

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2010

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

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2010

TABLE OF CONTENTS

	<u>Page</u>
AGENCY OFFICIALS.....	1
FINANCIAL STATEMENT REPORT	
Summary.....	2
Independent Auditors' Report.....	4
Basic Financial Statements	
Statement of Net Assets	6
Statement of Activities	7
Balance Sheet – Governmental Funds	8
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Assets	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Reconciliation of Statement of Governmental Funds Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities.....	11
Statement of Net Assets – Proprietary Fund - Air Transportation Revolving Fund (0309).....	12
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund - Air Transportation Revolving Fund (0309).....	13
Statement of Cash Flows – Proprietary Fund - Air Transportation Revolving Fund (0309).....	14
Notes to Financial Statements.....	15

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

For the Year Ended June 30, 2010

TABLE OF CONTENTS - Continued

SUPPLEMENTARY INFORMATION

Combining Schedule of Accounts – General Fund.....	35
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – General Fund.....	36
Combining Balance Sheet – Nonmajor Governmental Funds.....	37
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	41
Combining Schedule of Accounts – Motor Fuel Tax Fund.....	45
Combining Schedule of Revenues, Expenditures and Changes in Fund Balances – Motor Fuel Tax Fund.....	46
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47
Schedule of Findings.....	49

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

AGENCY OFFICIALS

Secretary	Gary Hannig
Acting Chief Operating Officer	Ann L. Schneider
Acting Chief of Staff	Marva Boyd
Assistant Secretary	Vacant
Chief Counsel	Ellen Schanzle-Haskins
Acting Director, Office of Finance and Administration	Matt Hughes
Director, Office of Business and Workforce Diversity	Frank W. McNeil
Director, Office of Communications	John A. Webber
Director, Office of Planning and Programming	Charles J. Ingersoll
Director, Office of Quality Compliance and Review	Daniel Kennelly
Director, Division of Aeronautics	Susan Shea
Director, Division of Highways	Christine M. Reed
Director, Division of Public and Intermodal Transportation	Joseph P. Shacter
Director, Division of Traffic Safety	Michael R. Stout

Agency main offices are located at:

2300 S. Dirksen Parkway
Springfield, IL 62764

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are provided in the accompanying Schedule of Findings listed in the table of contents as findings 10-4 and 10-5. The significant deficiencies are described in the accompanying Schedule of Findings listed in the table of contents as findings 10-1, 10-2, and 10-3.

- 10-1 Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements
- 10-2 Inaccurate commodities inventory records
- 10-3 Weaknesses in the reporting of capital assets
- 10-4 Weaknesses in the reporting of deferred revenues
- 10-5 Failure to report fiscal year 2009 due to/due from balances

PRIOR FINDINGS NOT REPEATED

None.

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on April 19, 2011. Attending were:

Department of Transportation

Matt Hughes, Acting Director of Finance and Administration
Tony Small, Deputy Director of Finance and Administration
Lori Beeler, Unit Chief of Fiscal Operations
Stephen Kirk, Chief Internal Auditor
Bill Winberg, Financial Specialist – Quality Compliance
Dave Johnson, Maintenance Operations Engineer
Aaron Weatherholt, Deputy Director of Highways
Lori Campbell, Acting Section Chief of Financial and Administrative Services
Nancy Rambo, Business and Finance Manger, Operations

Office of the Auditor General

Peggy Hartson, Audit Manager

Sikich LLP – Special Assistant Auditors

Nick Appelbaum, Partner
Kelli Kauffman-Bruns, Manager

The responses to the recommendations were provided by Secretary Gary Hannig in a letter dated May 2, 2011.



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

INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 2, the financial statements of the Department are intended to present the financial position, changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2010, 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.

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, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 3, 2011 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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

Schick LLP

Springfield, Illinois
May 3, 2011

State of Illinois
Department of Transportation

Statement of Net Assets

June 30, 2010 (Expressed in Thousands)

	Governmental Activities
ASSETS	
Unexpended appropriations	\$ 933,754
Cash equity with State Treasurer	56,574
Cash and cash equivalents	2,978
Securities lending collateral equity with State Treasurer	6,661
Receivables, net:	
Intergovernmental	219,887
Other	38,377
Due from other State funds	445,467
Due from State of Illinois component units	61,672
Inventories	53,671
Prepaid expenses	2
Loans receivable, net	32,517
Capital assets not being depreciated	2,293,171
Capital assets being depreciated, net	13,735,188
Total assets	17,879,919
LIABILITIES	
Accounts payable and accrued liabilities	442,595
Intergovernmental payables	664,191
Due to other State funds	13,982
Due to State of Illinois component units	128,922
Obligations under securities lending of State Treasurer	6,661
Long term obligations:	
Due within one year	7,574
Due subsequent to one year	73,809
Total liabilities	1,337,734
NET ASSETS	
Invested in capital assets, net of related debt	16,006,729
Restricted for:	
Transportation programs	23,302
Debt service	2,311
Unrestricted net assets	509,843
Total net assets	\$ 16,542,185

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, 2010 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Transportation	\$ 4,368,509	\$ 56,675	\$ 712,952	\$ (2,667,140)
Interest	1,264	-	-	(1,264)
Total governmental activities	<u>\$ 4,369,773</u>	<u>\$ 56,675</u>	<u>\$ 712,952</u>	<u>(2,668,404)</u>
General revenues and transfers				
Appropriations from State Resources				17,840,678
Reappropriation to future year(s)				(7,184,048)
Lapsed appropriations				(6,972,898)
Receipts collected and transmitted to State Treasury				(1,904,803)
Net change in liabilities for reappropriated accounts				227,036
Other revenues				20,246
Interest and investment income				1,154
Net capital transfers from other State agencies				224
Amount of SAMS transfers-in				(518,576)
Amount of SAMS transfers-out				1,161,059
Transfers-in				587,437
Transfers-out				(38,095)
Total general revenues and transfers				<u>3,219,414</u>
Change in net assets				551,010
Net assets, July 1, 2009, as restated				15,991,175
Net assets, June 30, 2010				<u>\$ 16,542,185</u>

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

State of Illinois
Department of Transportation

Balance Sheet-Governmental Funds

June 30, 2010 (Expressed in Thousands)

	General Fund 0001	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
ASSETS					
Unexpended appropriations	\$ 14,827	\$ 597,042	\$ 81,118	\$ 240,767	\$ 933,754
Cash equity with State Treasurer	45	3,150	-	53,223	56,418
Cash and cash equivalents	-	321	66	2,591	2,978
Securities lending collateral equity with State Treasurer	-	-	-	6,661	6,661
Intergovernmental receivables, net	-	198,966	-	20,921	219,887
Other receivables, net	20,000	18,174	35	168	38,377
Due from other Department funds	-	24,094	19,373	7,703	51,170
Due from other State funds	-	339	-	444,785	445,124
Due from State of Illinois component units	-	61,672	-	-	61,672
Inventories	-	53,671	-	-	53,671
Loans receivable, net	625	-	-	31,892	32,517
Total assets	<u>\$ 35,497</u>	<u>\$ 957,429</u>	<u>\$ 100,592</u>	<u>\$ 808,711</u>	<u>\$ 1,902,229</u>
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,144	\$ 234,771	\$ 78,009	\$ 128,571	\$ 442,495
Intergovernmental payables	13,670	210,282	2,068	438,171	664,191
Due to other Department funds	7	703	-	50,467	51,177
Due to other State funds	-	12,726	-	1,256	13,982
Due to State of Illinois component units	6	125,947	1,107	1,862	128,922
Obligations under securities lending of State Treasurer	-	-	-	6,661	6,661
Unavailable revenue	20,000	35,896	-	17,866	73,762
Total liabilities	<u>34,827</u>	<u>620,325</u>	<u>81,184</u>	<u>644,854</u>	<u>1,381,190</u>
FUND BALANCES					
Reserved for:					
Encumbrances	-	691	-	-	691
Inventories	-	53,671	-	-	53,671
Long-term portion of:					
Loans and notes receivable	625	-	-	31,892	32,517
Designated for reappropriated accounts in special revenue funds	-	-	-	16,933	16,933
Unreserved, undesignated:					
General fund	45	-	-	-	45
Special revenue funds	-	282,742	19,408	112,018	414,168
Capital project funds	-	-	-	703	703
Debt service fund	-	-	-	2,311	2,311
Total fund balances	<u>670</u>	<u>337,104</u>	<u>19,408</u>	<u>163,857</u>	<u>521,039</u>
Total liabilities and fund balances	<u>\$ 35,497</u>	<u>\$ 957,429</u>	<u>\$ 100,592</u>	<u>\$ 808,711</u>	<u>\$ 1,902,229</u>

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

State of Illinois
Department of Transportation
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Assets
June 30, 2010
(Expressed in Thousands)

Total fund balances-governmental funds \$ 521,039

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. 16,028,359

Internal service funds are used to charge costs of air transportation activities to individual funds. The assets and liabilities of the Air Transportation Fund are reported as governmental activities in the Statement of Net Assets. 406

Prepaid expenses for governmental activities are current uses of financial resources for funds. 2

Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds. 73,762

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

Compensated absences	\$ (46,354)	
Auto liability claims	(12,420)	
Pollution remediation obligations	(979)	
Certificates of participation	<u>(21,630)</u>	
		<u>(81,383)</u>

Net assets of governmental activities \$ 16,542,185

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

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	General Fund 0001	Road Fund 0011	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
REVENUES					
Operating grants - Federal	\$ -	\$ 548,530	\$ -	\$ 94,748	\$ 643,278
Capital grants - Federal	-	950,404	-	-	950,404
Other operating grants	104	69,384	-	3,480	72,968
Other capital grants	-	7,923	-	-	7,923
Licenses and fees	-	19,062	-	225	19,287
Other charges for services	2	30,144	-	408	30,554
Other	-	-	-	246	246
Interest and other investment income	-	-	-	1,154	1,154
Total revenues	106	1,625,447	-	100,261	1,725,814
EXPENDITURES					
Transportation	73,986	1,921,144	29,058	1,296,722	3,320,910
Debt service - principal	-	1	-	1,600	1,601
Debt service - interest	-	-	-	1,264	1,264
Capital outlays	-	574,137	708,084	464,255	1,746,476
Total expenditures	73,986	2,495,282	737,142	1,763,841	5,070,251
Deficiency of revenues under expenditures	(73,880)	(869,835)	(737,142)	(1,663,580)	(3,344,437)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	78,042	6,397,764	1,689,697	9,675,175	17,840,678
Reappropriation to future year(s)	-	(4,709,825)	(759,697)	(1,714,526)	(7,184,048)
Lapsed appropriations	(3,922)	737,227	(198,194)	(7,508,009)	(6,972,898)
Receipts collected and transmitted to State Treasury	(383)	(1,902,686)	-	(1,734)	(1,904,803)
Net change in liabilities for reappropriated accounts	(142)	203,034	7,257	16,887	227,036
Amount of SAMS Transfers-in	-	(299,264)	(219,312)	-	(518,576)
Amount of SAMS Transfers-out	-	-	-	1,161,059	1,161,059
Transfers-in	-	275,923	190,124	652,547	1,118,594
Transfers-out	-	(4,344)	-	(564,908)	(569,252)
Net other sources (uses) of financial resources	73,595	697,829	709,875	1,716,491	3,197,790
Net change in fund balances	(285)	(172,006)	(27,267)	52,911	(146,647)
Fund balances, July 1, 2009, as restated	955	508,891	46,675	110,946	667,467
Increase for changes in inventories	-	219	-	-	219
FUND BALANCES, JUNE 30, 2010	\$ 670	\$ 337,104	\$ 19,408	\$ 163,857	\$ 521,039

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

State of Illinois
Department of Transportation
Reconciliation of Statement of Governmental Funds Revenues, Expenditures,
and Changes in Fund Balances to Statement of Activities
For the Year Ended June 30, 2010
(Expressed in Thousands)

Net change in fund balances	\$ (146,647)
Change in inventories	219
	(146,428)

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. 704,780

Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. 1,601

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. 224

Internal service funds are used to charge costs of certain activities to individual funds. The net expenses of the internal service funds is reported as governmental activities in the Statement of Activities. (18)

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

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. (3,629)

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 amount of the book value of the capital assets sold. (1,633)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.

Increase in compensated absence	(3,515)
Increase in auto liability claims	(395)
Decrease in pollution remediation obligations	21
	21

Change in net assets of governmental activities	\$ 551,010
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The accompanying notes to the financial statements are an integral part of this statement.

State of Illinois

Department of Transportation

Statement of Net Assets - Proprietary Fund

Air Transportation Revolving Fund (0309)

June 30, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
<hr/>	
ASSETS	
Cash equity with State Treasurer	\$ 156
Due from other Department funds	7
Due from other State funds	343
Total current assets	<u>506</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>100</u>
NET ASSETS	
Unrestricted	406
Total net assets	<u><u>\$ 406</u></u>

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

State of Illinois

Department of Transportation

Statement of Revenues, Expenses, and Changes in

Fund Net Assets - Proprietary Fund

Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for sales and services	\$ 584
OPERATING EXPENSES	
Cost of sales and services	602
Total operating expenses	<u>602</u>
Operating (loss) and change in net assets	(18)
NET ASSETS, JULY 1, 2009	<u>424</u>
NET ASSETS, JUNE 30, 2010	<u><u>\$ 406</u></u>

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

State of Illinois

Department of Transportation

Statement of Cash Flows - Proprietary Fund

Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from sales and services	\$ 3
Cash received from transactions with other funds	531
Cash payments to suppliers for goods and services	(536)
Net cash provided (used) by operating activities	<u>(2)</u>
Net (decrease) in cash and cash equivalents	(2)
Cash and cash equivalents, July 1, 2009	<u>158</u>
CASH AND CASH EQUIVALENTS, JUNE 30, 2010	<u><u>\$ 156</u></u>
Reconciliation of operating (loss) to net cash provided (used) by operating activities:	
OPERATING (LOSS)	\$ (18)
Adjustments to reconcile operating (loss) to net cash provided by operating activities:	
Changes in assets and liabilities:	
(Increase) in due from other funds	(49)
Increase in accounts payable and accrued liabilities	65
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u><u>\$ (2)</u></u>

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(1) Organization

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

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

(2) Summary of Significant Accounting Policies

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

(a) Financial Reporting Entity

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

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

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(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, 2010 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

The Department administers the following major governmental funds (or portions thereof in the case of shared funds – see note 2(d)) of the State:

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

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

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

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

Additionally, the Department reports the following fund types:

Governmental Fund Types:

Special Revenue – These funds account for resources obtained from specific revenue sources that are legally restricted to expenditures for specified purposes. 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. 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. Nonexchange 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.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

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

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

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

(d) *Shared Fund Presentation*

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

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

Unexpended Appropriations

This "asset" account represents lapse period warrants issued between July and August annually in accordance with the Statewide Accounting Management System (SAMS) records plus any liabilities relating to obligations re-appropriated to the subsequent fiscal year.

Appropriations from State Resources

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

Reappropriation to Future Year(s)

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

Lapsed Appropriations

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records.

Net Change in Liabilities for Reappropriated Accounts

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

Receipts Collected and Transmitted to State Treasury

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

Amount of SAMS Transfers-In

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

Amount of SAMS Transfers-Out

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

(e) Eliminations

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

eliminations have been made in the statement of activities to remove the “doubling-up” effect of interdepartmental internal service fund activity.

(f) Cash and Cash Equivalents

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

(g) Inventories

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

(h) Interfund Transactions

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

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

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

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

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(i) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

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

(j) Compensated Absences

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

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(k) Pollution Remediation Obligations

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

(l) Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties as to use for specific purposes. Designations of fund balances represent tentative State plans that are subject to change.

(m) Net Assets

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

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

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

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(n) Use of Estimates

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

(o) New Accounting Pronouncements

Effective for the year ending June 30, 2010 the State adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which established guidance for recognition and amortization of intangible assets in the financial statements of governments. There was no significant impact on the Department's financial statements as a result of adopting this statement.

(p) Future Adoption of GASB Statements

Effective for the year ending June 30, 2011 the Department will adopt GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications and clarifies the definitions of fund types. The Department has not yet determined the impact on the Department's financial statements as a result of adopting this statement.

(3) Deposits

(a) Deposits

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

Cash on deposit for locally held funds had a carrying amount and bank balance of \$2.976 million at June 30, 2010. Cash on hand totaled \$2 thousand at June 30, 2010.

(b) Securities Lending Transactions

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

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

During fiscal year 2010, Deutsche Bank Group lent U.S. agency securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate market value of the loaned securities. Loans are marked to market daily. If the market value of collateral falls below 100%, the borrower must provide additional collateral to raise the market value to 100%.

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

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

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2010 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$6.661 million at June 30, 2010.

(4) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due from other Department and State of Illinois funds.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

Due from			
Fund	Other Department Funds	Other State Funds	Description/Purpose
Road	\$ 24,094	\$ 339	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and for reimbursements of expenditures incurred and from other State funds for expenditures incurred.
State Construction Account	19,373	-	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State funds for reimbursements of expenditures incurred.
Nonmajor governmental funds	7,703	444,785	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred and for debt service payments, and from other State funds for June sales tax allocations and for reimbursement of expenditures.
Internal service funds	7	343	Due from other Department funds and other State funds for air transportation services provided.
	\$ 51,177	\$ 445,467	

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to other Department and State of Illinois funds.

Due to			
Fund	Other Department Funds	Other State Funds	Description/Purpose
General	\$ 7	\$ -	Due to Department internal service funds for air transportation services received.
Road	703	12,726	Due to other Department funds for reimbursement of expenditures incurred and to other State funds for reimbursement of expenditures incurred and for services received.
Nonmajor governmental funds	50,467	1,256	Due to other Department Funds for reimbursement of expenditures incurred.
	\$ 51,177	\$ 13,982	

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2010, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 275,923	\$ -	Transfers from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
State Construction Account	190,124	-	Transfers from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
Nonmajor governmental funds	65,110	587,437	Transfers from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute, other Department nonmajor governmental funds for debt service, and from other State funds for sales tax allocation, debt service, and for other purposes.
	<u>\$ 531,157</u>	<u>\$ 587,437</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2010, were as follows:

<u>Fund</u>	<u>Transfers out to</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
Road	\$ 4,344	\$ -	Transfers to Department nonmajor governmental funds for debt service payments.
Nonmajor governmental funds	526,813	38,095	Transfers to Department funds per statutory guidelines and to other State funds for administration of Railroad Safety program, budget shortfalls, and for other purposes.
	<u>\$ 531,157</u>	<u>\$ 38,095</u>	

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

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

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred.

Component Unit	Road Fund
Illinois Toll Highway Authority	\$ 61,629
Southern Illinois University	43
	\$ 61,672

The following balances (amounts expressed in thousands) at June 30, 2010 represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs.

Component Unit	Due to			
	General Revenue Fund	Road Fund	State Construction Account	Nonmajor Governmental Funds
Illinois Toll Highway Authority	\$ -	\$ 123,596	\$ -	\$ -
Western Illinois University	-	-	-	457
Illinois State University	-	-	-	408
Northern Illinois University	-	712	-	616
Southern Illinois University	-	309	-	223
University of Illinois	6	1,330	1,107	158
	\$ 6	\$ 125,947	\$ 1,107	\$ 1,862

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2010 was as follows:

	<u>Balance July 1, 2009 *</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2010</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 2,214,603	\$ 73,404	\$ 388	\$ -	\$ 2,287,619
Easements/rights of way	-	1,916	-	-	1,916
Construction in progress	2,433	2,239	1,036	-	3,636
	<u>2,217,036</u>	<u>77,559</u>	<u>1,424</u>	<u>-</u>	<u>2,293,171</u>
Total capital assets not being depreciated					
Capital assets being depreciated:					
Infrastructure	23,417,341	1,644,684	774,999	(171)	24,286,855
Site improvements	2,497	-	-	-	2,497
Buildings and building improvements	125,449	-	-	-	125,449
Easements/rights of way	3,683	1,176	705	-	4,154
Equipment	397,783	23,057	34,047	565	387,358
Capital leases - equipment	20	-	15	-	5
	<u>23,946,773</u>	<u>1,668,917</u>	<u>809,766</u>	<u>394</u>	<u>24,806,318</u>
Total capital assets being depreciated					
Less accumulated depreciation:					
Infrastructure	10,443,761	1,017,577	774,998	-	10,686,340
Site improvements	2,310	60	-	-	2,370
Buildings and building improvements	79,558	2,734	-	-	82,292
Easements/rights of way	1,884	792	705	-	1,971
Equipment	311,291	20,530	33,839	170	298,152
Capital leases - equipment	17	3	15	-	5
	<u>10,838,821</u>	<u>1,041,696</u>	<u>809,557</u>	<u>170</u>	<u>11,071,130</u>
Total accumulated depreciation					
Total capital assets being depreciated, net					
	<u>13,107,952</u>	<u>627,221</u>	<u>209</u>	<u>224</u>	<u>13,735,188</u>
Governmental activity capital assets, net					
	<u>\$ 15,324,988</u>	<u>\$ 704,780</u>	<u>\$ 1,633</u>	<u>\$ 224</u>	<u>\$ 16,028,359</u>

* as restated

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2010 was charged to the following function:

Transportation \$ 1,041,696

(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2010 were as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Compensated absences	\$ 42,839	\$ 26,333	\$ 22,818	\$ 46,354	\$ 2,644
Capital lease obligations	1	-	1	-	-
Auto liability claims	12,531	2,895	3,006	12,420	2,950
Pollution remediation obligations	1,000	-	21	979	300
Certificates of participation	23,230	-	1,600	21,630	1,680
Total	<u>\$ 79,601</u>	<u>\$ 29,228</u>	<u>\$ 27,446</u>	<u>\$ 81,383</u>	<u>\$ 7,574</u>

Compensated absences have been 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) 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.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(c) 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, 2010, are as follows:

<u>Year Ending</u> <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 1,680	\$ 1,178	\$ 2,858
2012	1,770	1,087	2,857
2013	1,860	991	2,851
2014	1,965	887	2,852
2015	2,070	776	2,846
2016-2020	12,285	1,878	14,163
	<u>\$ 21,630</u>	<u>\$ 6,797</u>	<u>\$ 28,427</u>

(7) Pension Plan

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2010 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2010. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2010, the employer contribution rate was 28.377%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

(8) Post-employment Benefits

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

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

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

(9) Fund Deficits

The Federal Local Airport Fund and Federal Mass Transit Trust Fund had deficit fund balances of \$17.670 million and \$186 thousand, respectively, at June 30, 2010. The deficits funds will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

(10) Risk Management

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

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

The following is a reconciliation of the Department's claims liabilities for the years ended June 30, 2009 and June 30, 2010.

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2009	\$ 9,957	\$ 3,802	\$ 1,228	\$ 12,531
2010	\$ 12,531	\$ 2,895	\$ 3,006	\$ 12,420

(11) Commitments and Contingencies

(a) Commitments

The Department has outstanding construction projects for highway program improvements and administrative expenses in which it has entered into future commitments. The amount of the Department's commitments was \$2.628 billion at June 30, 2010.

(b) Operating leases

The Department leases various real property and equipment under the terms of noncancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$9.492 million for the year ended June 30, 2010.

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

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

<u>Year ending June 30,</u>	<u>Amount</u>
2011	\$ 538
2012	287
2013	102
2014	98
2015	98
2016	98
	\$ 1,221

(c) 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, 2010, 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.

(d) Litigation

On April 19, 2004, an auto accident occurred wherein the plaintiff sued the State in *Chraca v. Miles*. On September 8, 2009, judgment was entered in the Circuit Court of Cook County for the amount of \$23.8 million against the State. On February 18, 2010, the State appealed the judgment to the First District Appellate Court of Illinois and a decision is not expected until 2011.

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 amount, including the \$2 million already accrued, would be paid from the Road Fund.

The case of *Wirtz v. Quinn*, Nos. 1-09-3163 and 1-10-0344 (1st Dist., Jan. 26, 2011) involved a constitutional challenge to the recently enacted “Capital Projects Acts” consisting of Public Acts 96-034, 96-035, 96-036, and 96-038. The Appellate Court ruled that Public Act 96-034 violates the single subject requirement rendering the related public acts invalid. This ruling has put in question the Department’s appropriations for FY2010 in Public Act 96-035 as amended. Several capital reappropriations to the Department in FY2011 (over \$11 billion) may also be affected. On February 1, 2011, the Illinois Supreme Court issued a stay of this ruling pending appeal. At this time, the financial impact of this case on the Department is indeterminable.

Whitlow, et al. v. Martin, Stout and Doubet, United States Federal District Court for the Central District of Illinois, #04-3211 filed in September 2004, involved 16 plaintiffs, who claimed unlawful discharge during the course of a reorganization ordered by the FY 05 budget directive to

**STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2010

downsize state government. The case was partially settled on March 7, 2011 with respect to the 16 individual plaintiffs. As plaintiffs are being reinstated to employment with the Department, the fiscal year monetary impact will be immaterial. While the liability for plaintiffs' attorneys' fees could be significant, at this time an actual dollar amount and payment schedule is undetermined.

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.

(12) Restatement

As shown in the following table, the financial statements of the Department have been restated as of June 30, 2009 for reporting errors relating to the net understatement of amounts due from the Toll Highway Authority in the Road Fund for intergovernmental construction contracts and the overstatement of capital assets for temporary easements that expired in previous fiscal years. In addition, the financial statements have been restated as of June 30, 2009 for the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

	<u>Governmental Activities</u>	
	<u>Governmental Fund</u>	<u>Governmental Activities</u>
	<u>Road</u>	<u>Governmental Activities</u>
Fund Balance/Net Assets, June 30, 2009, as previously reported	\$ 566,893	\$ 16,073,337
Net understatement of amounts due to State of Illinois component units	(58,002)	(58,002)
Overstatement of capital assets	-	(25,959)
Implementation of GASB Statement No. 51	-	1,799
Fund Balance/Net Assets, June 30, 2009, as restated	<u>\$ 508,891</u>	<u>\$ 15,991,175</u>

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Transportation

Combining Schedule of Accounts -
General Fund

June 30, 2010 (Expressed in Thousands)

	General Fund Accounts		
	General Revenue 0001	I-Fly 0306	Total
ASSETS			
Unexpended appropriations	\$ 14,827	\$ -	\$ 14,827
Cash equity with State Treasurer	-	45	45
Other receivables, net	20,000	-	20,000
Loans receivable, net	625	-	625
Total assets	\$ 35,452	\$ 45	\$ 35,497
LIABILITIES			
Accounts payable and accrued liabilities	\$ 1,144	\$ -	\$ 1,144
Intergovernmental payables	13,670	-	13,670
Due to other Department funds	7	-	7
Due to State of Illinois component units	6	-	6
Unavailable revenue	20,000	-	20,000
Total liabilities	34,827	-	34,827
FUND BALANCES			
Reserved for long-term portion of loans and notes receivable	625	-	625
Unreserved, undesignated	-	45	45
Total fund balances	625	45	670
Total liabilities and fund balances	\$ 35,452	\$ 45	\$ 35,497

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	General Fund Accounts		
	General Revenue 0001	I-Fly 0306	Total
REVENUES			
Other operating grants	\$ 104	\$ -	\$ 104
Other charges for service	2	-	2
Total revenues	106	-	106
EXPENDITURES			
Transportation	73,986	-	73,986
Total expenditures	73,986	-	73,986
Deficiency of revenues under expenditures	(73,880)	-	(73,880)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	78,042	-	78,042
Lapsed appropriations	(3,922)	-	(3,922)
Receipts collected and transmitted to State Treasury	(383)	-	(383)
Net change in liabilities for reappropriated accounts	(142)	-	(142)
Net other sources (uses) of financial resources	73,595	-	73,595
Net change in fund balances	(285)	-	(285)
Fund balances, July 1, 2009	910	45	955
FUND BALANCES, JUNE 30, 2010	\$ 625	\$ 45	\$ 670

State of Illinois
Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2010 (Expressed in Thousands)

	Special Revenue							
	Motor Fuel Tax Funds	Grade Crossing Protection Fund 0019	Aeronautics Fund 0046	Federal Local Airport Fund 0095	DOT Special Projects Fund 0174	Intercity Passenger Rail Fund 0233	State Rail Freight Loan Repayment Fund 0265	Tax Recovery Fund 0310
ASSETS								
Unexpended appropriations	\$ 95,379	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	26	12,935	145	2,971	4	650	14,241	766
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	234	5,133	-
Intergovernmental receivables, net	-	-	-	19,605	-	-	-	-
Other receivables, net	-	-	-	143	-	1	11	-
Due from other Department funds	-	7,000	-	-	-	-	-	-
Due from other State funds	-	-	-	-	-	402	-	-
Loans receivable, net	-	-	-	-	-	-	15,532	-
Total assets	\$ 95,405	\$ 19,935	\$ 145	\$ 22,719	\$ 4	\$ 1,287	\$ 34,917	\$ 766
LIABILITIES								
Accounts payable and accrued liabilities	\$ 364	\$ 4,586	\$ 47	\$ 10,712	\$ -	\$ 650	\$ -	\$ -
Intergovernmental payables	45,651	5,981	-	12,007	-	-	174	-
Due to other Department funds	48,547	-	-	-	-	-	-	-
Due to other State funds	843	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	234	5,133	-
Unavailable revenue	-	-	-	17,670	-	-	-	-
Total liabilities	95,405	10,567	47	40,389	-	884	5,307	-
FUND BALANCES (DEFICITS)								
Reserved for loans and notes receivable	-	-	-	-	-	-	15,532	-
Designated for other	-	9,368	-	-	-	-	5,965	-
Unreserved, undesignated	-	-	98	(17,670)	4	403	8,113	766
Total fund balances (deficits)	-	9,368	98	(17,670)	4	403	29,610	766
Total liabilities and fund balances (deficits)	\$ 95,405	\$ 19,935	\$ 145	\$ 22,719	\$ 4	\$ 1,287	\$ 34,917	\$ 766

State of Illinois
Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2010 (Expressed in Thousands)

	Special Revenue					
	Comprehensive Regional Planning Fund 0406	Downstate Transit Improvement Fund 0559	Transportation Safety Highway Hire-Back Fund 0589	Public Transportation Fund 0627	Down-State Public Transportation Fund 0648	Airport Land Loan Revolving Fund 0669
ASSETS						
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	150	17,482	31	39	57	91
Cash and cash equivalents	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	-	33
Intergovernmental receivables, net	-	-	-	-	-	-
Other receivables, net	-	-	-	-	-	-
Due from other Department funds	-	-	-	-	-	-
Due from other State funds	5,000	-	-	323,715	115,668	-
Loans receivable, net	-	-	-	-	-	-
Total assets	\$ 5,150	\$ 17,482	\$ 31	\$ 323,754	\$ 115,725	\$ 124
LIABILITIES						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental payables	-	-	-	323,341	19,853	-
Due to other Department funds	-	-	-	-	-	-
Due to other State funds	-	-	-	413	-	-
Due to State of Illinois component units	-	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	-	33
Unavailable revenue	-	-	-	-	-	-
Total liabilities	-	-	-	323,754	19,853	33
FUND BALANCES (DEFICITS)						
Reserved for loans and notes receivable	-	-	-	-	-	-
Designated for other	-	-	-	-	-	-
Unreserved, undesignated	5,150	17,482	31	-	95,872	91
Total fund balances (deficits)	5,150	17,482	31	-	95,872	91
Total liabilities and fund balances (deficits)	\$ 5,150	\$ 17,482	\$ 31	\$ 323,754	\$ 115,725	\$ 124

State of Illinois
Department of Transportation

**Combining Balance Sheet -
Nonmajor Governmental Funds**

June 30, 2010 (Expressed in Thousands)

	Special Revenue			
	Metro-East Public Transportation Fund 0794	Federal Mass Transit Trust Fund 0853	Cycle Rider Safety Training Fund 0863	Rail Freight Loan Repayment Fund 0936
ASSETS				
Unexpended appropriations	\$ -	\$ -	\$ 4,386	\$ -
Cash equity with State Treasurer	90	-	-	3,545
Cash and cash equivalents	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	1,261
Intergovernmental receivables, net	-	1,316	-	-
Other receivables, net	-	-	-	3
Due from other Department funds	-	-	-	-
Due from other State funds	-	-	-	-
Loans receivable, net	-	-	-	1,739
Total assets	\$ 90	\$ 1,316	\$ 4,386	\$ 6,548
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 43	\$ 3,034	\$ -
Intergovernmental payables	-	763	-	174
Due to other Department funds	-	-	-	-
Due to other State funds	-	-	-	-
Due to State of Illinois component units	-	510	1,352	-
Obligations under securities lending of State Treasurer	-	-	-	1,261
Unavailable revenue	-	186	-	-
Total liabilities	-	1,502	4,386	1,435
FUND BALANCES (DEFICITS)				
Reserved for loans and notes receivable	-	-	-	1,739
Designated for other	-	-	-	1,600
Unreserved, undesignated	90	(186)	-	1,774
Total fund balances (deficits)	90	(186)	-	5,113
Total liabilities and fund balances (deficits)	\$ 90	\$ 1,316	\$ 4,386	\$ 6,548

State of Illinois
Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2010 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A Fund 0553	Transportation Bond Series B Fund 0554	Transportation Bond Series D Fund 0695	IDOT Capital Projects Fund 1494	General Obligation Bond Retirement and Interest Fund 0101	IDOT Debt Service Fund 2494	
ASSETS							
Unexpended appropriations	\$ 81,978	\$ 10,987	\$ 48,037	\$ -	\$ -	\$ -	\$ 240,767
Cash equity with State Treasurer	-	-	-	-	-	-	53,223
Cash and cash equivalents	280	-	-	-	-	2,311	2,591
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	6,661
Intergovernmental receivables, net	-	-	-	-	-	-	20,921
Other receivables, net	10	-	-	-	-	-	168
Due from other Department funds	-	-	-	703	-	-	7,703
Due from other State funds	-	-	-	-	-	-	444,785
Loans receivable, net	-	-	-	-	14,621	-	31,892
Total assets	\$ 82,268	\$ 10,987	\$ 48,037	\$ 703	\$ 14,621	\$ 2,311	\$ 808,711
LIABILITIES							
Accounts payable and accrued liabilities	\$ 82,258	\$ 1,109	\$ 25,768	\$ -	\$ -	\$ -	\$ 128,571
Intergovernmental payables	-	9,878	20,349	-	-	-	438,171
Due to other Department funds	-	-	1,920	-	-	-	50,467
Due to other State funds	-	-	-	-	-	-	1,256
Due to State of Illinois component units	-	-	-	-	-	-	1,862
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	6,661
Unavailable revenue	10	-	-	-	-	-	17,866
Total liabilities	82,268	10,987	48,037	-	-	-	644,854
FUND BALANCES (DEFICITS)							
Reserved for loans and notes receivable	-	-	-	-	14,621	-	31,892
Designated for other	-	-	-	-	-	-	16,933
Unreserved, undesignated	-	-	-	703	-	2,311	115,032
Total fund balances (deficits)	-	-	-	703	14,621	2,311	163,857
Total liabilities and fund balances (deficits)	\$ 82,268	\$ 10,987	\$ 48,037	\$ 703	\$ 14,621	\$ 2,311	\$ 808,711

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, 2010 (Expressed in Thousands)

	Special Revenue						
	Motor Fuel Tax Funds	Grade Crossing Protection Fund 0019	Aeronautics Fund 0046	Federal Local Airport Fund 0095	DOT Special Projects Fund 0174	Intercity Passenger Rail Fund 0233	State Rail Freight Loan Repayment Fund 0265
REVENUES							
Operating grants - Federal	\$ -	\$ -	\$ -	\$ 66,591	\$ -	\$ -	\$ -
Other operating grants	-	-	-	3,480	-	-	-
Licenses and fees	-	-	216	-	9	-	-
Other charges for services	-	-	-	-	-	-	-
Other	26	-	15	-	-	-	-
Interest and other investment income	-	-	-	-	-	2	578
Total revenues	26	-	231	70,071	9	2	578
EXPENDITURES							
Transportation	532,791	25,336	226	72,383	9	650	1,054
Debt service - principal	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-
Capital outlays	-	394	-	-	-	-	-
Total expenditures	532,791	25,730	226	72,383	9	650	1,054
Excess (deficiency) of revenues over (under) expenditures	(532,765)	(25,730)	5	(2,312)	-	(648)	(476)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	11,990	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-
Lapsed appropriations	(1,718)	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	(94,229)	-	-	-	-	-	-
Amount of SAMS Transfers-out	1,161,059	-	-	-	-	-	-
Transfers-in	-	43,250	-	-	-	402	-
Transfers-out	(544,337)	(3,000)	(25)	(34)	-	-	-
Net other sources (uses) of financial resources	532,765	40,250	(25)	(34)	-	402	-
Net change in fund balances	-	14,520	(20)	(2,346)	-	(246)	(476)
Fund balances (deficits), July 1, 2009	-	(5,152)	118	(15,324)	4	649	30,086
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ -	\$ 9,368	\$ 98	\$ (17,670)	\$ 4	\$ 403	\$ 29,610

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, 2010 (Expressed in Thousands)

Special Revenue

	Tax Recovery Fund 0310	Comprehensive Regional Planning Fund 0406	Downstate Transit Improvement Fund 0559	Transportation Safety Highway Hire-Back Fund 0589	Public Transportation Fund 0627	Down-State Public Transportation Fund 0648
REVENUES						
Operating grants - Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other operating grants	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-
Other charges for services	408	-	-	-	-	-
Other	-	-	-	189	-	-
Interest and other investment income	-	-	-	-	-	-
Total revenues	408	-	-	189	-	-
EXPENDITURES						
Transportation	290	-	-	200	407,688	137,991
Debt service - principal	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-
Total expenditures	290	-	-	200	407,688	137,991
Excess (deficiency) of revenues over (under) expenditures	118	-	-	(11)	(407,688)	(137,991)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-
Amount of SAMS Transfers-out	-	-	-	-	-	-
Transfers-in	-	5,000	17,482	-	407,688	174,347
Transfers-out	(30)	-	-	-	-	(17,482)
Net other sources (uses) of financial resources	(30)	5,000	17,482	-	407,688	156,865
Net change in fund balances	88	5,000	17,482	(11)	-	18,874
Fund balances (deficits), July 1, 2009	678	150	-	42	-	76,998
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ 766	\$ 5,150	\$ 17,482	\$ 31	\$ -	\$ 95,872

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, 2010 (Expressed in Thousands)

	Special Revenue				
	Airport Land Loan Revolving Fund 0669	Metro-East Public Transportation Fund 0794	Federal Mass Transit Trust Fund 0853	Cycle Rider Safety Training Fund 0863	Rail Freight Loan Repayment Fund 0936
REVENUES					
Operating grants - Federal	\$ -	\$ -	\$ 28,157	\$ -	\$ -
Other operating grants	-	-	-	-	-
Licenses and fees	-	-	-	-	-
Other charges for services	-	-	-	-	-
Other	-	-	-	-	-
Interest and other investment income	1	-	-	-	97
Total revenues	1	-	28,157	-	97
EXPENDITURES					
Transportation	-	14	26,969	3,607	342
Debt service - principal	-	-	-	-	-
Debt service - interest	-	-	-	-	-
Capital outlays	-	-	-	-	-
Total expenditures	-	14	26,969	3,607	342
Excess (deficiency) of revenues over (under) expenditures	1	(14)	1,188	(3,607)	(245)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	-	-	-	9,072	-
Reappropriation to future year(s)	-	-	-	(4,656)	-
Lapsed appropriations	-	-	-	(600)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	(209)	-
Amount of SAMS Transfers-out	-	-	-	-	-
Transfers-in	-	-	-	-	-
Transfers-out	-	-	-	-	-
Net other sources (uses) of financial resources	-	-	-	3,607	-
Net change in fund balances	1	(14)	1,188	-	(245)
Fund balances (deficits), July 1, 2009	90	104	(1,374)	-	5,358
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ 91	\$ 90	\$ (186)	\$ -	\$ 5,113

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, 2010 (Expressed in Thousands)

	Capital Projects				Debt Service		
	Transportation Bond Series A Fund 0553	Transportation Bond Series B Fund 0554	Transportation Bond Series D Fund 0695	IDOT Capital Projects Fund 1494	General Obligation Bond Retirement and Interest Fund 0101	IDOT Debt Service Fund 2494	Total
REVENUES							
Operating grants - Federal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 94,748
Other operating grants	-	-	-	-	-	-	3,480
Licenses and fees	-	-	-	-	-	-	225
Other charges for services	-	-	-	-	-	-	408
Other	-	-	-	-	16	-	246
Interest and other investment income	-	-	-	-	476	-	1,154
Total revenues	-	-	-	-	492	-	100,261
EXPENDITURES							
Transportation	29,908	15,746	40,362	1,156	-	-	1,296,722
Debt service - principal	-	-	-	-	-	1,600	1,600
Debt service - interest	-	-	-	-	-	1,264	1,264
Capital outlays	419,291	1,036	43,534	-	-	-	464,255
Total expenditures	449,199	16,782	83,896	1,156	-	2,864	1,763,841
Excess (deficiency) of revenues over (under) expenditures	(449,199)	(16,782)	(83,896)	(1,156)	492	(2,864)	(1,663,580)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	1,967,034	4,133,336	3,553,743	-	-	-	9,675,175
Reappropriation to future year(s)	(557,034)	(1,152,836)	-	-	-	-	(1,714,526)
Lapsed appropriations	(1,031,027)	(2,956,780)	(3,517,884)	-	-	-	(7,508,009)
Receipts collected and transmitted to State Treasury	-	-	-	-	(1,734)	-	(1,734)
Net change in liabilities for reappropriated accounts	70,226	(6,938)	48,037	-	-	-	16,887
Amount of SAMS Transfers-out	-	-	-	-	-	-	1,161,059
Transfers-in	-	-	-	1,441	34	2,903	652,547
Transfers-out	-	-	-	-	-	-	(564,908)
Net other sources (uses) of financial resources	449,199	16,782	83,896	1,441	(1,700)	2,903	1,716,491
Net change in fund balances	-	-	-	285	(1,208)	39	52,911
Fund balances (deficits), July 1, 2009	-	-	-	418	15,829	2,272	110,946
FUND BALANCES (DEFICITS), JUNE 30, 2010	\$ -	\$ -	\$ -	\$ 703	\$ 14,621	\$ 2,311	\$ 163,857

State of Illinois
Department of Transportation

Combining Schedule of Accounts -
Motor Fuel Tax Fund

June 30, 2010 (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	\$ 95,379	\$ -	\$ -	\$ -	\$ -	\$ 95,379
Cash equity with State Treasurer	-	-	26	-	-	26
Due from other Department funds	-	15,973	22,402	7,250	(45,625)	-
Total assets	\$ 95,379	\$ 15,973	\$ 22,428	\$ 7,250	\$ (45,625)	\$ 95,405
LIABILITIES						
Accounts payable and accrued liabilities	\$ 364	\$ -	\$ -	\$ -	\$ -	\$ 364
Intergovernmental payables	-	15,973	22,428	7,250	-	45,651
Due to other Department funds	94,172	-	-	-	(45,625)	48,547
Due to other State funds	843	-	-	-	-	843
Total liabilities	95,379	15,973	22,428	7,250	(45,625)	95,405
FUND BALANCES						
Unreserved, undesignated	-	-	-	-	-	-
Total fund balances	-	-	-	-	-	-
Total liabilities and fund balances	\$ 95,379	\$ 15,973	\$ 22,428	\$ 7,250	\$ (45,625)	\$ 95,405

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2010 (Expressed in Thousands)

	Special Revenue					Total
	Motor Fuel Tax 0012	Motor Fuel Tax- Counties 0413	Motor Fuel Tax- Municipalities 0414	Motor Fuel Tax- Townships and Road Districts 0415	Eliminations	
REVENUES						
Other	\$ -	\$ -	\$ 26	\$ -	\$ -	\$ 26
Total revenues	-	-	26	-	-	26
EXPENDITURES						
Transportation	10,272	182,924	256,570	83,025	-	532,791
Total expenditures	10,272	182,924	256,570	83,025	-	532,791
Deficiency of revenues under expenditures	(10,272)	(182,924)	(256,544)	(83,025)	-	(532,765)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	11,990	-	-	-	-	11,990
Lapsed appropriations	(1,718)	-	-	-	-	(1,718)
Net change in liabilities for reappropriated accounts	(94,229)	(11,799)	(16,547)	(5,355)	33,701	(94,229)
Amount of SAMS Transfers-out	1,161,059	-	-	-	-	1,161,059
Transfers-in	-	182,924	256,544	83,025	(522,493)	-
Transfers-out	(1,066,830)	-	-	-	522,493	(544,337)
Net other sources (uses) of financial resources	10,272	171,125	239,997	77,670	33,701	532,765
Net change in fund balances	-	(11,799)	(16,547)	(5,355)	33,701	-
Fund balances, July 1, 2009	-	11,799	16,547	5,355	(33,701)	-
FUND BALANCES, JUNE 30, 2010	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -



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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2010, which collectively comprise the Department's basic financial statements and have issued our report thereon dated May 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in findings 10-4 and 10-5 in the accompanying schedule of findings to be material weaknesses.

A *significant deficiency* is a deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in findings 10-1, 10-2 and 10-3 in the accompanying schedule of findings to be significant deficiencies.

Compliance and Other Matters

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

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

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

Schick LLP

Springfield, Illinois
May 3, 2011

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

SCHEDULE OF FINDINGS

June 30, 2010

FINDINGS (*GOVERNMENT AUDITING STANDARDS*)

- 10-1 FINDING:** (Weaknesses in preparation of GAAP reporting forms submitted to the Illinois Office of the Comptroller and preparation of year-end Department financial statements)

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

During our audit of the June 30, 2010 Department financial statements, we noted:

- GAAP reporting packages were not submitted to the Comptroller in a timely manner. GAAP reporting packages were due to the Comptroller on September 10, 2010. The Department submitted 1 of its 34 (3%) packages late. The final package was submitted on September 16, 2010, 6 days late. Due to discussions and communication between the Department, Comptroller, and other State agencies and universities, the forms did not receive the Comptroller's final review until December 19, 2010. The initial draft of the Department's financial statements was not received until December 10, 2010, 71 days after they were due to the auditors. The final draft of the financial statements, after adjustments for the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, which establishes standards for accounting and financial reporting for intangible assets, was provided on March 25, 2011.
- We noted weaknesses in the financial accounting for the Department's inventory balance due to inaccurate commodities inventory records. These weaknesses are explained in more detail in Finding 10-2.
- We noted weaknesses in the financial accounting for, and reporting of, capital assets; most significant of which was the failure to identify easement costs for intangible asset reporting under Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*. These weaknesses are explained in more detail in Finding 10-3.

- We noted weaknesses in the financial accounting for, and reporting of, deferred revenues which resulted in significant adjustments in the General Revenue Fund, the Road Fund, and the Federal Local Airport Fund. These weaknesses are explained in more detail in Finding 10-4.

In recent years, the Department has endured numerous retirements of key employees and high staff turnover in the area responsible for the financial reporting process. The Department contracted with a public accounting firm for management consulting and permanent staff has been hired to replace those who are no longer with the Department.

Department management attributed the noted weaknesses due to significant staff turnover in key positions.

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

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

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

RECOMMENDATION:

We recommend the Department implement procedures and cross-training measures to ensure GAAP Reporting Packages are prepared in a timely, accurate and complete manner. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure GAAP financial information is prepared and submitted to the Office of the Comptroller in a timely and accurate manner, and that all supporting documentation is maintained in a contemporaneous manner. Please refer to findings 10-2, 10-3, and 10-4 for specific recommendations concerning inventory, capital assets, and deferred revenue.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department continued to experience significant staff turnover in the Fiscal Operations Unit during the audit period. Additional staff has been added and cross training is being implemented to ensure that the financial reporting will be accurate and timely. Staff has been instructed on the necessity to properly maintain and organize supporting documentation for all required reporting.

10-2 FINDING: (Inaccurate commodities inventory records)

The Department of Transportation (Department) maintained inaccurate commodities inventory records for the year ended June 30, 2010.

The Department performed year-end commodities inventory counts at each location to determine the value of commodities inventory to be reported in the financial statements. These counts were performed around June 30, 2010.

Inventory Counts

During our physical inventory counts, we counted 183 inventory items and noted discrepancies between audit test counts and Department inventory counts for 30 (16%) items. The errors resulted in an overstatement of the year end inventory balance of \$95,000 which, when extrapolated over the entire inventory population, resulted in an estimated overstatement of \$2,840,000. The Department was not able to reconcile between audit test counts and Department physical inventory counts for these differences. We further noted one location erroneously reported 7,000 tons of salt rather than the actual quantity on-hand of 7,000 pounds resulting in an additional overstatement of \$2,793,000.

Inventory Pricing

During our price testing, we sampled 60 inventory items. We were not provided with price documentation for 1 (2%) item in our sample. Of the documentation provided, 20 (33%) items contained an inaccurate price. It was determined that certain commodities were given equal pricing across the state although actual commodity costs varied by location. In other instances, the inventoried commodities costs did not agree to the actual invoice at the time the commodities were purchased. The discrepancies between final inventory prices and invoice prices, including the item for which no documentation was provided, resulted in an overstatement of the year end inventory amount of \$41,000. When extrapolated over the entire inventory population, this discrepancy resulted in an estimated overstatement of \$455,000.

The Department did not adjust its financial statements for these errors totaling \$6,088,000 as they were considered immaterial to Department's overall financial statements.

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

In response to this continued prior finding, the Department stated it had drafted a written inventory procedure for future counts, outlining the expectations of the Central Office and the procedures by which the count is to be conducted. Additionally, a written procedure for the inventory pricing was being drafted that would incorporate detailed pricing spreadsheets that would allow for pricing at the district level. We noted the Department implemented these measures, but inventory count and pricing errors continued to ensue.

Department management acknowledged that discrepancies were noted between the audit test counts and Department physical inventory counts which were the result of the revised inventory process not being accurately implemented. Furthermore, due to the high volume of purchases for various commodity items, an extensive overhaul would be required in order to provide multiple unit price information for common items. Therefore, certain commodities were given equal pricing.

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

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department has made great strides to improve procedures to produce an accurate count and pricing of our commodity inventory and will continue to make improvements to the year-end commodity inventory process. We will strongly emphasize the importance of maintaining accurate inventory quantity and cost records in planning and conducting the June 30, 2011 commodity inventory count and pricing. We will implement a more thorough review at year-end of the commodity inventory records produced by District personnel to ensure accurate unit costs and consistent unit of measures. The Division of Highways is establishing a task force of central and district members to establish consistent guidelines and policies. We anticipate the task force will make its recommendations by December 31, 2011.

10-3 FINDING: (Weaknesses in the reporting of capital assets)

The Department of Transportation (Department) did not accurately report capital assets to the Illinois Office of the Comptroller for fiscal year 2010.

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

- The Department failed to identify easements required to be reported as intangible assets under Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Reporting for Intangible Assets*. The Illinois Office of the Comptroller developed implementation guidance for State agencies and established a \$25,000 capitalization threshold for intangible assets which are not internally generated. During our testing, we noted the Department did not originally record intangible assets in compliance with GASB 51. We noted there were permanent and temporary easements costs included in the Right of Way land balance that met this reporting criteria. As a result, the Department subsequently removed \$30.8 million of easement costs from the land balance and reported an adjusted basis of \$4.1 million in easement related intangible assets at June 30, 2010.
- Our testing of capital asset additions noted the Department has not been properly capitalizing demolition related costs as land improvements. Department personnel stated that demolition projects related to infrastructure are treated as construction projects and would be capitalized if the contract award amount was \$250,000 or more, the capitalization threshold for infrastructure. The Comptroller's Statewide Accounting Management System (SAMS) Procedure 03.30.10 defines land improvements as costs of preparing land for its intended use, such as leveling and grading, while SAMS Procedure 03.30.30 establishes a \$25,000 capitalization threshold for these types of expenditures. The Department estimated total demolition related costs for the past five years that should have been reported as land improvements to be approximately \$5 million. The Department did not adjust its financial statements for the \$5 million understatement to land improvements as it was considered immaterial to the Department's overall financial statements.
- In our testing of construction-in-progress, we noted that additions and deletions were not being reported on the Capital Asset Summary Form (SCO-538) at the total amount of expenditures incurred and costs removed. Specifically, costs incurred during the current year on projects completed during the current year were not included in the additions and deletions balances. Further, we noted all projects completed were treated as deletions resulting in the recognition of a loss on the SCO-538. No amounts were capitalized resulting in an understatement of the capital assets balance at June 30, 2010 of approximately \$2.1 million. The Department did not adjust its financial statements for this as it was considered immaterial to the Department's overall financial statements.

- We noted the Department is not properly analyzing repair and maintenance expenditures for costs that should be capitalized. During our testing of repairs and maintenance, we noted one expenditure which included the installation of equipment at two rest stops totaling \$18,500 which was not capitalized. Department personnel stated they followed the same procedure they used in 2003, whereby installation of emergency telephone and surveillance equipment at 53 rest stops totaling \$3.4 million was recorded as repairs and maintenance, and not capitalized. We feel such costs should be capitalized as equipment, and the Department should establish procedures to analyze similar costs to ensure they are properly capitalized.
- Accounts payable on the SAMS to GAAP Reconciliation Form (SCO-537) are understated by \$1.6 million due to errors in calculating June 30, 2010 accounts payable for construction-in-progress. As a result, construction in progress was understated \$1.6 million at June 30, 2010. The Department did not adjust its financial statements for this as it was considered immaterial to the Department's overall financial statements.

Due to significant turnover in key positions, reporting deficiencies were not recognized timely. In addition, the Department's ongoing efforts of process improvements resulted in the identification of several of these issues.

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

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

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

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department continued to experience significant staff turnover in the Fiscal Operations Unit during the audit period. Reporting requirements for the implementation of new pronouncements are being addressed in a timely manner. The process of identifying expenditure classification will be reviewed to determine a method that will promote the proper classification of future expenditures. Written procedures will be reviewed to ensure the proper recording of the capital assets.

10-4 FINDING: (Weaknesses in the reporting of deferred revenues)

The Department of Transportation (Department) did not accurately report deferred revenues to the Illinois Office of the Comptroller for fiscal year 2010.

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

- The Department failed to defer as unavailable revenue a \$20 million lawsuit settlement that was not due to be received until February 2011. This resulted in an understatement of deferred revenue and an overstatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.
- The Department failed to accurately determine the amount of deferred – unavailable revenues in the Road Fund due to the calculations being completed soon after year end. Some of the service dates entered into the Fiscal Operations and Administration system were not final when the data was pulled and were later revised for accuracy after the Department had completed the calculation of deferred revenue - unavailable. These errors resulted in a \$7.4 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.
- In determining the deferred – unavailable revenues for amounts due from local municipalities related to joint improvement programs in the Road Fund, the Department failed to properly account for all lapse period receipts on these accounts. These errors resulted in an \$8.5 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements.
- The Department failed to accurately record a significant amount of revenues in the Federal Local Airport Fund. These errors resulted in a \$9.3 million overstatement of deferred revenue and an understatement of revenue at June 30, 2010. The Department corrected this error in its revised financial statements. As a result of this error, the Department also determined that the related payables were incorrectly allocated between the local and Federal portions. While total payables were reported correctly, the error in the allocation resulted in a \$9.3 million overstatement of Federal revenues and an overstatement of Federal receivables at June 30, 2010. The Department corrected this error in its revised financial statements.

Due to significant turnover in key positions, reporting deficiencies were not recognized timely. In addition, the Department's ongoing efforts of process improvements resulted in the identification of several of these issues.

The Comptroller's Statewide Accounting Management System (SAMS) procedure 03.40.10 provides guidance on accounting for revenues as deferred based on the "availability" criterion. SAMS states that revenues should be deferred if receivables are not collected within 60 days after year-end as they are considered "unavailable" for the current fiscal year.

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

RECOMMENDATION:

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

DEPARTMENT RESPONSE:

The Department agrees with the finding.

Additional staff has been added to the Fiscal Operations Unit. This will allow the Department to complete a more thorough review of the financial information prior to submission in order to ensure the necessary financial reports are accurate and timely.

10-5 FINDING: (Failure to report fiscal year 2009 due to/due from balances)

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

During fiscal year 2009, the Department failed to report a \$61.629 million receivable and \$119.631 million payable in the Road Fund due from/to the Illinois Toll Highway Authority for intergovernmental construction contracts. This resulted in the net assets of the Department being restated by \$58.002 million at June 30, 2009.

Department management stated the restatement was a result of oversight and due to difficulties in reconciling the due to/due from between the agencies because of different fiscal year ends.

Failure to properly identify receivables/payables for intergovernmental construction contracts resulted in fiscal year 2009 assets and liabilities being understated by \$61.629 million and \$119.631 million, respectively. Revenues and expenditures were also understated by \$61.629 million and \$119.631 million, respectively. (Finding Code No. 10-5)

RECOMMENDATION:

We recommend the Department implement procedures to identify and record receivables/payables between the Department and the Illinois Toll Highway Authority at June 30 each year. This should include allocating sufficient staff resources and the implementation of formal procedures to ensure financial information is prepared accurately and completely.

DEPARTMENT RESPONSE:

The Department agrees with the finding.

The Department will continue to work with the Illinois State Toll Highway Authority to ensure the proper accounting for the receivable/payable. The Department will also continue to update and revise written procedures as necessary to ensure accurate and timely reporting.