STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Years Ended June 30, 2017

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

SIKICH.COM

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
For the Year Ended June 30, 2017

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STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

AGENCY OFFICIALS

Secretary	Randall S. Blankenhorn
Assistant Secretary	Rich Brauer
Chief of Staff	Matt Magalis
Chief Operating Officer	Lisa Laws (8/16/16 – present) Vacant (through 8/15/16)
Deputy Secretary for Program Development	Aaron Weatherholt
Deputy Secretary for Project Implementation	Omer Osman
Deputy Chief of Staff	Justine Sydello
Director, Office of Planning and Programming	Erin Aleman (1/1/17 – present) Roger Driskell (through 12/31/16)
Director, Office of Program Development	Priscilla Tobias
Director, Office of Highways Project Implementation	Paul Loete
Director, Office of Intermodal Project Implementation	Beth McCluskey
Director, Office of Communications	Guy Tridgell
Director, Office of Legislative Affairs	Nicola Cortez-Hun
Director, Office of Finance and Administration	Jeff Heck
Director, Office of Business and Workforce Diversity	Pamela Simon
Director, Office of Chief Counsel	Phil Kaufmann (10/16/17 – present) William Barnes (through 10/13/17)
Director, Office of Internal Audit	Stephen Kirk

AGENCY OFFICIALS – Continued

Agency main offices are located at:

2300 S. Dirksen Parkway
Springfield, IL 62764

69 W. Washington Street
Chicago, IL 60602

FINANCIAL STATEMENT REPORT

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Transportation (Department) was performed by Sikich LLP.

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

EXIT CONFERENCE

The Department did not request an exit conference.

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INDEPENDENT AUDITOR'S REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

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 (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position and, where applicable, cash flows, 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, 2017, 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. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis and budgetary comparison information for any of its funds and related pension information for its Department-wide financial statements that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Department's basic financial statements. The accompanying supplementary information, such as the combining and individual fund financial schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, in the combining and individual fund financial schedules, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, in the combining General Fund, Road Fund, and Motor Fuel Tax Fund schedules and nonmajor fund financial statements, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2017 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* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Audit Report

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.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
December 21, 2017

BASIC FINANCIAL STATEMENTS

State of Illinois
Department of Transportation

Statement of Net Position

June 30, 2017 (Expressed in Thousands)

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Unexpended appropriations	$ 911,229
Cash equity with State Treasurer	147,995
Cash and cash equivalents	3,883
Securities lending collateral equity with State Treasurer	3,939
Receivables, net:	
Intergovernmental	333,623
Other	18,231
Due from other State funds	734,116
Due from State of Illinois component units, current	670
Inventories	65,237
Prepaid expenses	769
Loans receivable	8,932
Due from State of Illinois component units, long-term	83,543
Capital assets not being depreciated	3,210,486
Capital assets being depreciated, net	16,183,915
Total assets	21,706,568
Deferred outflows of resources - Pension	870,836
Total assets and deferred outflows of resources	22,577,404
LIABILITIES	
Accounts payable and accrued liabilities	498,713
Intergovernmental payables	947,593
Due to other State funds	13,243
Due to State of Illinois component units	150,567
Obligations under securities lending of State Treasurer	3,939
Unearned revenue	3,843
Long term obligations:	
Due within one year	9,128
Due subsequent year	50,145
Net pension liability	3,468,253
Total liabilities	5,145,424
Deferred inflows of resources - Pension	259,951
Total liabilities and deferred inflows of resources	5,405,375
NET POSITION	
Net investment in capital assets	19,385,607
Restricted for:	
Transportation programs	2,560
Debt service	7,547
Unrestricted	(2,223,685)
Total net position	$ 17,172,029

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, 2017 (Expressed in Thousands)

		Program Revenues			
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Net (Expense) Revenue**
Governmental activities					
Transportation	$ 5,067,444	$ 114,637	$ 729,421	$ 1,474,739	$ (2,748,647)
Intergovernmental	580,802	-	-	-	(580,802)
Interest	1,110	-	-	-	(1,110)
Total governmental activities	$ 5,649,356	$ 114,637	$ 729,421	$ 1,474,739	(3,330,559)
General revenues and transfers					
Sales tax					193,428
Appropriations from State Resources					10,563,485
Reappropriation to future year(s)					(5,435,151)
Lapsed appropriations					(1,439,278)
Receipts collected and transmitted to State Treasury					(1,752,131)
Net change in liabilities for reappropriated accounts					97,576
Other revenues					297
Interest and investment income					429
Amount of SAMS transfers-in					(526,124)
Amount of SAMS transfers-out					1,147,474
Transfers-in					504,052
Transfers-out					(8,085)
Transfer of administration of fund to Department of Veterans Affairs					(517)
Total general revenues and transfers					3,345,455
Change in net position					14,896
Net position, July 1, 2016					17,157,133
Net position, June 30, 2017					$ 17,172,029

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

Balance Sheet-Governmental Funds

June 30, 2017 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Unexpended appropriations	$ -	$ 599,488	$ 311,741	$ 911,229
Cash equity with State Treasurer	395	4,589	142,004	146,988
Cash and cash equivalents	-	-	3,883	3,883
Securities lending collateral equity with State Treasurer	-	148	3,791	3,939
Intergovernmental receivables, net	-	138,421	195,202	333,623
Other receivables, net	-	17,857	374	18,231
Due from other Department funds	-	21,261	26,688	47,949
Due from other State funds	561,448	1,246	171,411	734,105
Due from State of Illinois component units, current	-	670	-	670
Inventories	-	63,664	-	63,664
Loans receivable	-	55	8,877	8,932
Due from State of Illinois component units, long-term	-	83,543	-	83,543
Total assets	$ 561,843	$ 930,942	$ 863,971	$ 2,356,756
LIABILITIES				
Accounts payable and accrued liabilities	$ 2	$ 271,376	$ 227,310	$ 498,688
Intergovernmental payables	561,832	163,887	221,874	947,593
Due to other Department funds	-	1,013	46,936	47,949
Due to other State funds	9	12,793	441	13,243
Due to State of Illinois component units	-	150,419	148	150,567
Obligations under securities lending of State Treasurer	-	148	3,791	3,939
Unearned revenue	-	1,000	2,843	3,843
Total liabilities	561,843	600,636	503,343	1,665,822
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - DIR	-	32,726	39,826	72,552
Total deferred inflows of resources	-	32,726	39,826	72,552
Total liabilities and deferred inflows of resources	561,843	633,362	543,169	1,738,374
FUND BALANCES				
Nonspendable portion of:				
Loans and notes receivable	-	-	-	-
Inventories	-	63,664	-	63,664
Restricted	-	-	10,107	10,107
Unrestricted				
Committed	-	233,916	321,421	555,337
Assigned	-	-	15,802	15,802
Unassigned	-	-	(26,528)	(26,528)
Total fund balances	-	297,580	320,802	618,382
Total liabilities, deferred inflows and fund balances	$ 561,843	$ 930,942	$ 863,971	$ 2,356,756

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 Position
June 30, 2017
(Expressed in Thousands)

Total fund balances-governmental funds		$ 618,382
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,394,401
Prepaid expenses for governmental activities are current uses of financial resources for funds.		769
Internal service funds are used to charge costs of air transportation activities to individual funds. The assets and liabilities of the Air Transportation Revolving Fund are reported as governmental activities in the Statement of Net Position.		2,566
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		72,552
Deferred outflows of resources - related to pensions		870,836
Deferred inflows of resources - related to pensions		(259,951)
Some liabilities reported in the Statement of Net Position 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	$ (40,175)	
Capital lease obligations	(1,009)	
Auto liability claims	(9,904)	
Pollution remediation obligations	(400)	
Certificates of participation	(7,785)	
Net pension liability	(3,468,253)	
		(3,527,526)
Net position of governmental activities		$ 17,172,029

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

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
REVENUES				
Sales taxes	$ -	$ -	$ 193,428	$ 193,428
Motor fuel taxes	-	306,715	(306,715)	-
Operating grants - Federal	-	42,224	632,732	674,956
Capital grants - Federal	-	1,468,969	-	1,468,969
Other operating grants	-	88,641	1,758	90,399
Other capital grants	-	5,933	-	5,933
Licenses and fees	-	23,378	43	23,421
Other charges for services	-	78,464	1,541	80,005
Other	-	-	297	297
Interest and other investment income	-	5	424	429
Total revenues	-	2,014,329	523,508	2,537,837
EXPENDITURES				
Transportation	504,052	2,172,445	984,984	3,661,481
Intergovernmental	-	-	580,802	580,802
Debt service - principal	-	300	2,315	2,615
Debt service - interest	-	287	523	810
Capital outlays	-	160,727	1,182,617	1,343,344
Total expenditures	504,052	2,333,759	2,751,241	5,589,052
Excess (deficiency) of revenues over (under) expenditures	(504,052)	(319,430)	(2,227,733)	(3,051,215)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	5,312,129	5,251,356	10,563,485
Reappropriation to future year(s)	-	(2,697,482)	(2,737,669)	(5,435,151)
Lapsed appropriations	-	(383,462)	(1,055,816)	(1,439,278)
Receipts collected and transmitted to State Treasury	(3,529)	(1,746,671)	(1,931)	(1,752,131)
Net change in liabilities for reappropriated accounts	-	108,681	(11,105)	97,576
Amount of SAMS Transfers-in	-	(303,286)	(222,838)	(526,124)
Amount of SAMS Transfers-out	-	-	1,147,474	1,147,474
Transfers-in	504,052	-	53,834	557,886
Transfers-out	(45)	(5,328)	(56,546)	(61,919)
Capital lease financing	-	341	-	341
Transfer of administration of fund to Department of Veterans Affairs	-	-	(517)	(517)
Net other sources (uses) of financial resources	500,478	284,922	2,366,242	3,151,642
Net change in fund balances	(3,574)	(34,508)	138,509	100,427
Fund balances, July 1, 2016	3,574	324,813	182,293	510,680
Increase for change in inventories	-	7,275	-	7,275
FUND BALANCES, JUNE 30, 2017	$ -	$ 297,580	$ 320,802	$ 618,382

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

State of Illinois
Department of Transportation
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2017
(Expressed in Thousands)

Net change in fund balances	$ 100,427
Change in inventories	7,275
	107,702
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.	191,159
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 Position.	2,315
Some capital assets were transferred in/out from/to other State agencies and, therefore, no payments were made for the capital asset's value. This is the net amount transferred in from other State agencies.	(30,558)
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.	(96)
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds. This amount represents the increase in prepaid expenses over the prior year.	(2,310)
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 decrease in unavailable revenue over the prior year.	(24,886)
Pension expenses required for Statement of Activities that are not in modified accrual statements.	(229,600)
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.	(576)
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.	
Decrease in compensated absences	1,954
Increase in capital leases	(41)
Increase in auto liability claims	(567)
Decrease in pollution remediation obligations	400
Change in net position of governmental activities	$ 14,896

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

State of Illinois
Department of Transportation

Statement of Net Position - Proprietary Fund
Air Transportation Revolving Fund (0309)

June 30, 2017 (Expressed in Thousands)

		Governmental Activities - Internal Service Fund
ASSETS		
Cash equity with State Treasurer	$	1,007
Due from other State funds		11
Inventories		1,573
Total current assets		2,591
LIABILITIES		
Accounts payable and accrued liabilities		25
NET POSITION		
Unrestricted		2,566
Total net position	$	2,566

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 Position - Proprietary Fund
Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for sales and services	$ -
OPERATING EXPENSES	
Cost of sales and services	96
Operating loss and change in net position	(96)
NET POSITION, JULY 1, 2016	2,662
NET POSITION, JUNE 30, 2017	$ 2,566

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, 2017 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from transactions with other funds	$ 2
Cash payments to suppliers for goods and services	(137)
Net cash used by operating activities	(135)
Net increase in cash equity with State Treasurer	(135)
Cash equity with State Treasurer, July 1, 2016	1,142
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2017	$ 1,007
Reconciliation of operating income to net cash provided by operating activities:	
OPERATING INCOME	$ (96)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in due from other funds	2
Increase in inventory	(56)
Increase in accounts payable and accrued liabilities	15
NET CASH USED BY OPERATING ACTIVITIES	$ (135)

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

(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 is 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 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 generally accepted accounting principles 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 and financial benefit or burden 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.

(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, 2017, 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 position 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 position presents the assets and liabilities of the Department's governmental activities with the difference being reported as net position. 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:

General – This is the State's primary operating fund. It accounts for all financial resources of the general government, except those 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 special revenue 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.

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 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.

Proprietary funds distinguish operating revenues from non operating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the Air Transportation Revolving Fund are charges for sales and services. Operating expenses for internal services funds include the cost of sales and services. All revenues and expenses not meeting this definition are reported as non operating revenues and expenses.

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.

(d) Shared Fund Presentation

The financial statement presentation for the General Fund, Road Fund, State Construction Account Fund, Motor Fuel Tax Fund, Cycle Rider Safety Training Fund, Transportation Bond Series A Fund, Transportation Bond Series B Fund, Transportation Bond Series D Fund, General Obligation Bond Retirement and Interest Fund, and 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:

<u>Unexpended Appropriations</u>

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.

<u>Appropriations from State Resources</u>

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

<u>Reappropriation to Future Year(s)</u>

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.

<u>Lapsed Appropriations</u>

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 fiscal year 2017, the lapse period was extended through September.

<u>Net Change in Liabilities for Reappropriated Accounts</u>

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.

<u>Receipts Collected and Transmitted to State Treasury</u>

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

<u>Amount of SAMS Transfers-In</u>

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.

(e) Eliminations

Eliminations have been made in the government-wide statement of net position 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 position as interdepartmental interfund receivables and payables have been eliminated in the government-wide statement of net position. Amounts reported in the governmental funds balance sheet and proprietary funds statement of net position as receivable from or payable to fiduciary funds have been included in the government-wide statement of net position 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, cash held in local bank accounts, money markets, and cash equity with the State Treasurer.

(g) Inventories

For governmental funds and proprietary 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, airplane parts, traffic signs, and traffic sign materials, in governmental funds and proprietary 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 reports an equivalent portion of nonspendable 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 position.

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 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 acquisition 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
Internally-Generated Intangible Assets	1,000,000	3-25
Non-Internally Generated Intangible Assets	25,000	3-25

(j) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenues in governmental funds include receivables not "available" to finance the current period.

(k) Compensated Absences

The liability for compensated absences reported in the government-wide statement of net position 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 days earned and unused after December 31, 1997 will be converted to service time for purposes of calculating employee pension benefits.

(l) Pollution Remediation Obligations

In the government-wide statement of net position, 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.

(m) 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 nonspendable, restricted, or unrestricted (committed, assigned and unassigned).

Nonspendable 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 the 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.

(n) Net Position

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

Net Investment in Capital Assets – 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 position that is 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 position that does not meet the definition of "restricted" or "net investment in capital assets."

(o) 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.

(p) Pensions

In accordance with the Department's adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, the net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense have been recognized in the government-wide financial statements.

The net pension liability is calculated as the difference between the actuarially calculated value of the projected benefit payments attributed to past periods of service and the plans' fiduciary net position. The total pension expense is comprised of the service cost or actuarial present value of projected benefit payments attributed to the valuation year, interest on the total pension liability, plan administrative expenses, current year benefit changes, and other changes in plan fiduciary net position less employee contributions and projected earnings on plan investments. Additionally, the total pension expense includes the annual recognition of outflows and inflows of resources due to pension assets and liabilities.

For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, pension expense and expenditures associated with the Department's contribution requirements, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported within the separately issued plan financial statements. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with terms of the plan. Investments are reported at fair value.

(q) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which establishes standards to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The implementation of this Statement had no financial impact on the Department's net position or result of operations.

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes standards to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The implementation of this Statement had no financial impact on the Department's net position or result of operations.

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose information about the agreements. This statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The implementation of this Statement had no financial impact on the Department's net position or result of operations.

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, this Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The implementation of this Statement had no financial impact on the Department's net position or result of operations.

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*, this Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The implementation of this Statement had no financial impact on the Department's net position or result of operations.

Effective for the year ending June 30, 2017, the Department adopted GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer’s expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits). The implementation of this Statement had no financial impact on the Department’s net position or result of operations.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2018, the Department will adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes standards to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This statement also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Department has not yet determined the impact on its financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2018, the Department will adopt GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Department has not yet determined the impact on its financial statements as a result of adopting this Statement.

Effective for the year ending June 30, 2018, the Department will adopt GASB Statement No. 85, *Omnibus 2017*, establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]).

This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, paragraphs 43 and 48; Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, paragraphs 3, 8, 9, and 12; Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, footnote 47; Statement No. 38, *Certain Financial Statement Note Disclosures*, paragraph 13; Statement No. 61, *The Financial Reporting Entity: Omnibus*, paragraph 9; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraph 428; Statement No. 68, *Accounting and Financial Reporting for Pensions*, paragraphs 36, 73, 107 and 121; Statement No. 72, *Fair Value Measurement and Application*, paragraph 69; Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets Thar Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, paragraphs 37, 60, and 88; Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, paragraphs 36, 56, 57, and 63 and footnote 2; Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, paragraphs 4, 6, 15, 46, 57, 64, 65, 88, 97, 102, 103, 121, 122, 126, 141, 161, 178, 179, 184, 196, 197, 208, 209, 212, 225, and 226 and footnote 2; Technical Bulletin No. 2004-2, *Recognition of Pension and Other Postemployment Benefit Expenditures/Expense and Liabilities by Cost-Sharing Employers, paragraph 1; and Implementation Guide No. 2015-1*, Questions 5.116.3, 5.122.3, 5.145.1, 5.145.2, 5.185.1, 5.185.2, 5.224.1, and 5.224.2. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2018, the Department will adopt GASB Statement No. 86, *Certain Debt Extinguishment Issues*, establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources – that is, resources other than the proceeds of refunding debt – are place in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired.

This Statement amends Statement No. 7, *Advance Refundings Resulting in Defeasance of Debt*, paragraph 4; Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, footnote 4; Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, paragraph 22 and 24; Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, paragraphs 124 and 127; Statement No. 65, *Items Previously Reported as Assets and Liabilities*, footnote 3; NCGA Interpretation 6, *Notes to the Financial Statements Disclosure*, paragraph 5; *Implementation Guide No. 2015-1*, Questions 6.4.4., and Implementation Guide No. 2016-1, *Implementation Guidance Update-2016*, Question 4.2. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2019, the Department will adopt GASB Statement No. 83, *Certain Asset Retirement Obligation*, establishes standards of accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset (that is, the tangible capital asset is permanently removed from service). The retirement of a tangible capital asset encompasses its sale, abandonment, recycling, or disposal in some other manner; however, it does not encompass the temporary idling of a tangible capital asset. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2020, the Department will adopt GASB Statement No. 84. *Fiduciary Activities*, establishes guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes, the recognition of liabilities to beneficiaries, and how fiduciary activities should be reported. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2021, the Department will adopt GASB Statement No. 87. *Leases*, is intended to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefuleness of governments' financials statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The Deparment has not yet determined the impact on the financial statements as a result of adopting this statement.

(3) Deposits and Investments

(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 are available within the State of Illinois' Comprehensive Annual Financial Report.

Cash and cash equivalents, which includes money market accounts and locally held funds, had a balance of $1.184 million at June 30, 2017.

(b) Investments

GASB No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to measure assets that meet the definition of an investment at fair value. GASB defines an investment asset as a security or other asset that a government holds primarily for the purpose of income or profit and its present service capacity is based solely on its ability to generate cash or to be sold to generate cash. In addition, GASB No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer liability in an orderly transaction between market participants at the measurement date. Investments exempt from fair value measurement include the following:

- Money market investments and participating interest-earning investment contracts (non-negotiable Certificate of Deposits) that have remaining maturity at time of purchase of one year or less and are held by governments other than external investment pools should be measured using amortized cost.
- Investments held by 2a-7 external investment pools should be measured at amortized costs.

- Investment in 2a7-like pools should be measured at Net Asset Value per share.

GASB No. 72 requires disclosure regarding the fair value of investments. Investment pricing information, including market quotes, are the basis for investment fair values.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used for financial instrument measured at fair value on a recurring basis:

Level 1 Investments whose values are based on quoted prices (unadjusted) for identical assets in active markets that a government can access at the measurement date.

Level 2 Investments with inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly.

Level 3 Investments classified as Level 3 have unobservable inputs for an asset and may require a degree of professional judgment.

The following tables summarize investments within the fair value hierarchy at June 30, 2017 (expressed in thousands)

FY17 Investments by Fair Value Level:	**Fair Value**	**Level 1**	**Level 2**	**Level 3**
Money Market Mutual Funds	$ 2,699	$ 2,699	$ -	$ -

Investments classified in Level 1 of the fair value hierarchy are valued using market approach by using quoted prices for identical assets in active markets.

The Agency's investments have a weighted average maturity of 35 days as of June 30, 2017. The Agency's investments credit ratings were Aaa by Moody, AAAm by Standard & Poor's and AAAmf by Fitch as of June 30, 2017.

The Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The Department does not have a formal investment policy that limits investment choices. The Governmental Activities money market mutual funds were rated AAAm by Standard and Poor's.

The Department does not have a formal investment policy which restricts investments to address custodial credit risk. Custodial credit risk is the risk that, in the event of failure of the counterparty to a transaction, the Department would not be able to recover the value of investment or collateral securities in the possession of an outside party. The Department has no investments subject to custodial risk.

(c) Securities Lending Transactions

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 AG to lend the State Treasurer's securities to broker-dealers and banks pursuant to a form of loan agreement.

During fiscal year 2017, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury 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 fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2017 on the amount of the loans of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2017 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2017, 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 AG 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. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2017 were $3,522,922,500 and $3,475,790,990, respectively. The securities lending collateral received that was invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2016 were $2,603,015,000 and $2,587,869,617, respectively.

(4) Accounts Receivable

Accounts Receivable, and related allowance for doubtful accounts at 6/30/17, are as follows (in thousands):

Receivable Type	Road Fund	Non-major funds	Total
Intergovernmental Receivables	$ 138,421	$ 195,202	$ 333,623
Allowance for Doubtful Accounts	-	-	-
Intergovernmental, Net	$ 138,421	$ 195,202	$ 333,623
Other Receivables	$ 21,034	$ 374	$ 21,408
Allowance for Doubtful Accounts	(3,177)	-	(3,177)
Other Receivables, Net	$ 17,857	$ 374	$ 18,231

(5) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due from other Department and State of Illinois funds.

	Due from		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 561,448	Due from other State funds for June 2017 sales tax allocations, debt service payments and interfund borrowings.
Road	21,261	1,246	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June 2017 and from other State funds for services and reimbursements of expenditures incurred.
Nonmajor governmental funds	26,688	171,411	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June 2017, 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	-	11	Due from other Department funds and other State funds for air transportation services provided.
	$ 47,949	$ 734,116	

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due to other Department and State of Illinois funds.

	Due to		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 9	Due to Department and to other State internal service funds for services received.
Road	1,013	12,793	Due to other Department funds for reimbursement of expenditures incurred and to other State funds for reimbursement of expenditures incurred and for services received.
Non-major governmental funds	46,936	441	Due to other Department Funds for motor fuel tax allocation for June 2016 and to other State funds for services received and retirement costs.
	$ 47,949	$ 13,243	

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2017, were as follows:

	Transfers in from		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 504,052	Transfers from other State funds for sales tax allocation, debt service, and for other purposes.
Non-major governmental funds	53,834	-	Transfers from Motor Fuel Tax Fund for allocation pursuant to State statute and other Department non-major governmental funds for debt service and downstate public transportation purposes.
	$ 53,834	$ 504,052	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2017, were as follows:

	Transfers out to		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 45	Mandatory transfer pursuant to 30 ILCS 105/5
Road	5,328	-	Transfers to Department non-major governmental funds for debt service payments.
Non-major governmental funds	48,506	8,040	Transfers to other State funds for motor fuel tax allocation for June, administration of Railroad Safety program, and for other purposes.
	$ 53,834	$ 8,085	

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

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred and services received.

	Due from
Component Unit	**Road Fund**
Illinois Toll Highway Authority	
Current	$ 670
Long-term	83,543
	$ 84,213

The following balances (amounts expressed in thousands) at June 30, 2017 represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs.

	Due to	
Component Unit	**Road Fund**	**Nonmajor Governmental Funds**
Illinois Toll Highway Authority	$ 148,871	$ -
Western Illinois University	-	34
Southern Illinois University	127	-
University of Illinois	1,421	114
	$ 150,419	$ 148

(6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2017 was as follows:

	Balance July 1, 2016	Additions	Deletions	Net Transfers	Balance June 30, 2017
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	$ 2,915,089	$ 55,932	$ 415	$ (30,885)	$ 2,939,721
Easements	10,715	626	-	-	11,341
Internally Generated Intangible Assets in Development	7,988	4,148	-	-	12,136
Construction in progress	89,125	162,901	-	(4,738)	247,288
Total capital assets not being depreciated	3,022,917	223,607	415	(35,623)	3,210,486
Capital assets being depreciated:					
Infrastructure	28,219,636	1,063,579	803,708	-	28,479,507
Site improvements	18,056	-	-	-	18,056
Buildings and building improvements	157,865	657	-	4,738	163,260
Easements	5,884	549	1,712	-	4,721
Equipment	434,688	54,529	9,709	451	479,959
Non-Internally generated software	71	82	-	-	153
Internally generated software	4,465	-	-	-	4,465
Capital leases - equipment	1,410	341	437	-	1,314
Total capital assets being depreciated	28,842,075	1,119,737	815,566	5,189	29,151,435
Less accumulated depreciation:					
Infrastructure	12,176,881	1,121,526	803,708	-	12,494,699
Site improvements	4,100	783	-	-	4,883
Buildings and building improvements	100,145	3,889	-	-	104,034
Easements	3,350	1,061	1,712	-	2,699
Equipment	344,110	24,109	9,548	124	358,795
Non-Internally generated software	20	15	-	-	35
Internally generated software	1,559	446	-	-	2,005
Capital leases - equipment	451	356	437	-	370
Total accumulated depreciation	12,630,616	1,152,185	815,405	124	12,967,520
Total capital assets being depreciated, net	16,211,459	(32,448)	161	5,065	16,183,915
Governmental activity capital assets, net	$ 19,234,376	$ 191,159	$ 576	$ (30,558)	$ 19,394,401

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2017 was charged to the following function:

Transportation	$ 1,152,185

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2017 were as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 42,129	$ 27,339	$ 29,293	$ 40,175	$ 3,807
Capital lease obligations	968	341	300	1,009	257
Auto liability claims	9,337	2,439	1,872	9,904	2,464
Pollution remediation obligations	800	-	400	400	150
Certificates of participation	10,100	-	2,315	7,785	2,450
Pension Liability	2,910,023	558,230	-	3,468,253	-
Total	$ 2,973,357	$ 588,349	$ 34,180	$ 3,527,526	$ 9,128

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 $1.314 million and $0.370 million, 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, 2017 are as follows:

June 30	Principal	Interest	Total
2018	$ 257	$ 269	$ 526
2019	200	209	409
2020	234	146	380
2021	286	61	347
2022	32	2	34
	$ 1,009	$ 687	$ 1,696

(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, 2017, are as follows:

Year Ending June 30	Principal	Interest	Total
2018	$ 2,450	$ 384	$ 2,834
2019	2,590	236	2,826
2020	2,745	80	2,825
	$ 7,785	$ 700	$ 8,485

(8) Defined Benefit Pension Plan

Plan Description. 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 single-employer defined benefit pension trust fund in the State of Illinois reporting entity and is treated as a cost sharing plan by the Department. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

Benefit Provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is $15 for each year of covered employment and $25 for each year of noncovered employment.

Participants in SERS under the regular formula Tier 1 and Tier 2 receive the following levels of benefits based on the respective age and years of service credits.

<table>
<tr><th>Regular Formula Tier 1</th><th>Regular Formula Tier 2</th></tr>
<tr><td>A member must have a minimum of eight years of service credit and may retire at:

• Age 60, with 8 years of service credit.

• Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service.

• Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60).

The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.

Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.

If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td><td>A member must have a minimum of 10 years of credited service and may retire at:

• Age 67, with 10 years of credited service.

• Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67).

The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.

If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2016 rate is $111,572.

If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</td></tr>
</table>

Additionally, the Plan provides an alternative retirement formula for State employees in high-risk jobs, such as State policemen, fire fighters, and security employees. Employees qualifying for benefits under the alternative formula may retire at an earlier age depending on membership in Tier 1 or Tier 2. The retirement formula is 2.5% for each year of covered service and 3.0% for each year of non-covered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least eighteen months of credited service to the System. The nonoccupational (including temporary) disability benefit is equal to 50% of the monthly rate of compensation of the employee on the date of removal from the payroll. Occupational disability benefits are provided when the member becomes disabled as a direct result of injuries or diseases arising out of and in the course of State employment. The monthly benefit is equal to 75% of the monthly rate of compensation on the date of removal from the payroll. This benefit amount is reduced by Workers' Compensation or payments under the Occupational Diseases Act.

Occupational and nonoccupational death benefits are also available through the System. Certain nonoccupational death benefits vest after eighteen months of credited service. Occupational death benefits are provided from the date of employment.

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2017, this amount was $112,408.

The State is required to make payment for the required departmental employer contributions, all allowances, annuities, any benefits granted under Chapter 40, Article 5/14 of the ILCS and all administrative expenses of the System to the extent specified in the ILCS. State law provides that the employer contribution rate be determined based upon the results of each annual actuarial valuation.

For fiscal year 2017, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2017, the employer contribution rate was 44.568%. The Department's contribution amount for fiscal year 2017 was $180,686,294.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2017, the Department reported a liability of $3.468 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2016 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2016. As of the current year measurement date of June 30, 2016, the Department's proportion was 10.1573%, which was an decrease of .2326% from its proportion measured as of the prior year measurement date of June 30, 2015.

For the year ended June 30, 2017, the Department recognized pension expense of $412 million. At June 30, 2017, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2016, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 5,310	$ 84,815
Changes of assumptions	533,110	-
Net difference between projected and actual investment earnings on pension plan investments	73,630	-
Changes in proportion	78,100	175,136
Department contributions subsequent to the measurement date	180,686	-
Total	$ 870,836	$ 259,951

A total of $180,686 is reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	
2018	$ 160,287
2019	110,084
2020	83,844
2021	75,984
Total	$ 430,199

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added.

Inflation: 2.75%

Investment Rate of Return: 7.00%, net of pension plan investment expense, including inflation.

Salary increases: Salary increase rates based on age related productivity and merit rates plus inflation.

Post-retirement benefit increases of 3.00%, compounded, for Tier 1 and the lessor of 3.00% or one-half of the annual increase in the Consumer Price Index for Tier 2.

Retirement Age: Experience-based table of rates specific to the type of eligibility condition. Table was last updated for the June 30, 2014, valuation pursuant to an experience study of the period July 1, 2009 to June 30, 2013.

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 20-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2016, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equity	23%	5.80%
Developed Foreign Equity	13%	6.10%
Emerging Market Equity	7%	8.50%
Private Equity	9%	7.40%
Hedge Funds	3%	3.60%
Intermediate Investment Grade Bonds	11%	1.60%
Long-term Government Bonds	3%	1.60%
TIPS	5%	1.30%
High Yield and Bank Loans	5%	4.80%
Opportunistic Debt	4%	4.80%
Emerging Market Debt	2%	4.10%
Real Estate	10%	4.50%
Infrastructure	5%	5.90%
Total	**100%**	**5.04%**

Discount Rate. A discount rate of 6.64% was used to measure the total pension liability as of the measurement date of June 30, 2016 as compared to a discount rate of 7.02% used to measure the total pension liability as of the prior year measurement date. The June 30, 2016 single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 2.85%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2072. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2072, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 5.64%	**Discount Rate 6.64%**	**1% Increase 7.64%**
Department's proportionate share of the net pension liability	$ 4,185,854	$ 3,468,253	$ 2,882,669

Payables to the pension plan. At June 30, 2017, the Department reported a payable of $3,348,475 to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2017.

(9) 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 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 Employees' 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.

Public Act 97-0695, effective July 1, 2012, altered the contributions to be paid by the State, annuitants, survivors, and retired employees under the State Employees Group Insurance Act ("Act"). This Act requires the Director of Central Management Services to, on an annual basis, determine the amount the State should contribute. The remainder of the cost of coverage shall be the responsibility of the annuitant, survivor, or retired employee. These costs were to be assessed beginning July 1, 2013. However, five putative class actions were filed challenging the validity of this legislation under, among other things, the pension protection clause of the Illinois Constitution of 1970. The five class actions were consolidated in the circuit court of Sangamon County. The circuit court dismissed each of them for failure to state a cause of action, without certifying any classes. The Illinois Supreme Court allowed direct appeal. On July 3, 2014, the Illinois Supreme Court issued an opinion in the retirement health insurance case. The Illinois Supreme Court disagreed with the circuit court and determined the circuit court should not have dismissed the case. The Supreme Court sent the case back to the circuit court for reconsideration. As a result the Sangamon Country Circuit Court has directed SERS to discontinue withholding, as soon as possible, the retiree and survivor health insurance premiums that have been in effect since July 2013. The refunding of the withheld premiums was repaid from an escrow account by June 15, 2015.

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.

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 Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, William G. Stratton Building, 401 S. Spring St., Springfield, IL 62706.

(10) Fund Balance

(a) Categories

At June 30, 2017, the Department's fund balances were classified as follows:

	Road Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	$ 63,664	$ -	$ 63,664
Total Nonspendable	$ 63,664	$ -	$ 63,664
Restricted purpose:			
General Transportation	$ -	$ 2,560	$ 2,560
Debt Service	-	7,547	7,547
Total Restricted	$ -	$ 10,107	$ 10,107
Committed purpose:			
General Transportation	$ 233,916	$ 321,421	$ 555,337
Total Committed	$ 233,916	$ 321,421	$ 555,337
Assigned purpose:			
Transportation Projects	$ -	$ 15,802	$ 15,802
Total Unassigned	$ -	$ (26,528)	$ (26,528)
Total Fund Balances	$ 297,580	$ 320,802	$ 618,382

(b) Fund Deficits

The Federal Local Airport Fund and Federal Mass Transit Trust Fund had deficit fund balances of $26,325 million and $203 thousand, respectively, at June 30, 2017. The deficits funds will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

(11) 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, 2016 and June 30, 2017.

Year Ended June 30	Beginning Balance	Claims Incurred	Decreases	Ending Balance
2016	$ 9,928	$ 1,762	$ 2,353	$ 9,337
2017	$ 9,337	$ 2,439	$ 1,872	$ 9,904

(12) 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 $3.866 billion at June 30, 2017.

(b) Encumbrances

The Department has Road Fund encumbrances for goods ordered but not received prior to June 30, 2017 of $7.2 million.

(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 $15.8 million for the year ended June 30, 2017.

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

Year Ending June 30	**Total**
2018	$ 586
2019	9
2020	-
	$ 595

(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, 2017, 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. The Appellate Court has ruled against the State. The plaintiff is seeking to enforce the judgment through the Court of Claims. However, this was denied. On August 26, 2016, the Court of Claims granted claimant's Motion to Reconsider. 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.

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Transportation

Combining Schedule of Accounts - General Fund

June 30, 2017 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	**I-FLY 0306**	**Public Transportation 0627**	**Total**
ASSETS				
Cash equity with State Treasurer	$ -	$ -	$ 395	$ 395
Due from other State funds	-	-	561,448	561,448
Total assets	$ -	$ -	$ 561,843	$ 561,843
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ -	$ 2	$ 2
Intergovernmental payables	-	-	561,832	561,832
Due to other State funds	-	-	9	9
Total liabilities	-	-	561,843	561,843
FUND BALANCES				
Total fund balances	-	-	-	-
Total liabilities and fund balances	$ -	$ -	$ 561,843	$ 561,843

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

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	**I-FLY 0306**	**Public Transportation 0627**	**Total**
REVENUES				
None				
EXPENDITURES				
Transportation	$ -	$ -	$ 504,052	$ 504,052
Total expenditures	-	-	504,052	504,052
Excess (deficiency) of revenues over (under) expenditures	-	-	(504,052)	(504,052)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Receipts collected and transmitted to State Treasury	(3,529)	-	-	(3,529)
Transfers in	-	-	504,052	504,052
Transfers out	-	(45)	-	(45)
Net other sources (uses) of financial resources	(3,529)	(45)	504,052	500,478
Net change in fund balances	(3,529)	(45)	-	(3,574)
Fund balances, July 1, 2016	3,529	45	-	3,574
FUND BALANCES, JUNE 30, 2017	$ -	$ -	$ -	$ -

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

State of Illinois
Department of Transportation

Combining Schedule of Accounts - Road Fund

June 30, 2017 (Expressed in Thousands)

	Road Fund Accounts			
	Road 0011	Working Capital Revolving Loan 0307	Eliminations	Total
ASSETS				
Unexpended appropriations	$ 599,488	$ -	$ -	$ 599,488
Cash equity with State Treasurer	4,129	460	-	4,589
Securities lending collateral equity with State Treasurer	-	148	-	148
Intergovernmental receivables, net	138,421	-	-	138,421
Other receivables, net	17,857	-	-	17,857
Due from other Department funds	21,261	-	-	21,261
Due from other State funds	1,246	-	-	1,246
Due from State of Illinois component units, current	670	-	-	670
Inventories	63,664	-	-	63,664
Loans receivable, net	-	55	-	55
Due from State of Illinois component units, long-term	83,543	-	-	83,543
Total assets	$ 930,279	$ 663	$ -	$ 930,942
LIABILITIES				
Accounts payable and accrued liabilities	$ 271,376	$ -	$ -	$ 271,376
Intergovernmental payables	163,887	-	-	163,887
Due to other Department funds	1,013	-	-	1,013
Due to other State funds	12,793	-	-	12,793
Due to State of Illinois component units	150,419	-	-	150,419
Obligations under securities lending of State Treasurer	-	148	-	148
Unearned revenue	1,000	-	-	1,000
Total liabilities	600,488	148	-	600,636
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - DIR	32,726	-	-	32,726
Total deferred inflows of resources	32,726	-	-	32,726
Total liabilities and deferred inflows of resources	633,214	148	-	633,362
FUND BALANCES				
Nonspendable portion of inventories	63,664	-	-	63,664
Committed	233,401	515	-	233,916
Unassigned	-	-	-	-
Total fund balances	297,065	515	-	297,580
Total liabilities, deferred inflows and fund balances	$ 930,279	$ 663	$ -	$ 930,942

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

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Road Fund Accounts			
	Road 0011	Working Capital Revolving Loan 0307	Eliminations	Total
REVENUES				
Motor fuel taxes	$ 306,715	$ -	$ -	$ 306,715
Operating grants - Federal	42,224	-	-	42,224
Capital grants - Federal	1,468,969	-	-	1,468,969
Other operating grants	88,641	-	-	88,641
Other capital grants	5,933	-	-	5,933
Licenses and fees	23,378	-	-	23,378
Other charges for services	78,464	-	-	78,464
Interest and other investment income	-	5	-	5
Total revenues	2,014,324	5	-	2,014,329
EXPENDITURES				
Transportation	2,172,445	-	-	2,172,445
Debt service - principal	300	-	-	300
Debt service - interest	287	-	-	287
Capital outlays	160,727	-	-	160,727
Total expenditures	2,333,759	-	-	2,333,759
Excess (deficiency) of revenues over (under) expenditures	(319,435)	5	-	(319,430)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	5,312,129	-	-	5,312,129
Reappropriation to future year(s)	(2,697,482)	-	-	(2,697,482)
Lapsed appropriations	(383,462)	-	-	(383,462)
Receipts collected and transmitted to State Treasury	(1,746,671)	-	-	(1,746,671)
Net change in liabilities for reappropriated accounts	108,681	-	-	108,681
Amount of SAMS Transfers-in	(303,286)	-	-	(303,286)
Transfers-out	(5,328)	-	-	(5,328)
Capital lease financing	341	-	-	341
Net other sources (uses) of financial resources	284,922	-	-	284,922
Net change in fund balances	(34,513)	5	-	(34,508)
Fund balances, July 1, 2016	324,303	510	-	324,813
Increase for change in inventories	7,275	-	-	7,275
FUND BALANCES, JUNE 30, 2017	$ 297,065	$ 515	$ -	$ 297,580

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

State of Illinois

Department of Transportation

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2017 (Expressed in Thousands)

	Special Revenue								
	Motor Fuel Tax Funds	**Grade Crossing Protection 0019**	**Aeronautics 0046**	**Federal/Local Airport 0095**	**Intercity Passenger Rail 0233**	**State Rail Freight Loan Repayment 0265**	**Tax Recovery 0310**	**Federal High Speed Rail Trust 0433**	**Downstate Transit Improvement 0559**
ASSETS									
Unexpended appropriations	$ 81,153	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	-	59,517	519	2,344	301	7,554	2,725	34,969	29,624
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	97	2,426	-	-	-
Intergovernmental receivables, net	-	-	-	30,272	-	-	-	163,741	-
Other receivables, net	-	-	-	-	-	7	19	-	-
Due from other Department funds	-	3,500	-	-	-	-	-	-	6,500
Due from other State funds	-	-	-	-	524	-	-	-	
Due from State of Illinois component units	-	-	-	-	-	-	-	-	
Loans receivable, net	-	-	-	-	-	4,029	-	-	-
Total assets	$ 81,153	$ 63,017	$ 519	$ 32,616	$ 922	$ 14,016	$ 2,744	$ 198,710	$ 36,124
LIABILITIES									
Accounts payable and accrued liabilities	$ 33	$ 7,259	$ -	$ 9,968	$ -	$ -	$ 115	$ 85,133	$ 20
Intergovernmental payables	40,260	8,337	30	20,118	-	-	-	865	270
Due to other Department funds	40,436	-	-	-	-	-	-	-	-
Due to other State funds	424	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	37	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	97	2,426	-	-	-
Unearned revenue	-	-	-	2,493	-	-	350	-	-
Total liabilities	81,153	15,596	30	32,616	97	2,426	465	85,998	290
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - DIR	-	-	-	26,325	-	-	-	13,298	-
Total deferred inflows of resources	-	-	-	26,325	-	-	-	13,298	-
Total liabilities and deferred inflows of resources	81,153	15,596	30	58,941	97	2,426	465	99,296	290
FUND BALANCES (DEFICITS)									
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-	-	-
Restricted fund balance	-	-	-	-	-	-	-	-	-
Unrestricted									
Committed fund balance	-	47,421	489	-	825	11,590	2,279	99,414	35,834
Assigned fund balance	-	-	-	-	-	-	-	-	-
Unassigned fund balance	-	-	-	(26,325)	-	-	-	-	-
Total fund balances (deficits)	-	47,421	489	(26,325)	825	11,590	2,279	99,414	35,834
Total liabilities, deferred inflows and fund balances (deficits)	$ 81,153	$ 63,017	$ 519	$ 32,616	$ 922	$ 14,016	$ 2,744	$ 198,710	$ 36,124

State of Illinois

Department of Transportation

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2017 (Expressed in Thousands)

	Special Revenue						
	Transportation Safety Highway Hire-Back 0589	**Downstate Public Transportation 0648**	**Airport Land Loan Revolving 0669**	**Roadside Memorial 0697**	**Federal Mass Transit Trust 0853**	**Cycle Rider Safety Training 0863**	**Rail Freight Loan Repayment 0936**
ASSETS							
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ 346	$ -
Cash equity with State Treasurer	363	482	94	-	-	-	3,512
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	30	-	-	-	1,238
Intergovernmental receivables, net	-	-	-	-	1,189	-	-
Other receivables, net	-	-	-	-	-	-	4
Due from other Department funds	-	-	-	-	-	-	-
Due from other State funds	-	170,887	-	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	-	-
Total assets	$ 363	$ 171,369	$ 124	$ -	$ 1,189	$ 346	$ 4,754
LIABILITIES							
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ -	$ 265	$ 3	$ 531
Intergovernmental payables	-	44,379	-	-	815	326	-
Due to other Department funds	-	6,500	-	-	-	-	-
Due to other State funds	-	-	-	-	-	17	-
Due to State of Illinois component units	-	-	-	-	109	-	-
Obligations under securities lending of State Treasurer	-	-	30	-	-	-	1,238
Unearned revenue	-	-	-	-	-	-	-
Total liabilities	-	50,879	30	-	1,189	346	1,769
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - DIR	-	-	-	-	203	-	-
Total deferred inflows of resources	-	-	-	-	203	-	-
Total liabilities and deferred inflows of resources	-	50,879	30	-	1,392	346	1,769
FUND BALANCES (DEFICITS)							
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-
Restricted fund balance	363	-	-	-	-	-	-
Unrestricted							
Committed fund balance	-	120,490	94	-	-	-	2,985
Assigned fund balance	-	-	-	-	-	-	-
Unassigned fund balance	-	-	-	-	(203)	-	-
Total fund balances (deficits)	363	120,490	94	-	(203)	-	2,985
Total liabilities, deferred inflows and fund balances (deficits)	$ 363	$ 171,369	$ 124	$ -	$ 1,189	$ 346	$ 4,754

State of Illinois

Department of Transportation

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2017 (Expressed in Thousands)

	Capital Projects					Debt Service		
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	State Construction Account 902	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	Total
ASSETS								
Unexpended appropriations	$ 7,776	$ 80,711	$ 60,626	$ 81,129	$ -	$ -	$ -	$ 311,741
Cash equity with State Treasurer	-	-	-	-	-	-	-	142,004
Cash and cash equivalents	-	-	-	-	1,184	-	2,699	3,883
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	3,791
Intergovernmental receivables, net	-	-	-	-	-	-	-	195,202
Other receivables, net	197	-	20	127	-	-	-	374
Due from other Department funds	-	-	-	15,675	1,013	-	-	26,688
Due from other State funds	-	-	-	-	-	-	-	171,411
Due from State of Illinois component units	-	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	4,848	-	8,877
Total assets	$ 7,973	$ 80,711	$ 60,646	$ 96,931	$ 2,197	$ 4,848	$ 2,699	$ 863,971
LIABILITIES								
Accounts payable and accrued liabilities	$ 2,936	$ 14,913	$ 28,520	$ 77,614	$ -	$ -	$ -	$ 227,310
Intergovernmental payables	5,037	65,796	32,126	3,515	-	-	-	221,874
Due to other Department funds	-	-	-	-	-	-	-	46,936
Due to other State funds	-	-	-	-	-	-	-	441
Due to State of Illinois component units	-	2	-	-	-	-	-	148
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	3,791
Unearned revenue	-	-	-	-	-	-	-	2,843
Total liabilities	7,973	80,711	60,646	81,129	-	-	-	503,343
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue - DIR	-	-	-	-	-	-	-	39,826
Total deferred inflows of resources	-	-	-		-	-	-	39,826
Total liabilities and deferred inflows of resources	7,973	80,711	60,646	81,129	-	-	-	543,169
FUND BALANCES (DEFICITS)								
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-	-
Restricted fund balance	-	-	-	-	2,197	4,848	2,699	10,107
Unrestricted								
Committed fund balance	-	-	-	-	-	-	-	321,421
Assigned fund balance	-	-	-	15,802	-	-	-	15,802
Unassigned fund balance	-	-	-		-	-	-	(26,528)
Total fund balances (deficits)	-	-	-	15,802	2,197	4,848	2,699	320,802
Total liabilities, deferred inflows and fund balances (deficits)	$ 7,973	$ 80,711	$ 60,646	$ 96,931	$ 2,197	$ 4,848	$ 2,699	$ 863,971

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, 2017 (Expressed in Thousands)

	Special Revenue							
	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal/Local Airport 0095	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	(523,886)	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	64,087	-	-	-	549,604
Other operating grants	-	-	-	1,758	-	-	-	-
Licenses and fees	-	-	43	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	1,344	-
Other	-	-	-	-	156	-	-	-
Interest and other investment income	-	-	-	-	2	192	-	-
Total revenues	(523,886)	-	43	65,845	158	192	1,344	549,604
EXPENDITURES								
Transportation	12,232	14,514	66	65,345	-	-	1,250	261,896
Intergovernmental	580,802	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	155,661
Total expenditures	593,034	14,514	66	65,345	-	-	1,250	417,557
Excess (deficiency) of revenues over (under) expenditures	(1,116,920)	(14,514)	(23)	500	158	192	94	132,047
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	17,917	-	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	(5,685)	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	4,254	-	-	-	-	-	-	-
Amount of SAMS Transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS Transfers-out	1,147,474	-	-	-	-	-	-	-
Transfers-in	-	42,000	-	1	-	-	-	-
Transfers-out	(47,040)	(3,000)	-	(5)	-	-	-	-
Transfer of administration of fund to Department of Veterans Affairs	-	-	-	-	-	-	-	-
Net other sources (uses) of financial resources	1,116,920	39,000	-	(4)	-	-	-	-
Net change in fund balances	-	24,486	(23)	496	158	192	94	132,047
Fund balances (deficits), July 1, 2016	-	22,935	512	(26,821)	667	11,398	2,185	(32,633)
FUND BALANCES (DEFICITS), JUNE 30, 2017	$ -	$ 47,421	$ 489	$ (26,325)	$ 825	$ 11,590	$ 2,279	$ 99,414

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Special Revenue							
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Roadside Memorial 0697	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
REVENUES								
Sales tax	$ -	$ -	$ 193,428	$ -	$ -	$ -	$ -	$ -
Motor fuel taxes	-	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	-	-	19,041	-	-
Other operating grants	-	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-
Other	-	126	-	-	-	-	-	-
Interest and other investment income	-	-	-	1	-	-	-	38
Total revenues	-	126	193,428	1	-	19,041	-	38
EXPENDITURES								
Transportation	4,472	600	201,892	-	-	16,588	6,335	1,024
Intergovernmental	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	4,472	600	201,892	-	-	16,588	6,335	1,024
Excess (deficiency) of revenues over (under) expenditures	(4,472)	(474)	(8,464)	1	-	2,453	(6,335)	(986)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	15,438	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	(8,616)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-	(487)	-
Amount of SAMS Transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS Transfers-out	-	-	-	-	-	-	-	-
Transfers-in	6,500	-	-	-	-	-	-	-
Transfers-out	-	-	(6,500)	-	-	-	-	-
Transfer of administration of fund to Department of Veterans Affairs	-	-	-	-	(517)	-	-	-
Net other sources (uses) of financial resources	6,500	-	(6,500)	-	(517)	-	6,335	-
Net change in fund balances	2,028	(474)	(14,964)	1	(517)	2,453	-	(986)
Fund balances (deficits), July 1, 2016	33,806	837	135,454	93	517	(2,656)	-	3,971
FUND BALANCES (DEFICITS), JUNE 30, 2017	$ 35,834	$ 363	$ 120,490	$ 94	$ -	$ (203)	$ -	$ 2,985

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

For the Year Ended June 30, 2017 (Expressed in Thousands)

	Capital Projects					Debt Service		
	Transportation Bond Series A 0553	**Transportation Bond Series B 0554**	**Transportation Bond Series D 0695**	**State Construction Account 902**	**IDOT Capital Projects 1494**	**General Obligation Bond Retirement and Interest 0101**	**IDOT Debt Service 2494**	**Total**
REVENUES								
Sales tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 193,428
Motor fuel taxes	-	-	-	217,171	-	-	-	(306,715)
Operating grants - Federal	-	-	-	-	-	-	-	632,732
Other operating grants	-	-	-	-	-	-	-	1,758
Licenses and fees	-	-	-	-	-	-	-	43
Other charges for services	197	-	-	-	-	-	-	1,541
Other	-	-	-	-	-	15	-	297
Interest and other investment income	-	-	-	-	-	191	-	424
Total revenues	197	-	-	217,171	-	206	-	523,508
EXPENDITURES								
Transportation	1,081	255,722	28,856	111,223	1,887	-	1	984,984
Intergovernmental	-	-	-	-	-	-	-	580,802
Debt service - principal	-	-	-	-	-	-	2,315	2,315
Debt service - interest	-	-	-	-	-	-	523	523
Capital outlays	3,661	930	467,886	554,479	-	-	-	1,182,617
Total expenditures	4,742	256,652	496,742	665,702	1,887	-	2,839	2,751,241
Excess (deficiency) of revenues over (under) expenditures	(4,545)	(256,652)	(496,742)	(448,531)	(1,887)	206	(2,839)	(2,227,733)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	85,569	2,207,952	1,267,822	1,656,658	-	-	-	5,251,356
Reappropriation to future year(s)	(67,178)	(923,653)	(758,913)	(987,925)	-	-	-	(2,737,669)
Lapsed appropriations	(11,811)	(1,017,291)	(12,413)	-	-	-	-	(1,055,816)
Receipts collected and transmitted to State Treasury	(197)	-	-	-	-	(1,734)	-	(1,931)
Net change in liabilities for reappropriated accounts	(1,838)	(10,355)	246	(2,925)	-	-	-	(11,105)
Amount of SAMS Transfers-in	-	-	-	(222,838)	-	-	-	(222,838)
Amount of SAMS Transfers-out	-	-	-	-	-	-	-	1,147,474
Transfers-in	-	-	-	-	2,420	5	2,908	53,834
Transfers-out	-	(1)	-	-	-	-	-	(56,546)
Transfer of administration of fund to Department of Veterans Affairs	-	-	-	-	-	-	-	(517)
Net other sources (uses) of financial resources	4,545	256,652	496,742	442,970	2,420	(1,729)	2,908	2,366,242
Net change in fund balances	-	-	-	(5,561)	533	(1,523)	69	138,509
Fund balances (deficits), July 1, 2016	-	-	-	21,363	1,664	6,371	2,630	182,293
FUND BALANCES (DEFICITS), JUNE 30, 2017	$ -	$ -	$ -	$ 15,802	$ 2,197	$ 4,848	$ 2,699	$ 320,802

Combining Schedule of Accounts - Motor Fuel Tax Fund

June 30, 2017 (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	$ 81,153	$ -	$ -	$ -	$ -	$ 81,153
Due from other Department funds	-	14,095	19,768	6,397	(40,260)	-
Total assets	$ 81,153	$ 14,095	$ 19,768	$ 6,397	$ (40,260)	$ 81,153
LIABILITIES						
Accounts payable and accrued liabilities	$ 33	$ -	$ -	$ -	$ -	$ 33
Intergovernmental payables	-	14,095	19,768	6,397	-	40,260
Due to other Department funds	80,696	-	-	-	(40,260)	40,436
Due to other State funds	424	-	-	-	-	424
Total liabilities	81,153	14,095	19,768	6,397	(40,260)	81,153
FUND BALANCES						
Unrestricted						
Unassigned	-	-	-	-	-	-
Total fund balances	-	-	-	-	-	-
Total liabilities and fund balances	$ 81,153	$ 14,095	$ 19,768	$ 6,397	$ (40,260)	$ 81,153

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

For the Year Ended June 30, 2017 (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	$ (1,104,688)	$ 203,339	$ 285,174	$ 92,289	$ -	$ (523,886)
Total revenues	(1,104,688)	203,339	285,174	92,289	-	(523,886)
EXPENDITURES						
Transportation	12,232	-	-	-	-	12,232
Intergovernmental	-	203,339	285,174	92,289	-	580,802
Total expenditures	12,232	203,339	285,174	92,289	-	593,034
Deficiency of revenues under expenditures	(1,116,920)	-	-	-	-	(1,116,920)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	17,917	-	-	-	-	17,917
Lapsed appropriations	(5,685)	-	-	-	-	(5,685)
Net change in liabilities for reappropriated accounts	4,254	-	-	-	-	4,254
Amount of SAMS Transfers-out	1,147,474	-	-	-	-	1,147,474
Transfers-out	(47,040)	-	-	-	-	(47,040)
Net other sources (uses) of financial resources	1,116,920	-	-	-	-	1,116,920
Net change in fund balances	-	-	-	-	-	-
Fund balances, July 1, 2016	-	-	-	-	-	-
FUND BALANCES, JUNE 30, 2017	$ -	$ -	$ -	$ -	$ -	$ -

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INDEPENDENT AUDITOR'S 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 Frank J. Mautino
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion(s) on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

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. A *significant deficiency* is a deficiency, or a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses or 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SIGNED ORIGINAL ON FILE

Springfield, Illinois
December 21, 2017

PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Weaknesses in calculating accounts payable)

During the previous audit, the Department of Transportation (Department) did not evaluate all conditions that were present subsequent to the financial statements being submitted to the Office of the Comptroller, but prior to the issuance of the financial statements. This resulted in an understatement of accounts payable by $14 million in the State Construction Fund (Fund 0902). The Department recorded an adjustment and revised the financial statements for the potential under accrual as of June 30, 2016.

In addition, accounts payable for the Downstate Transit Improvement Fund (Fund 0559) and the Federal High Speed Rail Trust Fund (Fund 0433) were understated by $1 million and $14 million, respectively, due to vouchers processed subsequent to lapse period, but prior to the issuance of the financial statements. The Department recorded adjustments in Funds 0559 and 0433 and revised the financial statements for the potential under accrual as of June 30, 2016.

During the current audit, our testing noted disbursements subsequent to lapse period, but prior to issuance of the financial statements which resulted in an understatement of accounts payable. However, the items noted were less in magnitude resulting in a lower understatement and were limited to one fund. The results of the testing performed indicated significant progress had been made to address the issues noted in the previous findings. No adjustments to the financial statements were required as a result of these understatements to accounts payable. As a result the prior year finding is not repeated. (Finding Code No. 2016-001, 2015-003, 2014-003, 2013-004)