property (District 1 headquarters) through a third party (non-State issued) certificate. This non-state issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Interest varies from 3.9% - 5.5%. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2011, are as follows:

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 1,770	\$ 1,087	\$ 2,857
2013	1,860	991	2,851
2014	1,965	887	2,852
2015	2,070	776	2,846
2016	2,185	655	2,840
2017-2020	10,100	1,223	11,323
	<u>\$ 19,950</u>	<u>\$ 5,619</u>	<u>\$ 25,569</u>

(7) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate,

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except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2011 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2011. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

A summary of SERS benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the SERS' CAFR. Also included is a discussion of employer and employee obligations to contribute and the authority under which those obligations are established.

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2011, the employer contribution rate was 27.988%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(8) Post-employment Benefits

The State provides health, dental, vision, and life insurance benefits for retirees and their dependents in a program administered by the Department of Healthcare and Family Services along with the Department of Central Management Services. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health, dental, and vision benefits include basic benefits for annuitants and dependents under the State's self-insurance plan and insurance contracts currently in force. Annuitants may be required to contribute towards health, dental, and vision benefits with the amount based on factors such as date of retirement, years of credited service with the State, whether the annuitant is covered by Medicare, and whether the annuitant has chosen a managed health care plan. Annuitants who retired prior to January 1, 1998, and who are vested in the State Employee's Retirement System do not contribute towards health, dental, and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced five percent for each year of credited service with the State allowing those annuitants with twenty or more years of credited service to not have to contribute towards health, dental, and vision benefits. Annuitants also receive life insurance coverage equal to the annual salary of the last day of employment until age 60, at which time the benefit becomes \$5,000.

The total cost of the State's portion of health, dental, vision, and life insurance benefits of all members, including post-employment health, dental, vision, and life insurance benefits, is recognized as an expense by the State in the Illinois Comprehensive Annual Financial Report. The State finances the costs on a pay-as-you-go basis. The total costs incurred for health, dental, vision, and life insurance benefits are not separated by department or component unit for annuitants and their dependents nor active employees and their dependents.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Healthcare and Family Services. A copy of the financial statements of the Department of Healthcare and Family Services may be obtained by writing to the Department of Healthcare and Family Services, 201 South Grand Ave., Springfield, Illinois, 62763-3838.

(9) Fund Balance

(a) Categories

At June 30, 2011, the Department's fund balances were classified as follows:

	<u>General Fund</u>	<u>Road Fund</u>	<u>State Const. Account</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Loans and notes receivable	\$ 456	\$ -	\$ -	\$ -	\$ 456
Inventory	-	51,283	-	-	51,283
Total Nonspendable	<u>\$ 456</u>	<u>\$ 51,283</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,739</u>
Restricted purpose:					
General Transportation	\$ 10,195	\$ -	\$ -	\$ 472	\$ 10,667
Capital Grants	-	-	-	29,722	29,722
Capital Outlays	-	-	-	507	507
Debt Service	-	-	-	15,703	15,703
Total Restricted	<u>\$ 10,195</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 46,404</u>	<u>\$ 56,599</u>
Committed purpose:					
General Transportation	\$ 90	\$ -	\$ -	\$ 119	\$ 209
Transportation Projects	-	364,961	-	20,364	385,325
Loans, Grants and Contracts	-	-	-	132,793	132,793
Capital Outlay	-	-	-	808	808
Total Committed	<u>\$ 90</u>	<u>\$ 364,961</u>	<u>\$ -</u>	<u>\$ 154,084</u>	<u>\$ 519,135</u>
Assigned purpose:					
Transportation Projects	\$ -	\$ -	\$ 15,489	\$ 328	\$ 15,817
Total Unassigned	<u>\$ 34</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,582)</u>	<u>\$ (28,548)</u>
Total Fund Balances	<u><u>\$ 10,775</u></u>	<u><u>\$ 416,244</u></u>	<u><u>\$ 15,489</u></u>	<u><u>\$ 172,234</u></u>	<u><u>\$ 614,742</u></u>

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

(b) Fund Deficits

The Federal Local Airport Fund and Federal Mass Transit Trust Fund had deficit fund balances of \$28.535 million and \$47 thousand, respectively, at June 30, 2011. The deficits funds will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

(10) Risk Management

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; aviation liability; auto liability; workers compensation; and natural disasters. Except for a portion of the auto liability, the State retains the risk of loss (i.e. self insured) for these risks.

Auto liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Claims liabilities are based upon the estimated ultimate cost of settling the claims including specific, incremental claim adjustment expenses, salvage, and subrogation and considering the effects of inflation and recent claim settlement trends including frequency and amount of payouts and other economic and social factors. The Department's risk financing for auto liabilities has been determined using an estimate of claims outstanding.

The following is a reconciliation of the Department's claims liabilities for the years ended June 30, 2010 and June 30, 2011.

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2010	\$ 12,531	\$ 2,895	\$ 3,006	\$ 12,420
2011	\$ 12,420	\$ 165	\$ 4,164	\$ 8,421

(11) Commitments and Contingencies

(a) Commitments

The Department has outstanding construction projects for highway program improvements and administrative expenses in which it has entered into future commitments. The amount of the Department's commitments was \$3.812 billion at June 30, 2011.

(b) Encumbrances

The Department has Road Fund encumbrances for goods ordered but not received prior to June 30, 2011 of \$335 thousand.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

(c) Operating Leases

The Department leases various real property and equipment under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$9.203 million for the year ended June 30, 2011.

The following is a schedule of future minimum lease payments under operating leases (amounts expressed in thousands):

<u>Year ending June 30,</u>	<u>Amount</u>
2012	\$ 487
2013	19
2014	15
	<u>\$ 521</u>

(d) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2011, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(e) Litigation

On April 19, 2004, an auto accident occurred wherein the plaintiff sued the State in *Chraca v. Miles*. On September 8, 2009, judgment was entered in the Circuit Court of Cook County for the amount of \$23.8 million against the State. On February 18, 2010, the State appealed the judgment to the First District Appellate Court of Illinois and a decision is expected in late 2011. The Court has not yet ruled. An amount of \$2 million, the statutory limit on auto liability exposure per case, has been included in the long-term auto liability. Any amount to be paid in addition to this \$2 million is uncertain at this time. Any court-ordered judgment amount, including the \$2 million already accrued, would be paid from the Road Fund.

The Department is also routinely involved in a number of legal proceedings and claims that cover a wide range of matters. In the opinion of management, the outcome of these matters is not expected to have any material adverse effect on the financial position or results of operations of the Department.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2011

(12) Restatement for Implementation of New Accounting Standard

As shown in the following table, the financial statements of the Department have been restated as of June 30, 2010 for the implementation of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Comprehensive Regional Planning Fund (0406), the Public Transportation Fund (0627) and the Metro-East Public Transportation Fund (0794) were presented as non-major special revenue funds in previous years but were reclassified to general based upon criteria of GASB Statement No. 54. (Amounts expressed in thousands.)

	General Fund	Nonmajor Governmental Funds
Fund Balance, June 30, 2010, as previously reported	\$ 670	\$ 163,857
Implementation of GASB Statement No. 54	5,240	(5,240)
Fund Balance, June 30, 2010, as restated	\$ 5,910	\$ 158,617

State of Illinois
 Department of Transportation

Combining Schedule of Accounts -
 General Fund

June 30, 2011 (Expressed in Thousands)

	General Fund Accounts					Total
	General Revenue 0001	I-Fly 0306	Comprehensive Regional Planning 0406	Public Transportation 0627	Metro-East Public Transportation 0794	
ASSETS						
Unexpended appropriations	\$ 64,961	\$ -	\$ -	\$ -	\$ -	\$ 64,961
Cash equity with State Treasurer	-	-	10,000	98	-	10,098
Intergovernmental receivables, net	34	-	-	-	-	34
Other receivables, net	160	-	-	-	-	160
Due from other State funds	-	45	150	393,495	90	393,780
Loans receivable, net	456	-	-	-	-	456
Total assets	\$ 65,611	\$ 45	\$ 10,150	\$ 393,593	\$ 90	\$ 469,489
LIABILITIES						
Accounts payable and accrued liabilities	\$ 31,218	\$ -	\$ -	\$ -	\$ -	\$ 31,218
Intergovernmental payables	33,570	-	-	393,593	-	427,163
Due to other Department funds	173	-	-	-	-	173
Unavailable revenue	160	-	-	-	-	160
Total liabilities	65,121	-	-	393,593	-	458,714
FUND BALANCES						
Nonspendable portion of loans receivable	456	-	-	-	-	456
Restricted	-	45	10,150	-	-	10,195
Committed	-	-	-	-	90	90
Unassigned	34	-	-	-	-	34
Total fund balances	490	45	10,150	-	90	10,775
Total liabilities and fund balances	\$ 65,611	\$ 45	\$ 10,150	\$ 393,593	\$ 90	\$ 469,489

State of Illinois
Department of Transportation

**Combining Schedule of Revenues,
Expenditures, and Changes in Fund Balances -
General Fund**

For the Year Ended June 30, 2011 (Expressed in Thousands)

	General Fund Accounts					Total
	General Revenue 0001	I-Fly 0306	Comprehensive Regional Planning 0406	Public Transportation 0627	Metro-East Public Transportation 0794	
REVENUES						
Operating grants - Federal	\$ 546	\$ -	\$ -	\$ -	\$ -	546
Other operating grants	124	-	-	-	-	124
Other	19,840	-	-	-	-	19,840
Total revenues	20,510	-	-	-	-	20,510
EXPENDITURES						
Transportation	77,160	-	-	406,845	-	484,005
Total expenditures	77,160	-	-	406,845	-	484,005
Excess (deficiency) of revenues over (under) expenditures	(56,650)	-	-	(406,845)	-	(463,495)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	79,035	-	-	-	-	79,035
Lapsed appropriations	(832)	-	-	-	-	(832)
Receipts collected and transmitted to State Treasury	(21,544)	-	-	-	-	(21,544)
Net change in liabilities for reappropriated accounts	(144)	-	-	-	-	(144)
Transfers in	-	-	5,000	406,845	-	411,845
Transfers out	-	-	-	-	-	-
Net other sources (uses) of financial resources	56,515	-	5,000	406,845	-	468,360
Net change in fund balances	(135)	-	5,000	-	-	4,865
Fund balances, July 1, 2010, as restated	625	45	5,150	-	90	5,910
FUND BALANCES, JUNE 30, 2011	\$ 490	\$ 45	\$ 10,150	\$ -	\$ 90	\$ 10,775

State of Illinois

Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2011 (Expressed in Thousands)

Special Revenue

	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal Local Airport 0095	DOT Special Projects 0174	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265	Tax Recovery 0310	Federal High Speed Rail Trust 0433
ASSETS									
Unexpended appropriations	\$ 86,136	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	-	6,793	45	923	-	405	4,275	434	74,676
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	157	1,796	-	-
Intergovernmental receivables, net	-	-	-	34,567	-	-	-	-	75,389
Other receivables, net	-	-	-	229	-	-	2	-	-
Due from other Department funds	-	3,500	-	-	-	-	-	-	-
Due from other State funds	-	11,027	74	-	-	327	8,492	408	-
Loans receivable, net	-	-	-	-	-	-	13,312	-	-
Total assets	\$ 86,136	\$ 21,320	\$ 119	\$ 35,719	\$ -	\$ 889	\$ 27,877	\$ 842	\$ 150,065
LIABILITIES									
Accounts payable and accrued liabilities	\$ 31	\$ 4,294	\$ -	\$ 9,188	\$ -	\$ 404	\$ 1,801	\$ 34	\$ 65,795
Intergovernmental payables	43,389	5,618	-	26,516	-	-	128	-	-
Due to other Department funds	41,867	-	-	-	-	-	-	-	-
Due to other State funds	849	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	15	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	157	1,796	-	-
Unavailable revenue	-	-	-	28,535	-	-	-	-	75,314
Total liabilities	86,136	9,912	-	64,254	-	561	3,725	34	141,109
FUND BALANCES (DEFICITS)									
Restricted fund balance	-	-	-	-	-	-	-	-	-
Committed fund balance	-	11,408	119	-	-	-	24,152	808	8,956
Assigned fund balance	-	-	-	-	-	328	-	-	-
Unassigned fund balance	-	-	-	(28,535)	-	-	-	-	-
Total fund balances (deficits)	-	11,408	119	(28,535)	-	328	24,152	808	8,956
Total liabilities and fund balances (deficits)	\$ 86,136	\$ 21,320	\$ 119	\$ 35,719	\$ -	\$ 889	\$ 27,877	\$ 842	\$ 150,065

State of Illinois
Department of Transportation
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2011 (Expressed in Thousands)

	Special Revenue						
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,865	\$ -
Cash equity with State Treasurer	482	315	1,948	1	-	-	2,737
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	1,049
Intergovernmental receivables, net	-	-	-	-	3,742	-	-
Other receivables, net	-	-	-	-	-	-	1
Due from other Department funds	12,240	-	-	-	-	-	-
Due from other State funds	17,000	157	141,196	90	-	-	-
Loans receivable, net	-	-	-	-	-	-	1,304
Total assets	\$ 29,722	\$ 472	\$ 143,144	\$ 91	\$ 3,742	\$ 3,865	\$ 5,091
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 194	\$ 2,922	\$ -
Intergovernmental payables	-	-	26,268	-	3,203	-	128
Due to other Department funds	-	-	12,240	-	-	-	-
Due to other State funds	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	345	943	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	1,049
Unavailable revenue	-	-	-	-	47	-	-
Total liabilities	-	-	38,508	-	3,789	3,865	1,177
FUND BALANCES (DEFICITS)							
Restricted fund balance	29,722	472	-	-	-	-	-
Committed fund balance	-	-	104,636	91	-	-	3,914
Assigned fund balance	-	-	-	-	-	-	-
Unassigned fund balance	-	-	-	-	(47)	-	-
Total fund balances (deficits)	29,722	472	104,636	91	(47)	-	3,914
Total liabilities and fund balances (deficits)	\$ 29,722	\$ 472	\$ 143,144	\$ 91	\$ 3,742	\$ 3,865	\$ 5,091

State of Illinois
Department of Transportation
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2011 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation	Transportation	Transportation	IDOT	General	IDOT	
	Bond Series A	Bond Series B	Bond Series D	Capital	Obligation	Debt	
	0553	0554	0695	Projects	Bond	Service	
					Retirement		
					and Interest		
					0101	2494	
ASSETS							
Unexpended appropriations	\$ 41,289	\$ 120,467	\$ 70,248	\$ -	\$ -	\$ -	\$ 322,005
Cash equity with State Treasurer	-	-	-	-	-	-	93,034
Cash and cash equivalents	-	-	-	-	-	2,357	2,357
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	3,002
Intergovernmental receivables, net	-	-	-	-	-	-	113,698
Other receivables, net	10	-	-	-	-	-	242
Due from other Department funds	-	-	-	507	-	-	16,247
Due from other State funds	-	-	-	-	-	-	178,771
Loans receivable, net	-	-	-	-	13,346	-	27,962
Total assets	\$ 41,299	\$ 120,467	\$ 70,248	\$ 507	\$ 13,346	\$ 2,357	\$ 757,318
LIABILITIES							
Accounts payable and accrued liabilities	\$ 39,319	\$ 21,570	\$ 46,593	\$ -	\$ -	\$ -	\$ 192,145
Intergovernmental payables	1,970	98,897	23,655	-	-	-	229,772
Due to other Department funds	-	-	-	-	-	-	54,107
Due to other State funds	-	-	-	-	-	-	849
Due to State of Illinois component units	-	-	-	-	-	-	1,303
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	3,002
Unavailable revenue	10	-	-	-	-	-	103,906
Total liabilities	41,299	120,467	70,248	-	-	-	585,084
FUND BALANCES (DEFICITS)							
Restricted fund balance	-	-	-	507	13,346	2,357	46,404
Committed fund balance	-	-	-	-	-	-	154,084
Assigned fund balance	-	-	-	-	-	-	328
Unassigned fund balance	-	-	-	-	-	-	(28,582)
Total fund balances (deficits)	-	-	-	507	13,346	2,357	172,234
Total liabilities and fund balances (deficits)	\$ 41,299	\$ 120,467	\$ 70,248	\$ 507	\$ 13,346	\$ 2,357	\$ 757,318

State of Illinois
Department of Transportation

Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

Special Revenue

	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal Local Airport 0095	DOT Special Projects 0174	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265	Tax Recovery 0310	Federal High Speed Rail Trust 0433
REVENUES									
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	(513,711)	-	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	68,204	-	-	-	-	74,751
Other operating grants	-	-	-	23,916	-	-	-	-	-
Licenses and fees	-	-	23	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	441	-
Other	2	30	3	-	-	327	-	-	-
Interest and other investment income	-	-	-	-	-	1	412	-	-
Total revenues	(513,709)	30	26	92,120	-	328	412	441	74,751
EXPENDITURES									
Transportation	10,908	33,490	5	102,972	4	403	5,870	399	65,795
Intergovernmental	578,575	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-	-
Total expenditures	589,483	33,490	5	102,972	4	403	5,870	399	65,795
Excess (deficiency) of revenues over (under) expenditures	(1,103,192)	(33,460)	21	(10,852)	(4)	(75)	(5,458)	42	8,956
OTHER SOURCES (USES) OF FINANCIAL RESOURCES									
Appropriations from State resources	12,729	-	-	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-	-
Lapsed appropriations	(1,821)	-	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	(8,920)	-	-	-	-	-	-	-	-
Amount of SAMS Transfers-out	1,174,744	-	-	-	-	-	-	-	-
Transfers-in	-	38,500	-	-	-	-	-	-	-
Transfers-out	(73,540)	(3,000)	-	(13)	-	-	-	-	-
Net other sources (uses) of financial resources	1,103,192	35,500	-	(13)	-	-	-	-	-
Net change in fund balances	-	2,040	21	(10,865)	(4)	(75)	(5,458)	42	8,956
Fund balances (deficits), July 1, 2010, as restated	-	9,368	98	(17,670)	4	403	29,610	766	-
FUND BALANCES (DEFICITS), JUNE 30, 2011	\$ -	\$ 11,408	\$ 119	\$ (28,535)	\$ -	\$ 328	\$ 24,152	\$ 808	\$ 8,956

State of Illinois
Department of Transportation

Combining Statement of Revenues,
Expenditures, and Changes in Fund Bal:
Nonmajor Governmental Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

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	Special Revenue						
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
REVENUES							
Sales tax	\$ -	\$ -	\$ 172,105	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	-	28,599	-	-
Other operating grants	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-
Other	-	441	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	70
Total revenues	-	441	172,105	-	28,599	-	70
EXPENDITURES							
Transportation	-	-	151,101	-	28,460	3,769	1,269
Intergovernmental	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-
Total expenditures	-	-	151,101	-	28,460	3,769	1,269
Excess (deficiency) of revenues over (under) expenditures	-	441	21,004	-	139	(3,769)	(1,199)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	-	-	-	-	-	9,624	-
Reappropriation to future year(s)	-	-	-	-	-	(5,246)	-
Lapsed appropriations	-	-	-	-	-	(93)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	(516)	-
Amount of SAMS Transfers-out	-	-	-	-	-	-	-
Transfers-in	12,240	-	-	-	-	-	-
Transfers-out	-	-	(12,240)	-	-	-	-
Net other sources (uses) of financial resources	12,240	-	(12,240)	-	-	3,769	-
Net change in fund balances	12,240	441	8,764	-	139	-	(1,199)
Fund balances (deficits), July 1, 2010, as restated	17,482	31	95,872	91	(186)	-	5,113
FUND BALANCES (DEFICITS), JUNE 30, 2011	\$ 29,722	\$ 472	\$ 104,636	\$ 91	\$ (47)	\$ -	\$ 3,914

State of Illinois
Department of Transportation

Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds

For the Year Ended June 30, 2011 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A	Transportation Bond Series B	Transportation Bond Series D	IDOT Capital Projects	General Obligation Bond Retirement and Interest	IDOT Debt Service	
	0553	0554	0695	1494	0101	2494	
REVENUES							
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	172,105
Motor fuel taxes	-	-	-	-	-	-	(513,711)
Operating grants - Federal	-	-	-	-	-	-	171,554
Other operating grants	-	-	-	-	-	-	23,916
Licenses and fees	-	-	-	-	-	-	23
Other charges for services	-	-	-	-	-	-	441
Other	-	-	-	-	16	-	819
Interest and other investment income	-	-	-	-	439	-	922
Total revenues	-	-	-	-	455	-	(143,931)
EXPENDITURES							
Transportation	(14,845)	328,042	192,254	1,532	-	1	911,429
Intergovernmental	-	-	-	-	-	-	578,575
Debt service - principal	-	-	-	-	-	1,680	1,680
Debt service - interest	-	-	-	-	-	1,178	1,178
Capital outlays	591,041	1,418	380,411	-	-	-	972,870
Total expenditures	576,196	329,460	572,665	1,532	-	2,859	2,465,732
Excess (deficiency) of revenues over (under) expenditures	(576,196)	(329,460)	(572,665)	(1,532)	455	(2,859)	(2,608,663)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	1,629,504	4,114,616	3,517,883	-	-	-	9,284,356
Reappropriation to future year(s)	(1,012,619)	(3,786,565)	(2,967,429)	-	-	-	(7,771,859)
Lapsed appropriations	-	(108,070)	-	-	-	-	(109,984)
Receipts collected and transmitted to State Treasury	-	-	-	-	(1,743)	-	(1,743)
Net change in liabilities for reappropriated accounts	(40,689)	109,479	22,211	-	-	-	81,565
Amount of SAMS Transfers-out	-	-	-	-	-	-	1,174,744
Transfers-in	-	-	-	1,336	13	2,905	54,994
Transfers-out	-	-	-	-	-	-	(88,793)
Net other sources (uses) of financial resources	576,196	329,460	572,665	1,336	(1,730)	2,905	2,623,280
Net change in fund balances	-	-	-	(196)	(1,275)	46	13,617
Fund balances (deficits), July 1, 2010, as restated	-	-	-	703	14,621	2,311	158,617
FUND BALANCES (DEFICITS), JUNE 30, 2011	\$ -	\$ -	\$ -	\$ 507	\$ 13,346	\$ 2,357	\$ 172,234

State of Illinois
Department of Transportation

Combining Schedule of Accounts -
Motor Fuel Tax Fund

June 30, 2011 (Expressed in Thousands)

Special Revenue

	Motor Fuel Tax 0012	Motor Fuel Tax- Counties 0413	Motor Fuel Tax- Municipalities 0414	Motor Fuel Tax- Townships and Road Districts 0415	Eliminations	Total
ASSETS						
Unexpended appropriations	\$ 86,136	\$ -	\$ -	\$ -	\$ -	\$ 86,136
Due from other Department funds	-	15,189	21,302	6,894	(43,385)	-
Total assets	\$ 86,136	\$ 15,189	\$ 21,302	\$ 6,894	\$ (43,385)	\$ 86,136
LIABILITIES						
Accounts payable and accrued liabilities	\$ 31	\$ -	\$ -	\$ -	\$ -	\$ 31
Intergovernmental payables	4	15,189	21,302	6,894	-	43,389
Due to other Department funds	85,252	-	-	-	(43,385)	41,867
Due to other State funds	849	-	-	-	-	849
Total liabilities	86,136	15,189	21,302	6,894	(43,385)	86,136
FUND BALANCES						
Unassigned	-	-	-	-	-	-
Total fund balances	-	-	-	-	-	-
Total liabilities and fund balances	\$ 86,136	\$ 15,189	\$ 21,302	\$ 6,894	\$ (43,385)	\$ 86,136

State of Illinois
Department of Transportation

**Combining Schedule of Revenues,
Expenditures, and Changes in Fund Balances -
Motor Fuel Tax Fund**

For the Year Ended June 30, 2011 (Expressed in Thousands)

	Special Revenue					
	Motor Fuel Tax 0012	Motor Fuel Tax- Counties 0413	Motor Fuel Tax- Municipalities 0414	Motor Fuel Tax- Townships and Road Districts 0415	Eliminations	Total
REVENUES						
Motor fuel taxes	\$ (1,092,284)	\$ 202,559	\$ 284,079	\$ 91,935	\$ -	\$ (513,711)
Other	-	-	2	-	-	2
Total revenues	(1,092,284)	202,559	284,081	91,935	-	(513,709)
EXPENDITURES						
Transportation	10,908	-	-	-	-	10,908
Intergovernmental	-	202,559	284,081	91,935	-	578,575
Total expenditures	10,908	202,559	284,081	91,935	-	589,483
Deficiency of revenues under expenditures	(1,103,192)	-	-	-	-	(1,103,192)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	12,729	-	-	-	-	12,729
Lapsed appropriations	(1,821)	-	-	-	-	(1,821)
Net change in liabilities for reappropriated accounts	(8,920)	-	-	-	-	(8,920)
Amount of SAMS Transfers-out	1,174,744	-	-	-	-	1,174,744
Transfers-out	(73,540)	-	-	-	-	(73,540)
Net other sources (uses) of financial resources	1,103,192	-	-	-	-	1,103,192
Net change in fund balances	-	-	-	-	-	-
Fund balances, July 1, 2010	-	-	-	-	-	-
FUND BALANCES, JUNE 30, 2011	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



3201 West White Oaks Drive, Suite 102 • Springfield, IL 62704

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2011, which collectively comprise the Department's basic financial statements and have issued our report thereon dated May 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Department management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements and not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and

corrected on a timely basis. We consider the deficiencies described in findings 11-3, 11-4 and 11-5 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 11-1 and 11-2 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Department's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Auditor General, the General Assembly, the Legislative Audit Commission, the Governor, and Department management, and is not intended to be and should not be used by anyone other than these specified parties.

Schul LLP

Springfield, Illinois
May 16, 2012

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS

June 30, 2011

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

- 11-1 FINDING:** (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements)

The Department of Transportation's (Department's) year-end financial reporting in accordance with generally accepted accounting principles (GAAP) to the Illinois Office of the Comptroller was untimely and contained numerous inaccuracies. These problems, if not detected and corrected, could materially misstate the Department's financial statements and negatively impact the statewide financial statements prepared by the Illinois Office of the Comptroller.

During our audit of the June 30, 2011 Department financial statements, we noted:

- GAAP reporting packages and draft financial statements were not submitted to the Comptroller or the auditors in a timely manner. Based on the engagement timetable, the Department should have completed its Statewide GAAP submissions to the Comptroller by September 15, 2011, and completed its draft financial statements and submitted them to the auditors by September 30, 2011. The Road Fund GAAP reporting package was not submitted to the Comptroller until November 7, 2011, over one and a half months late. Auditors incurred numerous delays in receiving requested documentation and did not receive final adjusted financial statements until April 12, 2012, over six months late.
- We noted weaknesses in the financial accounting for the Department's inventory balance due to inaccurate commodities inventory records. These weaknesses are explained in more detail in Finding 11-2.
- We noted weaknesses in the financial accounting for, and reporting of, capital assets; most significant of which was the inaccurate reporting of accumulated depreciation of infrastructure assets and the related loss on disposals of infrastructure assets. These weaknesses are explained in more detail in Finding 11-3.
- We noted weaknesses in the financial accounting for, and reporting of, deferred revenues which resulted in significant adjustments in the Federal High Speed Rail Trust Fund. These weaknesses are explained in more detail in Finding 11-4.

- We noted weakness in the financial accounting for, and reporting of, accounts payable which resulted in significant adjustments to the Road Fund and the Federal High Speed Rail Trust Fund. These weaknesses are explained in more detail in Finding 11-5.

The Comptroller requires State agencies to prepare GAAP Reporting Packages for each of their funds to assist in the annual preparation of the statewide financial statements and the Department financial statements. GAAP Reporting Package instructions are specified in the Comptroller's Statewide Accounting Management System (SAMS) Manual, Chapter 27. The Comptroller sets due dates for the financial information to be submitted in order for the statewide financial statements and statewide Schedule of Expenditures of Federal Awards (SEFA) to be prepared and audited within a specified timeline to provide users of these statements information in a timely manner.

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001), requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Department management cited numerous issues with the functionality of the Comptroller's WEDGE reporting system as the reason for delays in the ability for the Department to enter financial data into the GAAP reporting packages. Additionally, significant turnover of key personnel and a lack of resources were contributing factors to the untimely and inaccurate financial reporting.

Accurate and timely preparation of the Department's financial information for GAAP reporting purposes is important due to the complexity of the Department and the impact adjustments have on the statewide financial statements. (Finding Code No. 11-1, 10-1, 09-1)

RECOMMENDATION:

We recommend the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Office of the Comptroller in a timely and accurate manner, and that all supporting documentation is maintained in a contemporaneous manner. Please refer to findings 11-2, 11-3, 11-4, and 11-5 for specific recommendations concerning inventory, capital assets, deferred revenue, and accounts payable.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department experienced significant difficulties with the WEDGE reporting system. The delay caused by these difficulties resulted in significant delays in the final information being available for the GAAP packages, further delaying the financial statement process. The Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller.

11-2 FINDING: (Inaccurate commodities inventory records)

The Department of Transportation (Department) maintained inaccurate commodities inventory records for the year ended June 30, 2011.

The Department performed year-end commodities inventory counts at each location to determine the value of commodities inventory to be reported in the financial statements. These counts were performed around June 30, 2011.

Inventory Quantities

During our physical inventory counts, we counted 195 inventory items and noted discrepancies between audit test counts and Department inventory quantities for 81 (42%) items. The errors resulted in a net understatement of the year end inventory balance of \$19,731 which, when extrapolated over the entire inventory population, resulted in an estimated understatement of \$761,469. Through further analytical review of the final inventory records, we noted significant quantity misstatements for three items at three different maintenance yards which resulted in an additional net overstatement of \$1,111,702. Additionally, the Department performed its own analytical procedures on the inventory listings prior to any audit procedures being performed and identified errors resulting in a net overstatement of \$611,099; however, the Department failed to adjust its financial statements for these corrections made to the inventory records.

Combined, inventory quantity errors resulted in a net overstatement of inventory of \$961,332 at June 30, 2011.

Inventory Pricing

During our inventory price testing, we sampled 15 inventory items, including salt at all Districts which accounted for \$22,434,739 (44%) of the reported inventory value at June 30, 2011. Of the items tested, 11 (73%) were found to have inaccurate costs resulting in a net overstatement of the year end inventory balance of \$35,673 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of \$586,928. Through analytical review procedures applied to the final inventory records, we identified an additional 24 items with unusual pricing variances from fiscal year 2010 to fiscal year 2011. Our testing of these items revealed a net overstatement of \$93,760 in addition to the extrapolated misstatement noted above.

Combined, inventory pricing errors resulted in a net overstatement of inventory of \$680,688 at June 30, 2011.

In total, audit procedures applied to inventory as reported by the Department identified a likely overstatement of inventory of \$1,642,020 at June 30, 2011. The Department did not adjust its financial statements for these errors as they were considered immaterial to Department's overall financial statements.

The Comptroller's Statewide Accounting Management System (SAMS) Procedure 02.50.20 (page 6 of 12) requires detailed subsidiary records be maintained for inventories and periodically reconciled to control accounts; in addition, it requires issues, transfers, retirements and losses be reported and accounted for timely. Good business practices require that internal controls be in place and operating to maintain effective accounting control over assets and to ensure they are properly reported. In addition, Chapter 7 of the Department's Property Control and Inventory Procedures Manual mandates an annual physical inventory of consumable commodity items as part of the external audit process. Year-end physical inventories are to be taken and the Department's records are to be adjusted accordingly.

In response to this continued prior finding, the Department stated it would strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting future commodity inventory counts and pricing as well as implement a more thorough review at year-end of the commodity inventory records produced by District personnel to ensure accurate unit costs and consistent unit of measures. The Department also stated the Division of Highways was establishing a task force of central and district members to establish guidelines and policies. The task force had not met prior to conducting the annual physical inventory for fiscal year 2011.

Department management acknowledged that discrepancies were noted between the audit test counts and Department physical inventory records which were the result of the inventory process not being accurately implemented. Department management also acknowledged that discrepancies were noted between commodities prices per Department inventory records and supporting documentation which were the result of a variety issues due to human error.

Failure to maintain accurate commodities records could result in lost or misappropriated items, inaccurate financial statements, and noncompliance with SAMS and internal Department procedures. (Finding Code No. 11-2, 10-2, 09-2, 08-2, 07-3, 06-4, 05-12, 04-4, 03-5, 02-9, 00-4, 99-5, 98-4, 96-7, 94-6)

RECOMMENDATION:

We recommend the Department strongly emphasize the importance of maintaining accurate inventory quantity and cost records throughout the year. Additionally, the Department should perform periodic physical inventory counts throughout the year and reconcile those to Department records. Finally, we recommend the Department implement a more thorough review at year-end to compare costs assigned per inventory listings to the most recent inventory amounts to ensure accurate unit costs.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department will continue to make improvements to the year-end commodity inventory process to produce an accurate count and pricing of our commodity inventory. We will strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting the June 30, 2012, commodity inventory count and pricing. We will conduct a more thorough review at year-end of the commodity inventory records produced by Department personnel to ensure accurate unit costs and consistent unit of measures.

11-3 FINDING: (Weaknesses in the reporting of capital assets)

The Department of Transportation (Department) did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2011.

We noted the following errors and weaknesses in the Department's capital asset reporting process:

- The Department made several errors in the reporting of infrastructure depreciation, the most significant of which was related to the adjustment for prior years' depreciation associated with the costs of infrastructure projects completed by the Department but transferred to the Department of Natural Resources and the Historic Preservation Agency. As a result of these errors, capital assets being depreciated, net of accumulated depreciation, were understated by \$43.822 million while transportation expenses were overstated by that amount. The Department considered these errors to be material to the financial statements and corrected the errors in its revised financial statements.
- In our testing of construction-in-progress, we noted several errors in the Department's reporting at June 30, 2011.
 - The Department failed to accurately calculate current year additions to construction-in-progress resulting in a capital assets understatement of \$1.771 million.
 - The Department removed completed projects from its construction-in-progress balance but failed to capitalize those costs as additions to buildings and building improvements resulting in a capital assets understatement of \$644 thousand.
 - The Department removed certain project costs from its construction-in-progress balance which were part of projects that, when completed, would meet the requirements for capitalization resulting in a capital assets understatement of \$46 thousand.

The Department corrected these errors, and the related \$2.461 million overstatement of transportation expenditures, in its revised financial statements.

- In our testing of land, we noted several errors in the Department's reporting at June 30, 2011.
 - The Department improperly recorded the costs of land acquisitions related to the South Suburban Airport project during the current and prior fiscal years resulting in a net overstatement of land of \$13.962 million.
 - The Department improperly capitalized certain costs which were not related to the acquisition of land resulting in an overstatement of land of \$2.512 million.

- The Department adjusted the land balance for an inaccurate amount related to easement costs resulting in an overstatement of land of \$270 thousand.
- The Department has failed to record certain jurisdictional transfers as disposals from its property records. The known overstatement of land for fiscal year 2011 transfers was \$145 thousand. Errors related to prior year jurisdictional transfers had not yet been determined by the Department but were believed to be immaterial in total.

The Department did not consider the combined \$16.889 million overstatement of land to be material to the financial statements and it has not been corrected at June 30, 2011.

- The Department failed to properly estimate the allocation of accounts payable between capital outlay expenditures and transportation expenditures at June 30, 2011. The Department's estimation of infrastructure payables excluded consideration of railroad and utilities related costs vouchered after June 30, 2011 as well as all construction costs vouchered after August 31, 2011. While the liabilities related to these costs would be included in the Department's overall estimate of accounts payable at June 30, 2011, the Department has not estimated the portion of those liabilities which should be classified as capital outlays on the fund financial statements and included in capital assets on the government-wide financial statements. The amount of these estimates could not be determined by the Department as of the date of our report. Total infrastructure additions reported for fiscal year 2011 were \$1,771,641 (in thousands) which included \$117,098 (in thousands) in payables for amounts vouchered through August 31, 2011. The Department did not consider the reclassification of expenditures on its governmental funds financial statements or the adjustment of expenditures and capital assets on its government-wide financial statements to be material and no corrections were made as of June 30, 2011.
- In our testing of equipment, we noted the Department failed to properly identify and record all equipment additions for fiscal year 2011. The Department failed to capitalize equipment assets paid for prior to July 1, 2011 but not added to the Common Inventory System until on or after July 1, 2011. This error resulted in an estimated understatement of equipment of \$5.0 million at June 30, 2011. The Department did not consider this error to be material to the financial statements and it has not been corrected at June 30, 2011.
- The Department failed to accurately determine the current year amortization of temporary easements resulting in a \$125 thousand overstatement of capital assets at June 30, 2011. The Department did not consider this error to be material to the financial statements and it has not been corrected at June 30, 2011.

Department personnel stated that the errors noted were the result of oversight and human error.

The Comptroller's Statewide Accounting Management System (SAMS) procedures 27.20.37 and 27.20.38 outline the instructions for preparing the SCO-537 (Capital Assets SAMS to GAAP Reconciliation Form) and SCO-538 (Capital Asset Summary Form), respectively. This reporting process is necessary to complete Department and Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

In addition, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Inadequate control over maintaining accurate capital assets records prevents the Department from preparing financial information in accordance with GAAP and results in inaccurate, incomplete and untimely preparation of financial information. (Finding Code No. 11-3, 10-3, 09-3)

RECOMMENDATION:

We recommend the Department devote sufficient resources to its financial accounting function such that the capital asset information is properly recorded and accounted for to permit the preparation of reliable financial information and reports to the Office of the Comptroller.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller. This reorganization will include the implementation of monthly processes to review and reconcile capital asset reporting to ensure accurate financial reporting.

11-4 FINDING: (Weaknesses in the reporting of deferred revenues)

The Department of Transportation (Department) did not accurately report unavailable deferred revenues at June 30, 2011.

We noted the following errors and weaknesses in the Department's unavailable deferred revenue reporting process:

- The Department failed to accurately report unavailable deferred revenue in the Federal High Speed Rail Trust Fund, Fund 0433, at June 30, 2011 due to the calculation including receivables collected in September 2011. The Comptroller's Statewide Accounting Management System (SAMS) Procedure 03.40.10 states that under the modified accrual basis of accounting, revenues should be recognized in the accounting period in which they become both measurable and available. The State considers all revenues reported in governmental funds to be available if collected within the State's lapse period (i.e. 60 days after year-end). Accordingly, revenue should be deferred if the receivable is not collected within 60 days after year-end. Therefore, receivables collected in September are not considered to be available revenues by the State and should be deferred at year-end. This error resulted in an \$11.2 million understatement of unavailable deferred revenues, and overstatement of federal operating grant revenues, at June 30, 2011. The Department corrected this error in its revised financial statements.
- The Department failed to accurately determine the amount of accounts payable in the Federal High Speed Rail Trust Fund (Fund 0433) and the Federal Mass Transit Trust Fund (Fund 0853) due to the failure to consider expenditures made after August 31, 2011, as explained in more detail in Finding 11-5. Due to the expenditures being reimbursable under federal operating grants, the errors also resulted in understatements of intergovernmental receivables and unavailable deferred revenues totaling \$11.7 million for Fund 0433 and \$849 thousand for Fund 0853 at June 30, 2011. The Department considered the errors in Fund 0433 to be material to the financial statements and corrected these errors in its revised financial statements. The errors in Fund 0853 were not considered material and have not been corrected as of June 30, 2011.

The understatements of unavailable deferred revenues were due to oversight in the use of September 2011 receipts and to the use of an early cutoff date for the determination of payables.

Proper reporting of deferred revenue is necessary for the Department and the Comptroller to complete Department and Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Failure to properly determine deferred revenues results in inaccurate and untimely financial reporting. (Finding Code No. 11-4, 10-4)

RECOMMENDATION:

We recommend the Department devote sufficient resources to its financial accounting function such that the deferred revenues are properly accounted for to permit the preparation of reliable financial information submitted to the Office of the Comptroller.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller. This reorganization will include the implementation of monthly processes to review and analyze the information necessary to ensure accurate financial reporting of deferred revenue.

11-5 FINDING: (Weaknesses in the reporting of accounts payable)

The Department of Transportation (Department) did not accurately report accounts payable at June 30, 2011. Additionally, the Department has failed to establish procedures to determine the continuing validity of its accounts payable estimation methodology.

We noted the following errors and weaknesses in the Department's accounts payable reporting process:

- In fiscal year 2008, the Department developed a methodology to estimate accounts payable for funds with significant activity which includes the use of a computer spreadsheet model. The computer spreadsheet model uses five years of historical expenditure data and future expenditure forecasts to estimate the amount of future years' expenditures attributable to goods received and services performed during the current fiscal year. During our current testing, we performed a "look back" to determine if the Department's prior year estimate of accounts payable at June 30, 2010 was accurate by comparing estimated accounts payable to actual amounts paid. We computed differences between estimated and actual amounts among funds ranging from approximately \$41 million in overstatements to \$18 million in understatements. These are estimates as many estimated liabilities as of June 30, 2010 are still outstanding at June 30, 2011. We believe the estimates are made based on information available at the time. However, the Department has not established procedures to perform a "look back" to determine the continuing validity of the accounts payable estimation methodology and to assess the reasonableness of accounts payable estimates at prior fiscal year-ends in determining current year estimates.
- The Department failed to accurately determine the amount of accounts payable in the Federal High Speed Rail Trust Fund (Fund 0433) and the Federal Mass Transit Trust Fund (Fund 0853) due to the failure to consider expenditures made after August 31, 2011. For certain funds with limited activity, the Department determined accounts payable balances based on expenditures processed during the 60 days following year-end. For these funds, the Department failed to consider expenses which had been incurred for goods or services received during fiscal year 2011 but for which expenditures would not be processed until after the 60 day time frame. Due to the methodology used, the Department failed to identify payables totaling \$11.7 million in Fund 0433 and \$849 thousand in Fund 0853 at June 30, 2011. These errors also resulted in understatements of accounts payable, federal operating grant receivables, and unavailable deferred revenues at June 30, 2011. The Department considered the errors in Fund 0433 to be material to the financial statements and corrected these errors in its revised financial statements. The errors in Fund 0853 were not considered material and have not been corrected as of June 30, 2011.
- During the financial reporting process, the Department revised its classifications of estimated liabilities in the Road Fund (Fund 0011) at June 30, 2011. However, the Department failed to also revise the related GAAP reporting form, "Summary of Liabilities" (SCO-549), and its financial statements for these changes. As a result

of this error, accounts payable were understated by \$34.2 million while amounts due to local governments were overstated by \$34.2 million. The Department considered these errors to be material to the financial statements and corrected the errors in its revised financial statements

- The Department failed to identify formula errors in its accounts payable estimation model spreadsheets which are used to estimate certain liabilities as of year-end. These formula errors led to a \$10.6 million overstatement of accounts payable on a government-wide basis at June 30, 2011. The Department did not consider these errors to be material to the individual funds affected or to the government-wide financial statements and they have not been corrected as of June 30, 2011.

The Comptroller's Statewide Accounting Management System (SAMS) Procedure 27.20.49 states that accounts payable include liabilities for goods received or services performed before June 30, but for which payment vouchers have not been processed by the Comptroller's Office for Treasury held funds of the administering agency for locally held funds. SAMS Procedure 27.20.49 also states that a reasonable estimate must be utilized to project the amount of lapse period, or expenditures made subsequent to the end of lapse period for continuing appropriations, disbursed for goods received or services performed as of June 30.

Further, the Fiscal Control and Internal Auditing Act (30 ILCS 10/3001) requires all State agencies to establish and maintain a system of internal fiscal control to provide assurance that revenues, expenditures and transfers of assets, resources, or funds applicable to operations are properly recorded and accounted for to permit the preparation of reliable financial reports.

Department management stated the failure to consider payments made after the lapse period for goods received and services performed during the fiscal year was due to completing the accounts payable report shortly after year-end and having to establish a cut-off date to do so. The failure to perform a more thorough review and analysis of prior year accounts payable estimates was due to significant turnover in key positions and a lack of resources.

Proper reporting of accounts payable is necessary for the Department and the Comptroller to complete Department and Statewide financial statements in accordance with Generally Accepted Accounting Principles (GAAP). Failure to properly determine accounts payable results in inaccurate and untimely financial reporting. (Finding Code No. 11-5)

RECOMMENDATION:

We recommend the Department devote sufficient resources to its financial accounting function such that the accounts payable balances are properly accounted for and reviewed to permit the preparation of reliable financial information. Additionally, we recommend the Department establish procedures to evaluate the reasonableness of prior year accounts payable estimates as well as the overall validity of the accounts payable estimation methodology.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department is reorganizing the Fiscal Operations Unit to include additional staff to review, revise and implement reporting processes that will ensure the timely and accurate financial reporting as required by the Office of the Comptroller. This reorganization will include the implementation of monthly processes to review and analyze the information necessary to ensure accurate financial reporting of accounts payable.

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

PRIOR FINDING NOT REPEATED

A. Prior Finding – Failure to report fiscal year 2009 due to/due from balances

During fiscal year 2009, the Department failed to report significant due to/due from balances, resulting in a prior period adjustment affecting the fiscal year 2010 financial statements.

The Department accepted the recommendation that procedures were needed to identify and record receivables/payables between the Department and the Illinois Toll Highway Authority at June 30 each year. As of June 30, 2011, the Department had established procedures to work with the Illinois Toll Highway Authority in determining appropriate due to/due from balances. Due to/due from balances appeared properly recorded at June 30, 2011. (Finding Code No. 10-5)