

State of Illinois
DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
For the Year Ended June 30, 2015

**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, 2015

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STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
For the Year Ended June 30, 2015

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STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

AGENCY OFFICIALS

Secretary	Randall S. Blankenhorn (2/1/2015 - present) Erica Borggren, Acting (7/11/14 - 1/31/2015) Ann L. Schneider (through 7/11/14)
Chief Operating Officer	Vacant (8/1/14 - present) Marsha N. Campos (through 7/31/14)
Chief of Staff	Matthew Magalis (2/2/2015 - present) Vacant (1/1/2015 - 2/1/2015) Jaime Martinez (through 12/31/2014)
Assistant Secretary	Rich Brauer (2/25/15 - present) Vacant (through 2/24/15)
Deputy Secretary	Vacant (11/14/15 - present) Christine Reed (1/12/15 - 11/13/15) Vacant (through 1/11/15)
Chief Counsel	William Barnes (2/17/2015 - present) Vacant (2/14/2015 - 2/16/2015) Michael Forti (through 2/13/2015)
Chief Internal Auditor	Stephen Kirk
Director, Office of Finance and Administration	Jeff Heck (7/16/15 - present) Vacant (1/1/15 - 7/15/15) Tony Small (through 12/31/14)
Director, Office of Business and Workforce Diversity	Vacant (2/14/15 - present) Frank McNeil (through 2/13/15)
Director, Office of Communications	Vacant (8/12/15 - present) Scott Dworschak (2/10/15 - 8/11/15) Vacant (through 2/9/15)
Director, Office of Legislative Affairs	Nicola Cortez-Hun (10/1/15 - present) Vacant (2/14/15 - 9/30/15) Leigh Ann Vanausdoll (through 2/13/15)
Director, Office of Planning and Programming	Jeff South, Interim (3/2/15 - present) Vacant (1/1/15 - 3/1/15) Charles Ingersoll (through 12/31/14)

Director, Office of Quality Compliance
and Review

Vacant (7/16/15 - present)
Jeff Heck (through 7/15/15)

Director, Division of Aeronautics

Steve Young, Interim (2/17/15 - present)
Vacant (1/1/15 - 2/16/15)
Susan Shea (through 12/31/14)

Director, Division of Highways

Omer M. Osman

Director, Division of Public and Intermodal
Transportation

Beth McCluskey (9/16/15 - present)
John Oimoen, Interim (2/16/15 - 9/15/15)
Joseph E. Shacter (through 2/15/15)

Director, Division of Traffic Safety

Jared Thornley (7/1/15 - present)
Jeff Heck (2/16/15 - 6/30/15)
Tonya Loker (through 2/15/15)

Director, Innovative Project Delivery

Roger Driskell

Agency main offices are located at:

2300 S. Dirksen Parkway
Springfield, IL 62764

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION
FINANCIAL AUDIT
For the Year Ended June 30, 2015

FINANCIAL STATEMENT REPORT

SUMMARY

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

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

SUMMARY OF FINDINGS

The auditors identified matters involving the Department's internal control over financial reporting that they considered to be material weaknesses or significant deficiencies. The material weaknesses are described in the accompanying Schedule of Findings on pages 58-61 of this report as items:

2015-001 Inaccurate commodities inventory records

2015-002 Weaknesses in reporting of capital assets

The significant deficiencies are described in the accompanying Schedule of Findings on pages 62-63 of this report as items:

2015-003 Weaknesses in calculating accounts payable

EXIT CONFERENCE

The findings and recommendations appearing in this report were discussed with Department personnel at an exit conference on December 14, 2015. Attending were:

Department of Transportation

Randall S. Blankenhorn, Secretary
Rich Brauer, Assistant Secretary
Justine Reisigner, Senior Policy Advisor to the Secretary
Matthew Magalis, Chief of Staff
Stephen Kirk, Director, Chief Internal Auditor
Jeff Heck, Director, Office of Finance and Administration (OFA)
Lori Beeler, Audit Coordinator, OFA
Lori Campbell, Section Chief, Bureau of Business Services (BoBS), OFA
Chad Dierking, Unit Chief, Fiscal Operations, BoBS, OFA

Office of the Auditor General

Peggy Hartson, Audit Manager

Sikich LLP – Special Assistant Auditors

Amy L. Sherwood, Partner
Elizabeth Owens, Senior Accountant

The responses to the recommendations were provided by Lori Beeler in correspondence dated December 15, 2015.

INDEPENDENT AUDITOR'S REPORT

Honorable William G. Holland
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Department, as of June 30, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, the financial statements of the Department are intended to present the financial position and the changes in financial position and, where applicable, cash flows of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2015, and the changes in its financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

The Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, during the year ended June 30, 2015. Statement No. 68 established standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses and expenditures. The adoption of GASB Statement No. 68 required the Department to restate governmental activities net position by (\$2,334,740) thousand at June 30, 2014.

As discussed in Note 12, in addition to the restatement required by the adoption of GASB Statement No. 68, the Department restated its net position within governmental activities as of June 30, 2014, to reflect reporting errors related to inventory and capital assets that occurred in fiscal year 2014 and before. The restatement totaled \$56,825 thousand. Our opinions were not modified with respect to that matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 18, 2015 on our consideration of the Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Department's internal control over financial reporting and compliance.

Restricted Use of this Audit Report

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



Springfield, Illinois
December 18, 2015

BASIC FINANCIAL STATEMENTS

State of Illinois
Department of Transportation

Statement of Net Position

June 30, 2015 (Expressed in Thousands)

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Unexpended appropriations	\$ 925,129
Cash equity with State Treasurer	62,376
Cash and cash equivalents	2,689
Securities lending collateral equity with State Treasurer	4,007
Receivables, net:	
Intergovernmental	293,151
Other	12,687
Due from other State funds	530,066
Due from State of Illinois component units	81,374
Inventories	59,229
Prepaid expenses	-
Loans receivable, net	15,431
Capital assets not being depreciated	2,962,760
Capital assets being depreciated, net	15,666,696
Total assets	<u>20,615,595</u>
Deferred outflows of resources - Pension	657,653
Total assets and deferred outflows of resources	<u>21,273,248</u>
LIABILITIES	
Accounts payable and accrued liabilities	480,177
Intergovernmental payables	683,814
Due to other State funds	16,870
Due to State of Illinois component units	161,222
Obligations under securities lending of State Treasurer	4,007
Unearned revenue	5,773
Long term obligations:	
Due within one year	11,124
Due subsequent year	57,415
Net pension liability	3,054,377
Total liabilities	<u>4,474,779</u>
Deferred inflows of resources - Pension	108,895
Total liabilities and deferred inflows of resources	<u>4,583,674</u>
NET POSITION	
Net investment in capital assets	18,616,451
Restricted for:	
Transportation programs	2,925
Debt service	10,414
Unrestricted	(1,940,216)
Total net position	<u>\$ 16,689,574</u>

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

State of Illinois
Department of Transportation

Statement of Activities

For the Year Ended June 30, 2015 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities					
Transportation	\$ 4,977,973	\$ 58,286	\$ 419,962	\$ 1,501,398	\$ (2,998,327)
Intergovernmental	534,404	-	-	-	(534,404)
Interest	1,285	-	-	-	(1,285)
Total governmental activities	<u>\$ 5,513,662</u>	<u>\$ 58,286</u>	<u>\$ 419,962</u>	<u>\$ 1,501,398</u>	<u>(3,534,016)</u>
General revenues and transfers					
Sales tax					210,401
Appropriations from State Resources					12,472,641
Reappropriation to future year(s)					(7,916,001)
Lapsed appropriations					(403,917)
Receipts collected and transmitted to State Treasury					(1,929,685)
Net change in liabilities for reappropriated accounts					33,152
Other revenues					548
Interest and investment income					553
Amount of SAMS transfers-in					(490,682)
Amount of SAMS transfers-out					1,114,109
Transfers-in					504,563
Transfers-out					(176,410)
Total general revenues and transfers					<u>3,419,272</u>
Change in net position					(114,744)
Net position, July 1, 2014, as restated					16,804,318
Net position, June 30, 2015					<u>\$ 16,689,574</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, 2015 (Expressed in Thousands)

	General Fund	Road Fund	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
ASSETS					
Unexpended appropriations	\$ 4,818	\$ 604,500	\$ 66,315	\$ 249,496	\$ 925,129
Cash equity with State Treasurer	3,997	9,867	-	47,704	61,568
Cash and cash equivalents	-	70	-	2,619	2,689
Securities lending collateral equity with State Treasurer	-	83	-	3,924	4,007
Intergovernmental receivables, net	-	191,080	-	102,071	293,151
Other receivables, net	-	12,652	27	8	12,687
Due from other Department funds	-	16,974	14,624	30,962	62,560
Due from other State funds	353,649	824	-	175,497	529,970
Due from State of Illinois component units	-	81,374	-	-	81,374
Inventories	-	57,635	-	-	57,635
Loans receivable, net	133	144	-	15,154	15,431
Total assets	\$ 362,597	\$ 975,203	\$ 80,966	\$ 627,435	\$ 2,046,201
LIABILITIES					
Accounts payable and accrued liabilities	\$ 1,501	\$ 299,166	\$ 62,923	\$ 116,584	\$ 480,174
Intergovernmental payables	360,666	121,496	2,184	199,468	683,814
Due to other Department funds	238	317	-	62,243	62,798
Due to other State funds	14	16,433	-	423	16,870
Due to State of Illinois component units	-	159,032	1,208	982	161,222
Obligations under securities lending of State Treasurer	-	83	-	3,924	4,007
Unearned revenue	-	1,104	-	4,669	5,773
Total liabilities	362,419	597,631	66,315	388,293	1,414,658
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue -DIR	-	33,139	-	76,968	110,107
Total deferred inflows of resources	-	33,139	-	76,968	110,107
Total liabilities and deferred inflows of resources	362,419	630,770	66,315	465,261	1,524,765
FUND BALANCES					
Nonspendable portion of:					
Loans and notes receivable	133	-	-	-	133
Inventories	-	57,635	-	-	57,635
Restricted	45	-	-	13,294	13,339
Unrestricted					
Committed	-	286,798	-	203,089	489,887
Assigned	-	-	14,651	-	14,651
Unassigned	-	-	-	(54,209)	(54,209)
Total fund balances	178	344,433	14,651	162,174	521,436
Total liabilities, deferred inflows and fund balances	\$ 362,597	\$ 975,203	\$ 80,966	\$ 627,435	\$ 2,046,201

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

State of Illinois
Department of Transportation
Reconciliation of Governmental Funds Balance Sheet
to Statement of Net Position
June 30, 2015
(Expressed in Thousands)

Total fund balances-governmental funds		\$ 521,436
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		18,629,456
Prepaid expenses for governmental activities are current uses of financial resources for funds.		-
Internal service funds are used to charge costs of air transportation activities to individual funds. The assets and liabilities of the Air Transportation Revolving Fund are reported as governmental activities in the Statement of Net Position.		2,733
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		110,107
Deferred outflows of resources - Pension required for Statement of Activities that are not in modified accrual statements		657,653
Net Pension liability required for Statement of Activities that are not in modified accrual statements		(3,054,377)
Deferred inflows of resources - Pension required for Statement of Activities that are not in modified accrual statements		(108,895)
Some liabilities reported in the Statement of Net Position do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These liabilities consist of:		
Compensated absences	\$ (45,206)	
Capital lease obligations	(720)	
Auto liability claims	(9,928)	
Pollution remediation obligations	(400)	
Certificates of participation	(12,285)	
	(12,285)	(68,539)
Net position of governmental activities		\$ 16,689,574

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, 2015 (Expressed in Thousands)

	General Fund	Road Fund	State Construction Account 0902	Nonmajor Funds	Total Governmental Funds
REVENUES					
Sales taxes	\$ -	\$ -	\$ -	\$ 210,401	\$ 210,401
Motor fuel taxes	-	282,212	200,653	(482,865)	-
Operating grants - Federal	-	30,193	-	318,453	348,646
Capital grants - Federal	-	1,489,542	-	-	1,489,542
Other operating grants	-	127,851	-	2,471	130,322
Other capital grants	-	11,761	-	-	11,761
Licenses and fees	-	22,119	-	25	22,144
Other charges for services	-	43,629	-	1,228	44,857
Other	-	-	-	548	548
Interest and other investment income	-	3	-	550	553
Total revenues	-	2,007,310	200,653	50,811	2,258,774
EXPENDITURES					
Transportation	509,776	2,047,905	62,264	1,001,575	3,621,520
Intergovernmental	-	-	-	534,404	534,404
Debt service - principal	-	409	-	2,070	2,479
Debt service - interest	-	100	-	776	876
Capital outlays	-	381,147	487,312	738,782	1,607,241
Total expenditures	509,776	2,429,561	549,576	2,277,607	5,766,520
Excess (deficiency) of revenues over (under) expenditures	(509,776)	(422,251)	(348,923)	(2,226,796)	(3,507,746)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES					
Appropriations from State resources	5,562	5,663,369	1,454,584	5,349,126	12,472,641
Reappropriation to future year(s)	-	(2,903,639)	(884,011)	(4,128,351)	(7,916,001)
Lapsed appropriations	(339)	(365,505)	(30,000)	(8,073)	(403,917)
Receipts collected and transmitted to State Treasury	(82)	(1,927,785)	-	(1,818)	(1,929,685)
Net change in liabilities for reappropriated accounts	(10)	60,076	9,027	(35,941)	33,152
Amount of SAMS Transfers-in	-	(288,540)	(202,142)	-	(490,682)
Amount of SAMS Transfers-out	-	-	-	1,114,109	1,114,109
Transfers-in	504,563	-	-	73,561	578,124
Transfers-out	-	(4,319)	-	(245,652)	(249,971)
Capital lease financing	-	169	-	-	169
Net other sources (uses) of financial resources	509,694	233,826	347,458	2,116,961	3,207,939
Net change in fund balances	(82)	(188,425)	(1,465)	(109,835)	(299,807)
Fund balances, July 1, 2014	260	515,515	16,116	272,009	803,900
Increase for changes in inventories	-	17,343	-	-	17,343
FUND BALANCES, JUNE 30, 2015	\$ 178	\$ 344,433	\$ 14,651	\$ 162,174	\$ 521,436

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

State of Illinois
Department of Transportation
Reconciliation of Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to Statement of Activities
For the Year Ended June 30, 2015
(Expressed in Thousands)

Net change in fund balances	\$ (299,807)
Change in inventories	17,343
	(282,464)

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.	404,525
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.	2,070
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.	71
Internal service funds are used to charge costs of certain activities to individual funds. The net income of the internal service funds is reported as governmental activities in the Statement of Activities.	384
Prepaid expenses in the Statement of Activities are reported as expenses in governmental funds. This amount represents the decrease in prepaid expenses over the prior year.	(32)
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.	(68,138)
Pension expenses required for Statement of Activities that are not in modified accrual statements.	(170,879)
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses from the sale of capital assets are reported. This is the net book value of the capital assets disposed.	(1,784)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.	
Decrease in compensated absence	1,339
Decrease in capital leases	240
Increase in auto liability claims	(76)
Decrease in pollution remediation obligations	-
	-

Change in net position of governmental activities	\$ (114,744)
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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 Position - Proprietary Fund

Air Transportation Revolving Fund (0309)

June 30, 2015 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
<hr/>	
ASSETS	
Cash equity with State Treasurer	\$ 808
Due from other Department funds	238
Due from other State funds	96
Due from component units	-
Inventories	1,594
Total current assets	<u>2,736</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>3</u>
NET POSITION	
Unrestricted	<u>2,733</u>
Total net position	<u><u>\$ 2,733</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 Position - Proprietary Fund**

Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2015 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Charges for sales and services	\$ 512
OPERATING EXPENSES	
Cost of sales and services	<u>128</u>
Operating income and change in net position	384
NET POSITION, JULY 1, 2014, as restated	<u>2,349</u>
NET POSITION, JUNE 30, 2015	<u><u>\$ 2,733</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, 2015 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from transactions with other funds	\$ 612
Cash payments to suppliers for goods and services	(595)
Net cash used by operating activities	<u>17</u>
Net increase in cash equity with State Treasurer	17
Cash equity with State Treasurer, July 1, 2014	<u>791</u>
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2015	<u><u>\$ 808</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
OPERATING INCOME	\$ 384
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in due from other funds	98
Decrease in due from component units	2
Increase in inventory	(218)
Decrease in accounts payable and accrued liabilities	(249)
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ 17</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, 2015

(1) Organization

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

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

(b) Basis of Presentation

The financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to

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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, 2015, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

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

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

Road – This special revenue fund accounts for the activities of the State highway programs including highway maintenance and construction, traffic control and safety, and

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

Additionally, the Department reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

(c) *Measurement Focus and Basis of Accounting*

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange, include intergovernmental grants. Revenue from grants, entitlements, and similar items are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

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

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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.

(d) Shared Fund Presentation

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

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

Unexpended Appropriations

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

Appropriations from State Resources

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

Reappropriation to Future Year(s)

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

Lapsed Appropriations

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

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

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

(f) *Cash and Cash Equivalents*

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

(g) *Inventories*

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

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(h) Interfund Transactions

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

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

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

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

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

(i) Capital Assets

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

Capitalization thresholds and the estimated useful lives are as follows:

Capital Asset Category	Capitalization Threshold	Estimated Useful Life (in Years)
Infrastructure	\$250,000	20-40
Land	100,000	N/A
Land Improvements	25,000	N/A
Site Improvements	25,000	3-50
Buildings	100,000	10-60
Building Improvements	25,000	10-45
Easements	25,000	5
Equipment	5,000	3-25
Internally-Generated Intangible Assets	1,000,000	3-25
Non-Internally Generated Intangible Assets	25,000	3-25

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(j) *Deferred Outflows/Inflows of Resources*

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

(k) *Compensated Absences*

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

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

(l) *Pollution Remediation Obligations*

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

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(m) Fund Balances

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

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

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

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

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

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

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

(n) Net Position

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

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

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

Unrestricted – This consists of net position that does not meet the definition of "restricted" or "net investment in capital assets."

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(o) Use of Estimates

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

(p) Pensions

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

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

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

(q) Adoption of New Accounting Pronouncements

Effective for the year ending June 30, 2015, the Department adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, expenses, and expenditures. The statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The implementation of this Statement significantly impacted the Department's government-wide financial statements and footnote disclosures with the recognition of a net pension liability, deferred outflows of resources and deferred inflows of resources on the Statement of Net Position and pension expense on the Statement of Activities. Additionally, the requirements of this statement resulted in the restatement of beginning net position. Information regarding the Department's participation in SERS is disclosed in Note 7.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, is effective for the Department beginning with its year ending June 30, 2015. The objective of this statement is to establish standards related to government combinations and disposals of

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government operations, including combinations in which no consideration is provided, such as government mergers and transfers of operations, and combinations in which consideration is provided, such as disposal of government operations. The implementation of this Statement had no impact on the Department's financial statements.

Effective for the year ending June 30, 2015, the Department adopted GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which addresses an issue regarding the application of the transition provisions of GASB Statement No. 68. The statement clarifies the accounting for contributions to a defined benefit pension plan after the measurement date of a government's beginning net pension liability. The provisions of this statement were incorporated with the implementation of GASB Statement No. 68.

(r) Future Adoption of GASB Statements

Effective for the year ending June 30, 2016, the Department will adopt GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. The statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2016, the Department will adopt GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which establishes standards to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Department will adopt GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which establishes standards to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

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

Effective for the year ending June 30, 2016, the Department will adopt GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is established to identify-in the context of the current governmental financial reporting environment-the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The Department has not yet determined the impact on its financial statements as a result of adopting this statement.

Effective for the year ending June 30, 2017, the Department will adopt GASB Statement No. 77, *Tax Abatement Disclosures*, which requires governments that enter into tax abatement agreements to disclose information about the agreements. This statement improves financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The Department has not yet determined the impact on its 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 are 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 \$2.689 million at June 30, 2015. The total balance is entirely insured as it is comprised of U.S. Treasury Obligations.

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(b) *Securities Lending Transactions*

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

During fiscal year 2015 and 2014, Deutsche Bank Group lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions on loan amounts of available and eligible securities during fiscal years 2015 and 2014, respectively. 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 fiscal years 2015 and 2014 resulting from a default of the borrowers or Deutsche Bank Group.

During fiscal years 2015 and 2014, 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. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2015 were \$4,007,450,623 and \$3,980,606,070, respectively. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2014 were \$5,758,768,923 and \$5,727,657,697, respectively.

In accordance with GASB Statement No. 28, paragraph 9, the Office of the State Treasurer has allocated the assets and obligations at June 30, 2015 arising from securities lending agreements to the various funds of the State. The total allocated to the Department was \$4.007 million at June 30, 2015.

(4) *Interfund Balances and Activity*

(a) *Balances Due to/from Other Funds*

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due from other Department and State of Illinois funds.

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Fund	Due from		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ -	\$ 353,649	Due from other State funds for June sales tax allocations, debt service payments and interfund borrowings.
Road	16,974	824	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June and from other State funds for services and reimbursements of expenditures incurred.
State Construction Account	14,624	-	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June.
Nonmajor governmental funds	30,962	175,497	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred and debt service payments and from other State funds for reimbursement of expenditures and interfund borrowings.
Internal service funds	238	96	Due from other Department funds and other State funds for air transportation services provided.
	<u>\$ 62,798</u>	<u>\$ 530,066</u>	

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due to other Department and State of Illinois funds.

Fund	Due to		Description/Purpose
	Other Department Funds	Other State Funds	
General	\$ 238	\$ 14	Due to Department and to other State internal service funds for services received.
Road	317	16,433	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	62,243	423	Due to other Department Funds for motor fuel tax allocation for June and to other State funds for services received and retirement costs.
	<u>\$ 62,798</u>	<u>\$ 16,870</u>	

(b) Transfers to/from Other Funds

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2015, were as follows:

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<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ -	\$ 504,563	Transfers from other State funds for sales tax allocation, debt service, and for other purposes.
Nonmajor governmental funds	73,561	-	Transfers from Motor Fuel Tax Fund for allocation pursuant to State statute and other Department nonmajor governmental funds for debt service and downstate public transportation purposes.
	<u>\$ 73,561</u>	<u>\$ 504,563</u>	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2015, 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	\$ 4,319	\$ -	Transfers to Department nonmajor governmental funds for debt service payments.
Nonmajor governmental funds	69,242	176,410	Transfers to other State funds for motor fuel tax allocation for June, administration of Railroad Safety program, and for other purposes.
	<u>\$ 73,561</u>	<u>\$ 176,410</u>	

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

The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred and services received.

<u>Component Unit</u>	<u>Due from</u>	
	<u>Road Fund</u>	<u>Internal Service Funds</u>
Illinois Toll Highway Authority	\$ 81,374	\$ -
	<u>\$ 81,374</u>	<u>\$ -</u>

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The following balances (amounts expressed in thousands) at June 30, 2015 represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs.

<u>Component Unit</u>	<u>Due to</u>		
	<u>Road Fund</u>	<u>State Construction Account 0902</u>	<u>Nonmajor Governmental Funds</u>
Illinois Toll Highway Authority	\$ 155,199	\$ -	\$ -
Western Illinois University	-	-	220
Northern Illinois University	32	-	183
Southern Illinois University	131	-	136
University of Illinois	3,670	1,208	443
	<u>\$ 159,032</u>	<u>\$ 1,208</u>	<u>\$ 982</u>

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(5) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2015 was as follows:

	<u>Balance July 1, 2014*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2015</u>
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	\$ 2,782,958	\$ 91,336	\$ 226	\$ -	\$ 2,874,068
Easements	6,220	4,279	-	-	10,499
Internally Generated Intangible Assets in Development	205	1,454	-	-	1,659
Construction in progress	45,267	31,437	-	(170)	76,534
Total capital assets not being depreciated	<u>2,834,650</u>	<u>128,506</u>	<u>226</u>	<u>(170)</u>	<u>2,962,760</u>
Capital assets being depreciated:					
Infrastructure	26,827,412	1,439,035	899,083	-	27,367,364
Site improvements	2,497	-	-	-	2,497
Buildings and building improvements	159,098	15	1,475	170	157,808
Easements	6,994	967	1,177	-	6,784
Equipment	435,409	33,654	14,327	144	454,880
Internally generated software	4,564	4,895	28	-	9,431
Capital leases - equipment	1,824	169	22	-	1,971
Total capital assets being depreciated	<u>27,437,798</u>	<u>1,478,735</u>	<u>916,112</u>	<u>314</u>	<u>28,000,735</u>
Less accumulated depreciation:					
Infrastructure	11,614,565	1,170,342	899,083	-	11,885,824
Site improvements	2,469	5	-	-	2,474
Buildings and building improvements	94,158	3,818	979	-	96,997
Easements	3,479	1,361	1,176	-	3,664
Equipment	329,478	26,355	13,294	73	342,612
Internally generated software	673	452	-	-	1,125
Capital leases - equipment	982	383	22	-	1,343
Total accumulated depreciation	<u>12,045,804</u>	<u>1,202,716</u>	<u>914,554</u>	<u>73</u>	<u>12,334,039</u>
Total capital assets being depreciated, net	<u>15,391,994</u>	<u>276,019</u>	<u>1,558</u>	<u>241</u>	<u>15,666,696</u>
Governmental activity capital assets, net	<u>\$ 18,226,644</u>	<u>\$ 404,525</u>	<u>\$ 1,784</u>	<u>\$ 71</u>	<u>\$ 18,629,456</u>

*Balance as restated (see footnote 12)

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Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2015 was charged to the following function:

Transportation	\$ 1,202,716
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(6) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2015 were as follows:

	Balance		Balance		Amounts
	July 1,	Additions	June 30,	Deletions	Due Within
	2014		2015		One Year
Governmental activities:					
Compensated absences	\$ 46,545	\$ 29,175	\$ 30,514	\$ 45,206	\$ 5,184
Capital lease obligations	960	169	409	720	510
Auto liability claims	9,852	1,227	1,151	9,928	3,171
Pollution remediation obligations	400	-	-	400	74
Certificates of participation	14,355	-	2,070	12,285	2,185
Pension Liability	2,526,256	528,121	-	3,054,377	-
Total	\$ 2,598,368	\$ 558,692	\$ 34,144	\$ 3,122,916	\$ 11,124

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

(b) Capital lease obligations

The Department leases land, office facilities, office and computer equipment, and other assets with a historical cost and accumulated depreciation of \$1.971 million and \$1.343 million, respectively, under capital lease arrangements. Although lease terms vary, certain leases are renewable subject to appropriation by the General Assembly. If renewal is reasonably assured leases requiring appropriation by the General Assembly are considered non-cancelable leases for financial reporting. Future minimum lease payments (amounts expressed in thousands) at June 30, 2015 are as follows:

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Year Ending June 30	Principal	Interest	Total
2016	510	53	563
2017	153	10	163
2018	57	2	59
	<u>\$ 720</u>	<u>\$ 65</u>	<u>\$ 785</u>

(c) Pollution remediation obligations

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

(d) Certificates of Participation

The Department financed the purchase of certain Department-owned real and personal property (District 1 headquarters) through a third party (non-State issued) certificate. This non-State issued certificate is sold by a private concern and is repaid by Department appropriations pursuant to an installment purchase agreement. Interest varies from 3.9% - 5.5%. Future debt service requirements under certificates of participation (amounts expressed in thousands) at June 30, 2015, are as follows:

Year Ending June 30	Principal	Interest	Total
2016	2,185	655	2,840
2017	2,315	523	2,838
2018	2,450	384	2,834
2019	2,590	236	2,826
2020	2,745	80	2,825
	<u>\$ 12,285</u>	<u>\$ 1,878</u>	<u>\$ 14,163</u>

(7) Defined Benefit Pension Plan

Plan Description. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity and is treated as a cost sharing plan by the Department. SERS is governed by article 14 of the Illinois Pension Code (40 ILCS 5/1, et al.). The plan consists of two tiers of contribution requirements and benefit levels based on when an employee was hired. Members who first become an employee and participate under any of the State's retirement plans on or after January 1, 2011 are members of Tier 2, while Tier 1 consists of employees hired before January 1, 2011 or those who have service credit prior to January 1, 2011. The provisions below apply to both Tier 1 and 2 members, except where noted. The SERS issues a separate CAFR available at www.srs.illinois.gov or that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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Benefit Provisions. SERS provides retirement benefits based on the member's final average compensation and the number of years of credited service that have been established. The retirement benefit formula available to general State employees is 1.67% for each year of covered service and 2.2% for each year of noncovered service. The maximum retirement annuity payable is 75% of final average compensation as calculated under the regular formula. The minimum monthly retirement annuity payable is \$15.00 for each year of covered employment and \$25.00 for each year of noncovered employment.

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

Regular Formula Tier 1	Regular Formula Tier 2
<p>A member must have a minimum of eight years of service credit and may retire at:</p> <ul style="list-style-type: none"> • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). <p>The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service.</p> <p>Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement.</p> <p>If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>	<p>A member must have a minimum of 10 years of credited service and may retire at:</p> <ul style="list-style-type: none"> • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). <p>The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of \$106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less.</p> <p>If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2014 rate is \$110,631.</p> <p>If the member retires before age 67 with a reduced retirement benefit, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every January 1 after the member turns age 67 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.</p>

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

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at

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

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

Contributions. Contribution requirements of active employees and the State are established in accordance with Chapter 40, section 5/14-133 of the Illinois Compiled Statutes. Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed \$106,800 with limitations for future years increased by the lesser of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2015, this amount was \$111,571.63.

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

For fiscal year 2015, the required employer contributions were computed in accordance with the State's funding plan. This funding legislation provides for a systematic 50-year funding plan with an ultimate goal to achieve 90% funding of the plan's liabilities. In addition, the funding plan provided for a 15-year phase-in period to allow the State to adapt to the increased financial commitment. Since the 15-year phase-in period ended June 30, 2010, the State's contribution will remain at a level percentage of payroll for the next 35 years until the 90% funded level is achieved. For fiscal year 2015, the employer contribution rate was 42.339%. The Department's contribution amount for fiscal year 2015 was \$191,092,343.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2015, the Department reported a liability of \$3,054 million for its proportionate share of the State's net pension liability for SERS on the statement of net position. The net pension liability was measured as of June 30, 2014 (current year measurement date), and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Department's portion of the net pension liability was based on the Department's proportion of employer contributions relative to all employer contributions made to the plan during the year ended June 30, 2014. As of the current year measurement date of June 30, 2014, the Department's proportion was 11.2693%, which was an increase of .9232% from its proportion measured as of the prior year measurement date of June 30, 2013.

For the year ended June 30, 2015, the Department recognized pension expense of \$362 million, which is reported in the transportation function of the Statement of Activities. At June 30, 2015, the Department reported deferred outflows and deferred inflows of resources related to the pension liability from the following sources (amounts expressed in thousands):

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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,308	\$ -
Changes of assumptions	276,957	-
Net difference between projected and actual investment earnings on pension plan investments	-	108,895
Changes in proportion	176,295	-
Department contributions subsequent to the measurement date	191,092	-
Total	\$ 657,652	\$ 108,895

\$191,092 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2015. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized as pension expense as follows (amounts expressed in thousands):

Year ended June 30,	
2016	\$ 102,788
2017	102,788
2018	102,788
2019	49,301
Total	\$ 357,665

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Mortality: 105 percent of the RP2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015.

Inflation: 3.0%

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Investment Rate of Return: 7.25%, net of pension plan investment expense, including inflation.

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

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

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

The long-term expected real rate of return on pension plan investments was determined based on the simulated average 10-year annualized geometric return for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage. For each major asset class that is included in the pension plan's target asset allocation, calculated as of the measurement date of June 30, 2014, the best estimates of the geometric real rates of return as summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Equity	30%	5.69%
Fixed Income	20%	1.62%
Hedge Funds	10%	4.00%
International Equity	20%	6.23%
Real Estate	10%	5.50%
Infrastructure	5%	6.00%
Private Equity	5%	10.10%
Total	<u>100%</u>	<u>5.03%</u>

Discount Rate. A discount rate of 7.09% was used to measure the total pension liability. This single blended discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 4.29%, based on an index of 20 year general obligation bonds with an average AA credit rating as published by the Federal Reserve. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that contributions will be made based on the statutorily required rates under Illinois law. Based on these assumptions, the pension plan's fiduciary net position and future contributions will be sufficient to finance the benefit payments through the year 2066. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2066, and the municipal bond rate was applied to all benefit payments after that date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The net pension liability for the plan was calculated using the stated discount rate, as well as what the net pension liability

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would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate as shown below (amounts expressed in thousands):

	1% Decrease 6.09%	Discount Rate 7.09%	1% Increase 8.09%
Department's Proportionate Share of the Net Pension Liability	\$ 3,680,231	\$ 3,054,377	\$ 2,534,557

Payables to the pension plan. At June 30, 2015, the Department reported a payable of \$7,303,320 to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2015.

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

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

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insurance premiums that have been in effect since July 2013. The refunding of the withheld premiums was repaid from an escrow account by June 15, 2015.

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

A summary of post-employment benefit provisions, changes in benefit provisions, employee eligibility requirements including eligibility for vesting, and the authority under which benefit provisions are established are included as an integral part of the financial statements of the Department of Central Management Services. A copy of the financial statements of the Department of Central Management Services may be obtained by writing to the Department of Central Management Services, William G. Stratton Building, 401 S. Spring St., Springfield, IL 62706.

(9) Fund Balance

(a) Categories

At June 30, 2015, the Department's fund balances were classified as follows:

	<u>General Fund</u>	<u>Road Fund</u>	<u>State Const. Account</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable:					
Loans and notes receivable	\$ 133	\$ -	\$ -	\$ -	\$ 133
Inventory	-	57,635	-	-	57,635
Total Nonspendable	<u>\$ 133</u>	<u>\$ 57,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,768</u>
Restricted purpose:					
General Transportation	\$ 45	\$ -	\$ -	\$ 2,880	\$ 2,925
Debt Service	-	-	-	10,414	10,414
Total Restricted	<u>\$ 45</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,294</u>	<u>\$ 13,339</u>
Committed purpose:					
General Transportation	\$ -	\$ 286,798	\$ -	\$ 203,089	\$ 489,887
Total Committed	<u>\$ -</u>	<u>\$ 286,798</u>	<u>\$ -</u>	<u>\$ 203,089</u>	<u>\$ 489,887</u>
Assigned purpose:					
Transportation Projects	\$ -	\$ -	\$ 14,651	\$ -	\$ 14,651
Total Unassigned	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (54,209)</u>	<u>\$ (54,209)</u>
Total Fund Balances	<u><u>\$ 178</u></u>	<u><u>\$ 344,433</u></u>	<u><u>\$ 14,651</u></u>	<u><u>\$ 162,174</u></u>	<u><u>\$ 521,436</u></u>

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(b) Fund Deficits

The Federal Local Airport Fund, Federal High Speed Rail Trust Fund and Federal Mass Transit Trust Fund had deficit fund balances of \$19,692 million, \$34,416 million and \$101 thousand, respectively, at June 30, 2015. The deficits funds will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

(10) Risk Management

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

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

The following is a reconciliation of the Department's claims liabilities for the years ended June 30, 2014 and June 30, 2015.

<u>Year Ended June 30</u>	<u>Beginning Balance</u>	<u>Claims Incurred</u>	<u>Decreases</u>	<u>Ending Balance</u>
2014	\$ 8,377	\$ 2,520	\$ 1,045	\$ 9,852
2015	\$ 9,852	\$ 1,227	\$ 1,151	\$ 9,928

(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 \$5.383 billion at June 30, 2015.

(b) Encumbrances

The Department has Road Fund encumbrances for goods ordered but not received prior to June 30, 2015 of \$4.51 million.

(c) Operating Leases

The Department leases various real property and equipment under the terms of non-cancelable operating lease agreements that require the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$11.343 million for the year ended June 30, 2015.

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

Year Ending	
<u>June 30</u>	<u>Total</u>
2016	88
2017	31
2018	<u>11</u>
	<u>\$ 130</u>

(d) Federal Funding

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2015, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(e) Litigation

On April 19, 2004, an auto accident occurred wherein the plaintiff sued the State in *Chraca v. Miles*. On September 8, 2009, judgment was entered in the Circuit Court of Cook County for the amount of \$23.8 million against the State. On February 18, 2010, the State appealed the judgment to the First District Appellate Court of Illinois. The Appellate Court has ruled against the State. The plaintiff is seeking to enforce the judgment through the Court of Claims. An amount of \$2 million, the statutory limit on auto liability exposure per case, has been included in the long-term auto liability. Any amount to be paid in addition to this \$2 million is uncertain at this time. Any court-ordered judgment amount, including the \$2 million already accrued, would be paid from the Road Fund.

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

(12) Restatements

As shown in the following table, the financial statements of the Department have been restated as of June 30, 2014 due to the adoption GASB Statement No. 68, Accounting and Financial Reporting for Pensions and for the net understatements of capital asset amounts in Governmental Funds and inventory amounts in Proprietary Funds. This restatement affected Note 5 - Capital Assets, the

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Statement of Revenues, Expenses and Changes in Fund Net Position – Propriety Fund, and the Statement of Activities, as follows (expressed in thousands):

	<u>Governmental Activities</u>
Net Position, June 30, 2014, as previously reported	\$ 19,082,233
Net understatement of Capital Assets	55,449
Record Net Pension Liability	(2,526,256)
Deferred Outflow of Resources - Pension	191,516
Net understatement of Inventory amounts	<u>1,376</u>
Net Position, June 30, 2014, as restated	<u><u>\$ 16,804,318</u></u>

(13) Subsequent Event

The State of Illinois has not adopted a fiscal year 2016 operating budget as of the date of this report. The Department is part of the executive branch of government and operates under a budget where resources are appropriated for the use of the Department. Consequently, the Department is presently unable to make payments from appropriated accounts to vendors, local governments, and other State agencies. Payments to Department employees for work performed are being made pursuant to a July 2015 court order.

SUPPLEMENTARY INFORMATION

State of Illinois
Department of Transportation

Combining Schedule of Accounts -
General Fund

June 30, 2015 (Expressed in Thousands)

	General Fund Accounts			Total
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	
ASSETS				
Unexpended appropriations	\$ 4,818	\$ -	\$ -	\$ 4,818
Cash equity with State Treasurer	-	1,545	2,452	3,997
Due from other State funds	-	-	353,649	353,649
Loans receivable, net	133	-	-	133
Total assets	\$ 4,951	\$ 1,545	\$ 356,101	\$ 362,597
LIABILITIES				
Accounts payable and accrued liabilities	\$ -	\$ 1,500	\$ 1	\$ 1,501
Intergovernmental payables	4,570	-	356,096	360,666
Due to other Department funds	238	-	-	238
Due to other State funds	10	-	4	14
Total liabilities	4,818	1,500	356,101	362,419
FUND BALANCES				
Nonspendable portion of loans receivable	133	-	-	133
Restricted	-	45	-	45
Total fund balances	133	45	-	178
Total liabilities and fund balances	\$ 4,951	\$ 1,545	\$ 356,101	\$ 362,597

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

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2015 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	Total
REVENUES				
None				
EXPENDITURES				
Transportation	\$ 5,213	\$ 1,500	\$ 503,063	\$ 509,776
Total expenditures	5,213	1,500	503,063	509,776
Excess (deficiency) of revenues over (under) expenditures	(5,213)	(1,500)	(503,063)	(509,776)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	5,562	-	-	5,562
Lapsed appropriations	(339)	-	-	(339)
Receipts collected and transmitted to State Treasury	(82)	-	-	(82)
Net change in liabilities for reappropriated accounts	(10)	-	-	(10)
Transfers in	-	1,500	503,063	504,563
Net other sources (uses) of financial resources	5,131	1,500	503,063	509,694
Net change in fund balances	(82)	-	-	(82)
Fund balances, July 1, 2014	215	45	-	260
FUND BALANCES, JUNE 30, 2015	\$ 133	\$ 45	\$ -	\$ 178

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

State of Illinois
Department of Transportation
Combining Schedule of Accounts -
Road Fund

June 30, 2015 (Expressed in Thousands)

	Road Fund Accounts			
	Road 0011	Working Capital Revolving Loan 0307	Eliminations	Total
ASSETS				
Unexpended appropriations	\$ 604,500	\$ -	\$ -	\$ 604,500
Cash equity with State Treasurer	9,578	289	-	9,867
Cash and cash equivalents	-	70	-	70
Securities lending collateral equity with State Treasurer	-	83	-	83
Intergovernmental receivables, net	191,080	-	-	191,080
Other receivables, net	12,652	-	-	12,652
Due from other Department funds	16,974	-	-	16,974
Due from other State funds	824	-	-	824
Due from State of Illinois component units	81,374	-	-	81,374
Inventories	57,635	-	-	57,635
Loans receivable, net	-	144	-	144
Total assets	\$ 974,617	\$ 586	\$ -	\$ 975,203
LIABILITIES				
Accounts payable and accrued liabilities	\$ 299,166	\$ -	\$ -	\$ 299,166
Intergovernmental payables	121,496	-	-	121,496
Due to other Department funds	317	-	-	317
Due to other State funds	16,433	-	-	16,433
Due to State of Illinois component units	159,032	-	-	159,032
Obligations under securities lending of State Treasurer	-	83	-	83
Unearned revenue	1,104	-	-	1,104
Total liabilities	597,548	83	-	597,631
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-DIR	33,139	-	-	33,139
Total deferred inflows of resources	33,139	-	-	33,139
Total liabilities and deferred inflows of resources	630,687	83	-	630,770
FUND BALANCES				
Nonspendable portion of inventories	57,635	-	-	57,635
Restricted	-	-	-	-
Committed	286,295	503	-	286,798
Unassigned	-	-	-	-
Total fund balances	343,930	503	-	344,433
Total liabilities, deferred inflows and fund balances	\$ 974,617	\$ 586	\$ -	\$ 975,203

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

State of Illinois

Department of Transportation

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

For the Year Ended June 30, 2015 (Expressed in Thousands)

	Road Fund Accounts			
	Road 0011	Working Capital Revolving Loan 0307	Eliminations	Total
REVENUES				
Sales taxes	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	282,212	-	-	282,212
Operating grants - Federal	30,193	-	-	30,193
Capital grants - Federal	1,489,542	-	-	1,489,542
Other operating grants	127,851	-	-	127,851
Other capital grants	11,761	-	-	11,761
Licenses and fees	22,119	-	-	22,119
Other charges for services	43,629	-	-	43,629
Other	-	-	-	-
Interest and other investment income	-	3	-	3
Total revenues	2,007,307	3	-	2,007,310
EXPENDITURES				
Transportation	2,047,905	-	-	2,047,905
Intergovernmental	-	-	-	-
Debt service - principal	409	-	-	409
Debt service - interest	100	-	-	100
Capital outlays	381,147	-	-	381,147
Total expenditures	2,429,561	-	-	2,429,561
Excess (deficiency) of revenues over (under) expenditures	(422,254)	3	-	(422,251)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	5,663,369	-	-	5,663,369
Reappropriation to future year(s)	(2,903,639)	-	-	(2,903,639)
Lapsed appropriations	(365,505)	-	-	(365,505)
Receipts collected and transmitted to State Treasury	(1,927,785)	-	-	(1,927,785)
Net change in liabilities for reappropriated accounts	60,076	-	-	60,076
Amount of SAMS Transfers-in	(288,540)	-	-	(288,540)
Amount of SAMS Transfers-out	-	-	-	-
Transfers-in	-	-	-	-
Transfers-out	(4,319)	-	-	(4,319)
Capital lease financing	169	-	-	169
Net other sources (uses) of financial resources	233,826	-	-	233,826
Net change in fund balances	(188,428)	3	-	(188,425)
Fund balances, July 1, 2014	515,015	500	-	515,515
Increase for changes in inventories	17,343	-	-	17,343
FUND BALANCES, JUNE 30, 2015	\$ 343,930	\$ 503	\$ -	\$ 344,433

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

State of Illinois
Department of Transportation
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2015 (Expressed in Thousands)

	Special Revenue								
	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal/Local Airport 0095	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265	Tax Recovery 0310	Federal High Speed Rail Trust 0433	Downstate Transit Improvement 0559
ASSETS									
Unexpended appropriations	\$ 68,197	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Cash equity with State Treasurer	1	23,805	324	4,313	5	5,331	1,558	3,998	2,673
Cash and cash equivalents	-	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	2	2,288	-	-	-
Intergovernmental receivables, net	-	-	-	24,115	-	-	-	74,985	-
Other receivables, net	-	-	-	-	-	2	4	-	-
Due from other Department funds	-	3,500	-	-	-	-	-	-	27,145
Due from other State funds	-	-	-	-	521	-	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	6,914	-	-	-
Total assets	\$ 68,198	\$ 27,305	\$ 324	\$ 28,428	\$ 528	\$ 14,535	\$ 1,562	\$ 78,983	\$ 29,818
LIABILITIES									
Accounts payable and accrued liabilities	\$ 533	\$ 6,394	\$ 17	\$ 7,434	\$ -	\$ -	\$ 126	\$ 56,224	\$ -
Intergovernmental payables	32,144	8,253	-	16,633	-	-	-	-	-
Due to other Department funds	35,098	-	-	-	-	-	-	-	-
Due to other State funds	423	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	37	-	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	2	2,288	-	-	-
Unearned revenue	-	-	-	4,324	-	-	345	-	-
Total liabilities	68,198	14,647	17	28,428	2	2,288	471	56,224	-
DEFERRED INFLOWS OF RESOURCES									
Unavailable revenue - DIR	-	-	-	19,692	-	-	-	57,175	-
Total deferred inflows of resources	-	-	-	19,692	-	-	-	57,175	-
Total liabilities and deferred inflows of resources	68,198	14,647	17	48,120	2	2,288	471	113,399	-
FUND BALANCES (DEFICITS)									
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-	-	-
Restricted fund balance	-	-	-	-	-	-	-	-	-
Unrestricted									
Committed fund balance	-	12,658	307	-	526	12,247	1,091	-	29,818
Unassigned fund balance	-	-	-	(19,692)	-	-	-	(34,416)	-
Total fund balances (deficits)	-	12,658	307	(19,692)	526	12,247	1,091	(34,416)	29,818
Total liabilities, deferred inflows and fund balances (deficits)	\$ 68,198	\$ 27,305	\$ 324	\$ 28,428	\$ 528	\$ 14,535	\$ 1,562	\$ 78,983	\$ 29,818

State of Illinois
Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2015 (Expressed in Thousands)

	Special Revenue						
	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Roadside Memorial 0697	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
ASSETS							
Unexpended appropriations	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 774	\$ -
Cash equity with State Treasurer	638	951	93	466	-	-	3,548
Cash and cash equivalents	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	41	-	-	-	1,593
Intergovernmental receivables, net	-	-	-	29	2,942	-	-
Other receivables, net	-	-	-	-	-	-	2
Due from other Department funds	-	-	-	-	-	-	-
Due from other State funds	-	173,601	-	1,375	-	-	-
Due from State of Illinois component units	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	-	390
Total assets	\$ 638	\$ 174,552	\$ 134	\$ 1,870	\$ 2,942	\$ 774	\$ 5,533
LIABILITIES							
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ 1,436	\$ 289	\$ -
Intergovernmental payables	-	4,998	-	-	1,112	-	-
Due to other Department funds	-	27,145	-	-	-	-	-
Due to other State funds	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	394	485	-
Obligations under securities lending of State Treasurer	-	-	41	-	-	-	1,593
Unearned revenue	-	-	-	-	-	-	-
Total liabilities	-	32,143	41	-	2,942	774	1,593
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - DIR	-	-	-	-	101	-	-
Total deferred inflows of resources	-	-	-	-	101	-	-
Total liabilities and deferred inflows of resources	-	32,143	41	-	3,043	774	1,593
FUND BALANCES (DEFICITS)							
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-
Restricted fund balance	638	-	-	1,870	-	-	-
Unrestricted	-	-	-	-	-	-	-
Committed fund balance	-	142,409	93	-	-	-	3,940
Unassigned fund balance	-	-	-	-	(101)	-	-
Total fund balances (deficits)	638	142,409	93	1,870	(101)	-	3,940
Total liabilities, deferred inflows and fund balances (deficits)	\$ 638	\$ 174,552	\$ 134	\$ 1,870	\$ 2,942	\$ 774	\$ 5,533

State of Illinois
Department of Transportation

Combining Balance Sheet -
Nonmajor Governmental Funds

June 30, 2015 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	
ASSETS							
Unexpended appropriations	\$ 9,437	\$ 125,355	\$ 45,733	\$ -	\$ -	\$ -	\$ 249,496
Cash equity with State Treasurer	-	-	-	-	-	-	47,704
Cash and cash equivalents	-	-	-	55	-	2,564	2,619
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	3,924
Intergovernmental receivables, net	-	-	-	-	-	-	102,071
Other receivables, net	-	-	-	-	-	-	8
Due from other Department funds	-	-	-	317	-	-	30,962
Due from other State funds	-	-	-	-	-	-	175,497
Due from State of Illinois component units	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	7,850	-	15,154
Total assets	\$ 9,437	\$ 125,355	\$ 45,733	\$ 372	\$ 7,850	\$ 2,564	\$ 627,435
LIABILITIES							
Accounts payable and accrued liabilities	\$ 4,121	\$ 11,893	\$ 28,117	\$ -	\$ -	\$ -	\$ 116,584
Intergovernmental payables	5,316	113,461	17,551	-	-	-	199,468
Due to other Department funds	-	-	-	-	-	-	62,243
Due to other State funds	-	-	-	-	-	-	423
Due to State of Illinois component units	-	1	65	-	-	-	982
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	3,924
Unearned revenue	-	-	-	-	-	-	4,669
Total liabilities	9,437	125,355	45,733	-	-	-	388,293
DEFERRED INFLOWS OF RESOURCES							
Unavailable revenue - DIR	-	-	-	-	-	-	76,968
Total deferred inflows of resources	-	-	-	-	-	-	76,968
Total liabilities and deferred inflows of resources	9,437	125,355	45,733	-	-	-	465,261
FUND BALANCES (DEFICITS)							
Nonspendable portion of loans and notes receivable	-	-	-	-	-	-	-
Restricted fund balance	-	-	-	372	7,850	2,564	13,294
Unrestricted							
Committed fund balance	-	-	-	-	-	-	203,089
Unassigned fund balance	-	-	-	-	-	-	(54,209)
Total fund balances (deficits)	-	-	-	372	7,850	2,564	162,174
Total liabilities, deferred inflows and fund balances (deficits)	\$ 9,437	\$ 125,355	\$ 45,733	\$ 372	\$ 7,850	\$ 2,564	\$ 627,435

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, 2015 (Expressed in Thousands)

	Special Revenue							
	Motor Fuel Tax Funds	Grade Crossing Protection 0019	Aeronautics 0046	Federal/Local Airport 0095	Intercity Passenger Rail 0233	State Rail Freight Loan Repayment 0265	Tax Recovery 0310	Federal High Speed Rail Trust 0433
REVENUES								
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	(482,865)	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	57,598	-	-	-	229,559
Other operating grants	-	-	-	2,465	-	-	-	-
Licenses and fees	-	-	25	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	811	-
Other	-	-	-	-	228	-	-	-
Interest and other investment income	-	-	-	-	1	232	-	-
Total revenues	(482,865)	-	25	60,063	229	232	811	229,559
EXPENDITURES								
Transportation	13,570	29,311	254	45,832	-	2	511	211,915
Intergovernmental	534,404	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	9,703	-	-	-	-	-	31,631
Total expenditures	547,974	39,014	254	45,832	-	2	511	243,546
Excess (deficiency) of revenues over (under) expenditures	(1,030,839)	(39,014)	(229)	14,231	229	230	300	(13,987)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	15,147	-	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	(1,577)	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	(19,800)	-	-	-	-	-	-	-
Amount of SAMS Transfers out	1,114,109	-	-	-	-	-	-	-
Transfers-in	-	42,000	-	-	-	-	-	-
Transfers-out	(77,040)	(13,000)	-	(97)	(370)	(10,000)	-	(48,000)
Net other sources (uses) of financial resources	1,030,839	29,000	-	(97)	(370)	(10,000)	-	(48,000)
Net change in fund balances	-	(10,014)	(229)	14,134	(141)	(9,770)	300	(61,987)
Fund balances (deficits), July 1, 2014	-	22,672	536	(33,826)	667	22,017	791	27,571
FUND BALANCES (DEFICITS), JUNE 30, 2015	\$ -	\$ 12,658	\$ 307	\$ (19,692)	\$ 526	\$ 12,247	\$ 1,091	\$ (34,416)

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, 2015 (Expressed in Thousands)

	Special Revenue							
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Roadside Memorial 0697	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	Rail Freight Loan Repayment 0936
REVENUES								
Sales tax	\$ -	\$ -	\$ 210,401	\$ -	\$ -	\$ -	\$ -	\$ -
Motor fuel taxes	-	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	-	-	31,296	-	-
Other operating grants	-	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	417	-	-	-
Other	-	304	15	-	-	-	-	-
Interest and other investment income	-	-	-	-	-	-	-	38
Total revenues	-	304	210,416	-	417	31,296	-	38
EXPENDITURES								
Transportation	4	-	186,298	-	-	26,946	4,246	-
Intergovernmental	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	4	-	186,298	-	-	26,946	4,246	-
Excess (deficiency) of revenues over (under) expenditures	(4)	304	24,118	-	417	4,350	(4,246)	38
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	-	11,224	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	-	(6,496)	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	-	(482)	-
Amount of SAMS Transfers out	-	-	-	-	-	-	-	-
Transfers-in	27,145	-	-	-	-	-	-	-
Transfers-out	(70,000)	-	(27,145)	-	-	-	-	-
Net other sources (uses) of financial resources	(42,855)	-	(27,145)	-	-	-	4,246	-
Net change in fund balances	(42,859)	304	(3,027)	-	417	4,350	-	38
Fund balances (deficits), July 1, 2014	72,677	334	145,436	93	1,453	(4,451)	-	3,902
FUND BALANCES (DEFICITS), JUNE 30, 2015	\$ 29,818	\$ 638	\$ 142,409	\$ 93	\$ 1,870	\$ (101)	\$ -	\$ 3,940

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, 2015 (Expressed in Thousands)

	Capital Projects				Debt Service		Total
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	
REVENUES							
Sales tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 210,401
Motor fuel taxes	-	-	-	-	-	-	(482,865)
Operating grants - Federal	-	-	-	-	-	-	318,453
Other operating grants	-	-	-	-	6	-	2,471
Licenses and fees	-	-	-	-	-	-	25
Other charges for services	-	-	-	-	-	-	1,228
Other	-	-	-	-	1	-	548
Interest and other investment income	-	-	-	-	279	-	550
Total revenues	-	-	-	-	286	-	50,811
EXPENDITURES							
Transportation	(1,890)	319,054	164,133	1,388	-	1	1,001,575
Intergovernmental	-	-	-	-	-	-	534,404
Debt service - principal	-	-	-	-	-	2,070	2,070
Debt service - interest	-	-	-	-	-	776	776
Capital outlays	35,806	7,481	654,161	-	-	-	738,782
Total expenditures	33,916	326,535	818,294	1,388	-	2,847	2,277,607
Excess (deficiency) of revenues over (under) expenditures	(33,916)	(326,535)	(818,294)	(1,388)	286	(2,847)	(2,226,796)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES							
Appropriations from State resources	124,663	2,742,118	2,455,974	-	-	-	5,349,126
Reappropriation to future year(s)	(84,363)	(2,414,700)	(1,629,288)	-	-	-	(4,128,351)
Lapsed appropriations	-	-	-	-	-	-	(8,073)
Receipts collected and transmitted to State Treasury	-	-	-	-	(1,818)	-	(1,818)
Net change in liabilities for reappropriated accounts	(6,384)	(883)	(8,392)	-	-	-	(35,941)
Amount of SAMS Transfers out	-	-	-	-	-	-	1,114,109
Transfers-in	-	-	-	1,414	97	2,905	73,561
Transfers-out	-	-	-	-	-	-	(245,652)
Net other sources (uses) of financial resources	33,916	326,535	818,294	1,414	(1,721)	2,905	2,116,961
Net change in fund balances	-	-	-	26	(1,435)	58	(109,835)
Fund balances (deficits), July 1, 2014	-	-	-	346	9,285	2,506	272,009
FUND BALANCES (DEFICITS), JUNE 30, 2015	\$ -	\$ -	\$ -	\$ 372	\$ 7,850	\$ 2,564	\$ 162,174

State of Illinois
Department of Transportation

Combining Schedule of Accounts -
Motor Fuel Tax Fund

June 30, 2015 (Expressed in Thousands)

	<u>Special Revenue</u>						
	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	\$ 68,197	\$ -	\$ -	\$ -	\$ -	\$ 68,197	
Cash equity with State Treasurer	-	-	1	-	-	1	
Due from other Department funds	-	11,253	15,782	5,108	(32,143)	-	
Total assets	\$ 68,197	\$ 11,253	\$ 15,783	\$ 5,108	\$ (32,143)	\$ 68,198	
LIABILITIES							
Accounts payable and accrued liabilities	\$ 533	\$ -	\$ -	\$ -	\$ -	\$ 533	
Intergovernmental payables	-	11,253	15,783	5,108	-	32,144	
Due to other Department funds	67,241	-	-	-	(32,143)	35,098	
Due to other State funds	423	-	-	-	-	423	
Total liabilities	68,197	11,253	15,783	5,108	(32,143)	68,198	
FUND BALANCES							
Unrestricted							
Unassigned	-	-	-	-	-	-	
Total fund balances	-	-	-	-	-	-	
Total liabilities and fund balances	\$ 68,197	\$ 11,253	\$ 15,783	\$ 5,108	\$ (32,143)	\$ 68,198	

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, 2015 (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						
Motor fuel taxes	\$ (1,017,269)	\$ 187,095	\$ 262,392	\$ 84,917	\$ -	\$ (482,865)
Total revenues	(1,017,269)	187,095	262,392	84,917	-	(482,865)
EXPENDITURES						
Transportation	13,570	-	-	-	-	13,570
Intergovernmental	-	187,095	262,392	84,917	-	534,404
Total expenditures	13,570	187,095	262,392	84,917	-	547,974
Deficiency of revenues under expenditures	(1,030,839)	-	-	-	-	(1,030,839)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	15,147	-	-	-	-	15,147
Lapsed appropriations	(1,577)	-	-	-	-	(1,577)
Net change in liabilities for reappropriated accounts	(19,800)	-	-	-	-	(19,800)
Amount of SAMS Transfers-out	1,114,109	-	-	-	-	1,114,109
Transfers-out	(77,040)	-	-	-	-	(77,040)
Net other sources (uses) of financial resources	1,030,839	-	-	-	-	1,030,839
Net change in fund balances	-	-	-	-	-	-
Fund balances, July 1, 2014	-	-	-	-	-	-
FUND BALANCES, JUNE 30, 2015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Honorable William G. Holland
Auditor General
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements and have issued our report thereon dated December 18, 2015.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 the accompanying schedule of findings as items 2015-001 and 2015-002 to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2015-003 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*.

Department's Responses to Findings

The Department's responses to the findings identified in our audit are described in the accompanying schedule of findings. The Department's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

Purpose of this Report

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

Sikich LLP

Springfield, Illinois
December 18, 2015

SCHEDULE OF FINDINGS

CURRENT FINDINGS – Government Auditing Standards

2015-001 **FINDING** (Inaccurate commodities inventory records)

The Illinois Department of Transportation (Department) did not maintain accurate commodities inventory records for the year ended June 30, 2015.

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, 2015.

Inventory Quantities

During our physical inventory counts, we counted 190 inventory items and noted discrepancies between audit test counts and Department inventory quantities for 59 (31%) of items. The errors resulted in a net understatement of the year end inventory balance of \$672 thousand which, when extrapolated over the entire inventory population, resulted in an estimated understatement exceeding \$5 million.

Inventory Pricing

In our inventory price testing, we sampled 17 inventory items, including salt at all Districts, which accounted for \$28 million (48%) of the reported inventory value at June 30, 2015. Of the items tested, 9 (53%) were found to have inaccurate costs resulting in a net understatement of the year end inventory balance of \$401 thousand.

In total, audit procedures applied to inventory as reported by the Department identified a likely understatement of inventory of approximately \$6 million at June 30, 2015. The Department did not adjust its financial statements for these errors as they were considered immaterial to the Department's overall financial statements.

In addition, during fiscal year 2015, the Department determined it had failed to previously report the aeronautical inventory on its financial statements. To correct this error, the Department restated the net position within the proprietary fund (Fund 0309) at June 30, 2014 by \$1 million.

The Statewide Accounting Management System (SAMS) (Procedure 02.50.20) 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 a quarterly inventory process had been implemented to better prepare the Department for the annual commodities inventory process. Additional reviews had been added to the process and the Department stated it would continue to explore ways to improve the accuracy of the various manual processes involved in valuing the Department's commodities inventory.

Related to the exceptions noted in the current audit, Department management stated, while process improvements continue to be identified and implemented, the discrepancies were due to human error and the complicated manual process involved in compiling the final counts and 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. 2015-001, 2014-001, 2013-002, 12-2, 11-2, 10-2, 09-2, 08-2, 07-3, 06-4, 05-12, 04-4, 03-5, 02-9, 00-4, 99-5, 98-4, 96-7, 94-6)

RECOMMENDATION

We recommend the Department strongly emphasize the importance of maintaining accurate inventory quantity and cost records throughout the year. Additionally, the Department should perform periodic physical inventory counts throughout the year and reconcile those to Department records. 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. Finally, training and ongoing education should be provided to all employees involved in the inventory process in order to accentuate the importance of their involvement in this annual exercise.

DEPARTMENT RESPONSE

The Department agrees with the finding.

During fiscal year 2015, the Department continued to make improvements to the commodities inventory process. Additional training and direction will be provided to the areas involved in the counting, submission and review process.

2015-002 FINDING (Weaknesses in reporting of capital assets)

The Illinois Department of Transportation (Department) restated governmental activities net position as of June 30, 2014 due to errors identified during fiscal year 2015. In addition, the Department did not accurately report capital assets to the Illinois Office of the Comptroller (Comptroller) for fiscal year 2015.

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

- During fiscal year 2015, the Department determined it failed to report a land purchase related to the South Suburban Airport that occurred during fiscal year 2014. The land totaled \$25 million and the building \$22 million, for a combined total of \$47 million. In addition, the Department determined it failed to report infrastructure additions relating to roadway work involving railways that had been completed in prior years. The total infrastructure additions amounted to \$8 million. To correct these errors, the Department restated the governmental activities net position as of June 30, 2014 by \$55 million.
- The Department failed to accurately report infrastructure deletions and accumulated depreciation. Infrastructure deletions were understated by \$201 million, which caused capital assets to be overstated by \$201 million on the financial statements. Infrastructure accumulated depreciation was understated by \$15 million. The Department corrected the error by reducing its capital assets by \$186 million and revising its capital asset records and financial statements accordingly at June 30, 2015.
- While testing construction-in-progress, we noted the Department failed to accurately calculate current year additions to construction-in-progress resulting in a capital asset understatement of \$6 million. The Department corrected this error by revising their financial statements and increasing capital assets by \$6 million at June 30, 2015.

As a result of the above weaknesses, the Department provided the auditors with a revised SAMS to GAAP Reconciliation-Capital Assets Form (SCO-537) and Capital Asset Summary (SCO-538) for the restatement related to the South Suburban Airport and again for the infrastructure errors noted. The Department did not make revisions to those forms for the construction-in-progress error because the Comptroller did not require one due to the materiality of the change involved.

The Statewide Accounting Management System (SAMS) (Procedure 27.20.37 and 27.20.38) outlines the instructions for preparing the SCO-537 and SCO-538, respectively. This reporting process is necessary for the Comptroller to complete the 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.

In response to the previous findings, the Department stated new GAAP staff were added to the Fiscal Operations Unit, which reduced the issues in capital asset reporting. The Department anticipated, for fiscal year 2015, to have identified the errors in the reporting system and would change the criteria for the report at question in the fiscal year 2014 finding. Fiscal Operations staff would also include in the determination of the correct coding for input into the system. The procedures were changed as part of the correction to the construction in progress for fiscal year 2014. Department management stated the exceptions noted in the current audit were due to a new staff's error to correctly update the report for the prior year activity due to the manual nature of the Excel spreadsheet and complexity of the calculations used for the infrastructure depreciation. The report will be improved for future reporting to eliminate the inconsistencies and provide a reliable method of verifying the accuracy of the prior year data for future reporting.

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. 2015-002, 2014-002, 2013-003, 12-3, 11-3, 10-3, 09-3)

RECOMMENDATION

We recommend the Department ensure its capital asset information is properly recorded and accounted for to permit the preparation of reliable financial information and reports to the Comptroller.

DEPARTMENT RESPONSE

The Department agrees with the finding.

During fiscal year 2015, the GAAP staff completed a review of spending which could include infrastructure costs, which resulted in the prior period spending which was reported this year. These costs will be included on an ongoing basis now that they have been identified. Additionally, the GAAP staff will continue to improve the process to complete the several sets of Excel spreadsheets used to calculate fixed asset reporting at the end of the year.

2015-003 FINDING (Weaknesses in calculating accounts payable)

Weaknesses and errors were noted in the Illinois Department of Transportation's (Department) calculation of its accounts payable balance at June 30, 2015.

The estimation model utilized by the Department to calculate accounts payable included mechanical errors that were not identified prior to submitting financial statements to the Office of the Comptroller. Additionally, the estimation process involves consideration of known or anticipated changes in spending in future periods that was not adequately performed prior to submitting the financial statements to the Office of the Comptroller. Specifically,

- The Department neglected to adjust the model for the Transportation Bond Series A Fund (Fund 0553) when calculating the future years' payables portion of the calculation. Fund 0553 had 6 years of historical data available; however, when calculating the average percentage, the Department divided the total by 5 years. This error had the effect of overestimating the accrual by \$570 thousand or 6% of the total accrual for Fund 0553. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015.
- The Department made a clerical error when adjusting the balance of the Transportation Bond Series A Fund (Fund 0553) to the Comptroller on Form SCO-549. A reclassification adjustment was made between transportation expenditures and capital outlays; however, capital outlays were increased without a corresponding decrease in transportation expenditures. This had the effect of overstating accounts payable by \$168 thousand or 2% of the total accrual for Fund 0553. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015.
- The Department failed to recognize certain vouchers from a unit of local government that were processed subsequent to year-end, but prior to the financial statements being issued in the accounts payable model estimation process for Transportation Bond Series D Fund (Fund 0695). The failure to recognize these vouchers resulted in a potential under accrual of accounts payable of \$5 million based on the projected spending on prior period vouchers for the remainder of fiscal year 2016 and beyond. The status of the vouchers at the time the model was prepared was known to certain areas of the Department because of the process improvement plan the Department implemented in cooperation with the unit of local government. The Department recorded an adjustment and revised its financial statements for the potential under accrual at June 30, 2015.

In addition, the Department failed to recognize a liability for the Downstate Transit Improvement Fund (Fund 559) for vouchers totaling \$632 thousand which were received subsequent to the fiscal year 2015 lapse period. An estimation model is not prepared for this fund and the Department did not have a mechanism in place to recognize vouchers that may be applicable to prior periods. This error was not considered material to the Department's financial statements, and accordingly, no adjustment was made for it at June 30, 2015.

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.

In response to this finding in prior years, the Department stated it had made significant enhancements to its accounts payable estimating methodology during recent years and specifically during fiscal year 2014. During fiscal year 2014, new Generally Accepted Accounting Principles (GAAP) staff members were added to the Fiscal Operations Unit which will enable the ongoing review of the accounts payable model. The changes needed to the model were incorporated during the corrections in fiscal year 2014. In addition, the Department stated the procedures for funds not in the model were to be changed to include a review after lapse period.

Related to the exceptions noted in fiscal year 2015, Department management attributed their cause to data for a calculation not being updated for fiscal year 2015 from fiscal year 2014 for one of the model funds. Also, a late increase in the accrual of a fund, due to an increase in capital outlays, was not reflected in the final model file. Additionally, vouchers from the unit of local government and others processed subsequent to the lapse period were unforeseen and caused an increase in the accrual amount for two funds.

Accounting estimates are an important part of the financial statements prepared by the Department and are based on the Department's knowledge and experience about past and current events. The estimates should also be based upon its assumptions about future events and free from material errors. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that events affecting them may differ considerably from those expected. The most sensitive estimate affecting the Department's financial statements at June 30, 2015 was its accounts payable balance. Accurate calculations are essential in order to support the estimate included within the Department's financial statements prepared in accordance with GAAP. (Finding Code No. 2015-003, 2014-003, 2013-004)

RECOMMENDATION

We recommend the Department implement a review process to verify the accuracy of any significant calculations used when making key estimations. In addition, we recommend the Department ensure the communication of factors impacting the estimation process be routed to those inputting the data into the accounts payable model.

DEPARTMENT RESPONSE

The Department agrees with the finding.

The GAAP staff will continue to improve the process to complete the several sets of Excel spreadsheets used to calculate payables reporting at the end of the year. Additionally, the GAAP staff will include communication with district personnel on backlog of local payments.

PRIOR FINDINGS NOT REPEATED

A. **FINDING** (Weaknesses in the reporting of accounts receivable)

During the previous audit, weaknesses and errors were noted in the Department of Transportation's (Department) calculation of its accounts receivable balance at June 30, 2014. Specifically, the Department did not calculate the amount due from local governments for contracts administered by the Department requiring local participation. The Department also failed to accurately report federal accounts receivable in the Road Fund (Fund 0011) because it did not properly allocate receipts collected during the lapse period.

During the current audit, the Department was current with all of its billings through June 30, and the amount reported on the financial statements as due from local governments was accurate. We also noted the Department corrected its allocation issues related to the federal accounts receivables and no differences were noted during our recalculations. As a result, the prior finding is not repeated. (Finding Code No. 2014-004, 2013-005)

B. **FINDING** (Inadequate controls over processing local road contract requests for payments)

During the previous audit, the Department of Transportation (Department) failed to adequately establish controls over the processing of requests for payments related to local road contracts during the audit period.

The Department started having weekly meetings in October 2014 to discuss any invoices received without sufficient support. A checklist was finalized in March 2015 detailing the exact support needed to process the invoices. Our sample testing indicated significant progress had been made in addressing the issue noted in the previous findings. As a result, the prior finding is not repeated. (Finding Code No. 2014-005, 2013-006)