

**State of Illinois**  
**Department of Transportation**  
Financial Audit  
For the Year Ended June 30, 2005  
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, 2005**

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**State of Illinois**  
**Department of Transportation**  
**Officials**  
**June 30, 2005**

Secretary of Transportation	Mr. Timothy W. Martin
Assistant Secretary	Mr. David D. Phelps
Director of Finance and Administration	Ms. Ann Schneider (current) Mr. Robert J. Millette (during audit period)
Legal Counsel	Ms. Ellen Schanzle-Haskins
Bureau Chief, Accounting and Auditing	Mr. Gus Sogunro

Department of Transportation's offices are located at:

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Springfield, IL 62764

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Chicago, IL 60604

# **Financial Statement Report**

**State of Illinois**  
**Department of Transportation**  
**Financial Statement Report Summary**  
**June 30, 2005**

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

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



## Independent Auditors' Report

Honorable William G. Holland  
Auditor General  
State of Illinois

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the State of Illinois, Department of Transportation (Department) as of and for the year ended June 30, 2005, which collectively comprise the Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements of the State of Illinois, Department of Transportation, are intended to present the financial position, the changes in financial position and cash flows, where applicable, of only that portion of the governmental activities, each major fund and the aggregate remaining fund information of the State that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, and its changes in financial position and its cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the State of Illinois, Department of Transportation, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2005, on our consideration of the State of Illinois, Department of Transportation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented a management's discussion and analysis and budgetary comparison schedules for the General, Road, Motor Fuel Tax, and State Construction funds that the accounting principles generally accepted in the United States of America determined are necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Illinois, Department of Transportation's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

BKD, LLP

November 11, 2005

## **Basic Financial Statements**



**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

**Statement of Net Assets**

June 30, 2005 (Expressed in Thousands)

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Unexpended appropriations	\$ 374,030
Cash equity with State Treasurer	57,181
Cash and cash equivalents	38,441
Investments	235
Receivables, net:	
Intergovernmental	146,823
Other	2,869
Due from other State funds	48,435
Due from State of Illinois component units	2,802
Inventories	19,128
Loans receivable, net	54,576
Capital assets not being depreciated	2,023,150
Capital assets being depreciated, net	12,067,050
<b>Total assets</b>	<u>14,834,720</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	234,644
Intergovernmental payables	189,217
Due to other State fiduciary funds	1,317
Due to other State funds	5,742
Due to State of Illinois component units	5,806
Deferred revenues	4,080
Long-term obligations:	
Due within one year	6,032
Due subsequent to one year	69,250
<b>Total liabilities</b>	<u>516,088</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	14,062,178
Restricted:	
Debt service	20,512
Transportation programs	8,262
Unrestricted net assets	227,680
<b>Total net assets</b>	<u>\$ 14,318,632</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, 2005 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental activities</b>					
Transportation	\$ 3,294,268	29,568	224,088	835,352	(2,205,260)
Interest	1,738	—	—	—	(1,738)
Total governmental activities	\$ 3,296,006	29,568	224,088	835,352	(2,206,998)
<b>General revenues</b>					
Appropriations from State resources					6,458,215
Reappropriations to future year(s)					(3,152,636)
Lapsed appropriations					(184,728)
Receipts collected and transmitted to State Treasury					(975,886)
Net change in liabilities for reappropriated accounts					21,993
Other revenues					12,873
Interest and investment income					2,566
Capital transfers to other State agencies					(3,087)
Loss on disposal of capital assets					(1,389)
Transfer of administration of State's workers' compensation liability					25,070
Amount of SAMS transfers-in					(573,696)
Amount of SAMS transfers-out					632,364
Transfers-in					345,116
Transfers-out					(46,905)
Total general revenues and transfers					2,559,870
Change in net assets					352,872
Net assets, July 1, 2004					13,965,760
Net assets, June 30, 2005					\$ 14,318,632

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Balance Sheet - Governmental Funds**

June 30, 2005 (Expressed in Thousands)

	General	Road	Motor Fuel Tax	State Construction Account	Nonmajor Funds	Total Governmental Funds
<b>ASSETS</b>						
Unexpended appropriations	\$ 6,050	133,804	96,924	89,484	47,768	374,030
Cash equity with State Treasurer	72	1,132	—	—	55,384	56,588
Cash and cash equivalents	12	11,960	—	13,474	12,995	38,441
Investments	—	—	—	235	—	235
Intergovernmental receivables, net	—	118,585	—	—	28,238	146,823
Other receivables, net	—	2,830	—	—	36	2,866
Due from other Department funds	2,475	26,525	—	17,535	3,299	49,834
Due from other State funds	—	72	—	2,005	46,262	48,339
Due from State of Illinois component units	—	2,798	—	—	—	2,798
Inventories	—	19,128	—	—	—	19,128
Loans receivable, net	1,707	—	—	—	52,869	54,576
<b>Total assets</b>	<b>\$ 10,316</b>	<b>316,834</b>	<b>96,924</b>	<b>122,733</b>	<b>246,851</b>	<b>793,658</b>
<b>LIABILITIES</b>						
Accounts payable and accrued liabilities	\$ 68	79,085	15	101,440	53,927	234,535
Intergovernmental payables	5,951	44,551	50,090	568	88,057	189,217
Due to fiduciary funds	—	1,313	4	—	—	1,317
Due to other Department funds	30	5	46,236	—	3,598	49,869
Due to other State funds	4	5,158	579	—	1	5,742
Due to State of Illinois component units	9	3,444	—	1,185	1,168	5,806
Unavailable revenue	—	18,499	—	—	1,747	20,246
Deferred revenue	—	—	—	—	4,080	4,080
Current portion of long-term obligations	—	443	—	—	—	443
<b>Total liabilities</b>	<b>6,062</b>	<b>152,498</b>	<b>96,924</b>	<b>103,193</b>	<b>152,578</b>	<b>511,255</b>
<b>FUND BALANCES</b>						
Reserved for:						
Encumbrances	—	11,759	—	—	—	11,759
Long-term portion of:						
Intergovernmental receivables	—	1,940	—	—	—	1,940
Other receivables	—	343	—	—	—	343
Loans and notes receivable	1,396	—	—	—	49,174	50,570
Inventories	—	19,128	—	—	—	19,128
Unreserved, designated for debt service	—	—	—	—	—	—
Unreserved, undesignated:						
General fund	2,858	—	—	—	—	2,858
Special revenue funds	—	131,166	—	19,540	43,948	194,654
<b>Total fund balances</b>	<b>4,254</b>	<b>164,336</b>	<b>—</b>	<b>19,540</b>	<b>94,273</b>	<b>282,403</b>
<b>Total liabilities and fund balances</b>	<b>\$ 10,316</b>	<b>316,834</b>	<b>96,924</b>	<b>122,733</b>	<b>246,851</b>	<b>793,658</b>

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF TRANSPORTATION**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**June 30, 2005**  
**(Expressed in Thousands)**

<b>Total fund balances – governmental funds</b>	<b>\$</b>	<b>282,403</b>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		14,090,200
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		20,246
Internal service funds are used to charge costs of air transportation to individual funds. The assets and liabilities of the Air Transportation Fund are reported as governmental activities in the Statement of Net Assets.		622
Some liabilities reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as liabilities in governmental funds. These activities consist of:		
Intergovernmental financing	\$	(5,155)
Installment purchase obligations		(411)
Certificates of participation		(27,580)
Capital lease obligations		(31)
Compensated absences		(38,619)
Auto liability claims		(3,043)
		(74,839)
<b>Net assets of governmental activities</b>	<b>\$</b>	<b><u>14,318,632</u></b>

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, 2005 (Expressed in Thousands)

	General	Road	Motor Fuel Tax	State Construction Account	Nonmajor funds	Total Governmental Funds
<b>REVENUES</b>						
Operating grants - Federal	\$ 353	26,200	—	—	141,512	168,065
Capital grants - Federal	—	815,286	—	—	—	815,286
Other operating grants	—	42,653	—	—	10,542	53,195
Other capital grants	—	16,461	—	—	—	16,461
Licenses and fees	—	16,788	—	—	20	16,808
Other charges for services	—	11,625	—	—	390	12,015
Interest and other investment income	—	732	—	—	1,834	2,566
Other	(5)	12,777	—	—	101	12,873
<b>Total revenues</b>	<b>348</b>	<b>942,522</b>	<b>—</b>	<b>—</b>	<b>154,399</b>	<b>1,097,269</b>
<b>EXPENDITURES</b>						
Transportation	51,230	922,108	649,208	143,402	609,323	2,375,271
Debt service - principal	1,961	933	—	—	1,315	4,209
Debt service - interest	143	59	—	—	1,588	1,790
Capital outlays	—	265,506	—	628,497	337,624	1,231,627
<b>Total expenditures</b>	<b>53,334</b>	<b>1,188,606</b>	<b>649,208</b>	<b>771,899</b>	<b>949,850</b>	<b>3,612,897</b>
Deficiency of revenues over expenditures	(52,986)	(246,084)	(649,208)	(771,899)	(795,451)	(2,515,628)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	62,093	2,714,851	672,769	1,834,435	1,174,067	6,458,215
Reappropriations to future year(s)	(2,422)	(1,396,400)	—	(1,104,471)	(649,343)	(3,152,636)
Lapsed appropriations	(5,975)	(54,674)	(23,559)	—	(100,520)	(184,728)
Receipts collected and transmitted to State Treasury	(663)	(970,185)	—	(19)	(5,019)	(975,886)
Net change in liabilities for reappropriated accounts	(349)	(31,154)	2,219	44,048	7,229	21,993
Amount of SAMS Transfers-in	(3,372)	(336,902)	—	(233,422)	—	(573,696)
Amount of SAMS Transfers-out	—	—	632,364	—	—	632,364
Transfers-in	2,475	338,300	—	234,243	376,251	951,269
Transfers-out	—	(4,327)	—	(89)	(14,057)	(653,058)
Proceeds from capital lease financing	—	28	(634,585)	—	—	28
Net other sources of financial resources	<b>51,787</b>	<b>259,537</b>	<b>649,208</b>	<b>774,725</b>	<b>788,608</b>	<b>2,523,865</b>
<b>Net change in fund balances</b>	<b>(1,199)</b>	<b>13,453</b>	<b>—</b>	<b>2,826</b>	<b>(6,843)</b>	<b>8,237</b>
Fund balances July 1, 2004	5,453	150,883	—	16,714	101,116	274,166
<b>FUND BALANCES JUNE 30, 2005</b>	<b>\$ 4,254</b>	<b>164,336</b>	<b>—</b>	<b>19,540</b>	<b>94,273</b>	<b>282,403</b>

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF TRANSPORTATION**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2005**  
**(Expressed in Thousands)**

**Net change in fund balances** \$ 8,237

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.	306,657
Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	4,209
Some capital additions were financed through capital leases. In governmental funds, capital lease arrangements are considered a source of financing, but in the Statement of Net Assets the lease obligation is reported as a liability.	(28)
Some capital assets were transferred out to other State agencies and therefore, no proceeds were received for the capital asset's value, net of transfers in.	(3,087)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This amount represents the increase in unavailable revenue over the prior year.	6,433
Proceeds from sales of capital assets are reported in the governmental funds. However, in the Statement of Activities, losses on the disposal of the net value of capital assets are also reported.	(1,389)
Internal service funds are used to charge costs of certain activities to individual funds. The net revenue of the internal service fund is reported as governmental activities in the Statement of Activities.	109
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	5,059
Decrease in intergovernmental financing	780
Decrease in workers' compensation claims	25,070
Decrease in auto liability claims	770
Decrease in accrued interest	52

**Change in net assets of governmental activities** \$ 352,872

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

STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION

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**Statement of Net Assets - Proprietary Fund**  
**Air Transportation Revolving Fund**  
June 30, 2005 (Expressed in Thousands)

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	<b>Governmental Activities- Internal Service Fund</b>
<b>ASSETS</b>	
Cash equity with State Treasurer	\$ 593
Other receivables, net	3
Due from other Department funds	35
Due from other State funds	96
Due from component units	4
<b>Total current assets</b>	<u>731</u>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	<u>109</u>
<b>NET ASSETS</b>	
Unrestricted	622
<b>Total net assets</b>	<u><u>\$ 622</u></u>

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

**STATE OF ILLINOIS**  
**DEPARTMENT OF TRANSPORTATION**  


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**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Assets - Proprietary Fund**  
**Air Transportation Revolving Fund**  
 For the Year Ended June 30, 2005 (Expressed in Thousands)

	<b>Governmental Activities - Internal Service Fund</b>
<hr/>	
<b>OPERATING REVENUES</b>	
Charges for sales and services	\$ 745
<b>OPERATING EXPENSES</b>	
Cost of sales and services	<u>636</u>
<b>Operating income/Change in net assets</b>	<u>109</u>
Net Assets, July 1, 2004	<u>513</u>
<b>NET ASSETS, June 30, 2005</b>	<u><u>\$ 622</u></u>

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



**STATE OF ILLINOIS**  
**DEPARTMENT OF TRANSPORTATION**  


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**Statement of Cash Flows - Proprietary Fund**  
**Air Transportation Revolving Fund**  
For the Year Ended June 30, 2005 (Expressed in Thousands)

	<b>Governmental Activities - Internal Service Fund</b>
<hr/>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from sales and services	\$ 746
Cash payments to suppliers for goods and services	(654)
<b>Net increase in cash and cash equivalents</b>	<u>92</u>
 Cash and cash equivalents, July 1, 2004	 <u>501</u>
 <b>CASH AND CASH EQUIVALENTS, JUNE 30, 2005</b>	 <b>\$ <u>593</u></b>
 <b>Reconciliation of operating income to net cash provided by operating activities:</b>	
<b>OPERATING INCOME</b>	\$ 109
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable	(3)
Decrease in due from other Department funds, other State funds and component units	4
Decrease in accounts payable and accrued liabilities	(18)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ <u>92</u></b>

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2005

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

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

**(2) Summary of Significant Accounting Policies**

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

**(a) Financial Reporting Entity**

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

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

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

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2005

***(b) Basis of Presentation***

The financial activities of the State of Illinois, Department of Transportation, are intended to present the financial position and the changes in financial position and cash flows, when applicable, of only that portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the State of Illinois as of June 30, 2005, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

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

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

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2005

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

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

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

**Motor Fuel Tax** – This fund accounts for the activities for various transportation related program expenditures and the administrative cost of supervising the use of funds apportioned to municipalities, counties and road districts. Funding sources include State fuel taxes and an allocation (transfer) of State sales tax collections from the General Fund. The Department’s portion of the Motor Fuel Tax Fund is composed of the following sub-accounts: Motor Fuel Tax - State, Motor Fuel Tax - Counties, Motor Fuel Tax - Municipalities, and Motor Fuel Tax - Townships and Road District.

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

The Department also reports the following proprietary fund type:

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

***(c) Measurement Focus and Basis of Accounting***

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

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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, 1) principal and interest on formal debt issues, such as bonds and capital leases, are recorded only when payment is due and 2) compensated absences and claims and judgments are recorded when they are expected to be liquidated with expendable available financial resources. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The State also has the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The State has elected not to follow subsequent private-sector guidance as it relates to the Department's operations.

***(d) Shared Fund Presentation***

The financial statement presentation for General Revenue Fund, Road Fund, Motor Fuel Tax Fund, and State Construction Account Fund 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 Appropriation

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

Appropriation from State Resources

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

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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.

Net Change in Liabilities for Reappropriated Accounts.

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

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.

Receipts Collected and Transmitted to State Treasury

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

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.

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.

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**(e) Eliminations**

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

**(f) Cash and Cash Equivalents**

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

**(g) Inventories**

Inventories, consisting primarily of road salt and sand, traffic signs, and traffic sign materials, are valued at cost on the average cost method. Significant inventories of governmental funds are recorded as expenditures when purchased rather than when consumed. Inventories reported in the governmental funds do not reflect current appropriable resources, and therefore, the Department reserves an equivalent portion of fund balance.

**(h) Interfund Transactions**

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

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

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

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

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

**(i) Capital Assets**

Capital assets, which includes property, plant, and 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
Buildings Improvements	25,000	10-45
Equipment	5,000	3-25

**(j) Compensated Absences**

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

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.



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**(k) Fund Balances**

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

**(l) Net Assets**

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

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

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

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

**(m) 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.

**(3) 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, or in transit, totaled \$57.181 million at June 30, 2005. These deposits are pooled and invested with other State funds in accordance with the Deposit of State Moneys Act of the Illinois Compiled Statutes (15 ILCS 520/11). Funds held by the State Treasurer have not been categorized as to credit risk because the Department does not own individual securities. Detail on the nature of these deposits and investments is available within the State of Illinois’ Comprehensive Annual Financial Report.

Cash on deposit for locally held funds had a carrying amount and bank balance of \$38.435 million at June 30, 2005. Of the total bank balance, \$1.357 million was exposed to custodial credit risk as uninsured with collateral held by the pledging financial institution (but not its trust department or agent) in the State’s name and \$23.873 million was exposed to custodial credit risk as uninsured and uncollateralized.

Cash on hand totaled \$6 thousand at June 30, 2005.

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As of June 30, 2005, the Department had the following investments outside of the State Treasury:

	<b>Fair Value (Thousands)</b>	<b>Weighted Average Maturity (Days)</b>
<b>Government Funds</b>		
Money Market Mutual Fund	\$ 235	1

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

**Credit Risk:** The Department does not have a formal investment policy that limits investment choices. The mutual fund was rated AAAM by Moody's.

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**(4) Interfund Balances and Activity**

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

The following balances (amount expressed in thousands) at June 30, 2005 represent amounts due from other Department and State of Illinois funds.

<u>Fund</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 2,475	\$ ---	Due from other Department nonmajor governmental funds for transfers per statutory guidelines.
Road	26,525	72	Due from the Motor Fuel Tax Fund for motor fuel tax allocation from June and to other State nonmajor funds for expenditures incurred.
State Construction Account	17,535	2,005	Due from the Motor Fuel Tax Fund for motor fuel tax allocation from June.
Nonmajor governmental funds	3,299	46,262	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June, from other Department funds for reimbursement of expenditures incurred, and from Department of Revenue for June sales tax allocations.
Internal service funds	35	96	Due from other Department funds and other State funds for services rendered.
	<u>\$ 49,869</u>	<u>\$ 48,435</u>	

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The following balances (amount expressed in thousands) at June 30, 2005 represent amounts due to other Department and State of Illinois funds.

<u>Fund</u>	<u>Due To</u>			<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	<u>Other State Fiduciary Funds</u>	
General	\$ 30	\$ 4	\$ ---	Due to Department internal service funds, to other State funds for purchases of services, and to State pension (and other employee benefit) trust funds for postemployment benefits.
Road	5	5,158	1,313	Due to Department internal service funds and to other State internal service funds for purchases of services, to other State nonmajor governmental funds for reimbursement of expenditures incurred, and to State pension (and other employee benefit) trust funds for postemployment benefits.
Motor Fuel Tax	46,236	579	4	Due to Department funds, other State funds for motor fuel tax allocation from June, and to State pension (and other employee benefit) trust funds for postemployment benefits.
Nonmajor governmental funds	3,598	1	---	Due to other General funds for transfers per statutory guidelines as to other Department nonmajor governmental funds for reimbursement of expenditures incurred.
	<u>\$ 49,869</u>	<u>\$ 5,742</u>	<u>\$ 1,317</u>	

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***(b) Transfers to/from Other Funds***

Interfund transfers in (amount expressed in thousands) for the year ended June 30, 2005, were as follows:

<u>Fund</u>	<u>Transfers in from</u>		<u>Description/Purpose</u>
	<u>Other Department Funds</u>	<u>Other State Funds</u>	
General	\$ 2,475	\$ ---	Transfer from nonmajor governmental funds per statutory guidelines.
Road	338,300	---	Transfer from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
State Construction Account	234,243	---	Transfer from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute.
Nonmajor governmental funds	31,135	345,116	Transfers from Motor Fuel Tax Fund for motor fuel tax allocation pursuant to State statute, other Department nonmajor governmental funds for debt service, and from Department of Revenue for sales tax allocation and for other purposes.
	<u>\$ 606,153</u>	<u>\$ 345,116</u>	

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Interfund transfers out (amount expressed in thousands) for the year ended June 30, 2005, 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	\$ 4,061	\$ 266	Transfers to Department nonmajor governmental funds for debt service payments and to other State nonmajor governmental funds for debt service payments and for budget shortfalls.
Motor Fuel Tax	599,543	35,042	Transfers to Departmental funds and other State funds for motor fuel tax allocations pursuant to State statute.
State Construction Account	---	89	Transfer to other State funds for savings payment initiatives pursuant to State statute.
Nonmajor governmental funds	2,549	11,508	Transfers to General Fund per statutory guidelines and to other State funds for administration of Railroad Safety program, budget shortfalls, and for other purposes.
	<u>\$ 606,153</u>	<u>\$ 46,905</u>	

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

The following balances (amount expressed in thousands) at June 30, 2005 represent amounts due from State of Illinois Component Units.

<u>Component Unit</u>	<u>Due from</u>		<u>Description/Purpose</u>
	<u>Road Fund</u>	<u>Internal Service Funds</u>	
Illinois Toll Highway Authority	\$ 2,798	\$ 1	Reimbursement for expenditures incurred for grant programs and for air transportation services provided.
Southern Illinois University	---	1	Reimbursement for air transportation services provided.
University of Illinois	---	2	Reimbursement for air transportation services provided.
	<u>\$ 2,798</u>	<u>\$ 4</u>	

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The following balances (amount expressed in thousands) at June 30, 2005 represent reimbursement amounts for expenditures incurred for grant programs due to State of Illinois Component Units.

<u>Component Unit</u>	<u>General Fund</u>	<u>Road Fund</u>	<u>State Construction Account</u>	<u>Nonmajor Governmental Fund</u>
Illinois Toll Highway Authority	\$ ---	\$ 359	\$ 249	\$ ---
Eastern Illinois University	---	287	---	---
Western Illinois University	---	5	---	226
Illinois State University	---	---	---	206
Northern Illinois University	---	71	---	164
Southern Illinois University	---	268	---	356
University of Illinois	9	2,454	936	216
	<u>\$ 9</u>	<u>\$ 3,444</u>	<u>\$ 1,185</u>	<u>\$ 1,168</u>



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**(5) Capital Assets**

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2005 was as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Net Transfers</u>	<u>Balance June 30, 2005</u>
<b>Governmental activities:</b>					
Capital assets not being depreciated:					
Land and land improvements	\$ 1,944,969	\$ 78,892	\$ (1,187)	\$ —	\$ 2,022,674
Construction in progress	<u>1,656</u>	<u>2,316</u>	<u>—</u>	<u>(3,496)</u>	<u>476</u>
Total capital assets not being depreciated	<u>1,946,625</u>	<u>81,208</u>	<u>(1,187)</u>	<u>(3,496)</u>	<u>2,023,150</u>
Capital assets being depreciated:					
Infrastructure	20,695,800	1,136,833	(680,361)	—	21,152,272
Site improvements	2,497	—	—	—	2,497
Buildings and building improvements	106,506	5,048	—	—	111,554
Capital leases – buildings	8,341	—	—	—	8,341
Equipment	322,065	8,510	(7,517)	409	323,467
Capital leases – equipment	<u>22</u>	<u>28</u>	<u>—</u>	<u>—</u>	<u>50</u>
Total capital assets being depreciated	<u>21,135,231</u>	<u>1,150,419</u>	<u>(687,878)</u>	<u>409</u>	<u>21,598,181</u>
Less accumulated depreciation:					
Infrastructure	8,978,893	903,845	(680,361)	—	9,202,377
Site improvements	2,008	61	—	—	2,069
Buildings and building improvements	61,793	2,359	—	—	64,152
Capital leases – buildings	3,145	185	—	—	3,330
Equipment	247,989	18,504	(7,315)	—	259,178
Capital leases – equipment	<u>9</u>	<u>16</u>	<u>—</u>	<u>—</u>	<u>25</u>
Total accumulated depreciation	<u>9,293,837</u>	<u>924,970</u>	<u>(687,676)</u>	<u>—</u>	<u>9,531,131</u>
Total capital assets being depreciated, net	<u>11,841,394</u>	<u>225,449</u>	<u>(202)</u>	<u>409</u>	<u>12,067,050</u>
Governmental activity capital assets, net	<u>\$ 13,788,019</u>	<u>\$ 306,657</u>	<u>\$ (1,389)</u>	<u>\$ (3,087)</u>	<u>\$ 14,090,200</u>

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2005 was charged to the following functions as follows:

Transportation \$ 924,970

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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, 2005 were as follows:

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2005</u>	<u>Amounts Due Within One Year</u>
<b>Governmental activities:</b>					
Notes Payable					
Intergovernmental financing	\$ 5,935	944	1,724	5,155	1,727
Installment purchase obligations	2,372	—	1,961	411	411
Other long-term obligations:					
Certificates of participation	28,895	—	1,315	27,580	1,380
Capital lease obligations	936	28	933	31	19
Workers' compensation claims	25,330	—	25,330	—	—
Auto liability claims	3,926	1,085	1,525	3,486	1,272
Compensated absences	43,678	22,293	27,352	38,619	1,223
Total governmental activities	<u>\$ 111,072</u>	<u>24,350</u>	<u>60,140</u>	<u>75,282</u>	<u>6,032</u>

Compensated absences have been liquidated by the applicable governmental funds that account for the salaries and wages of the related employees. Claims and judgments typically have been liquidated from the Road Fund.

During the fiscal year, the administration of the State's workers' compensation claims was transferred to the Department of Central Management Services and the liability was removed from the Department's financial statements.

The Department has recognized a liability of \$443 thousand in the Road Fund as of June 30, 2005, representing auto liability claims that were due as of year end. The remaining auto liability claims of \$3.043 million, and all other long-term obligations are considered to be general long-term liabilities and are recognized only in the government-wide financial statements.

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**(b) Intergovernmental Financing - State of Illinois/State of Missouri Joint Agreement**

The Department entered into an agreement with the State of Missouri for the construction of the Cape Girardeau Bridge. The agreement required that the Department reimburse the State of Missouri for 40% of the costs incurred for bridge construction. In accordance with a pre-established payment plan, the Department repays one-quarter of its annual obligation each year for four years following the year costs were incurred. Each year, the State of Missouri incurs costs and each year, the Department makes payments on costs incurred in prior years (unless such costs have been totally reimbursed) subject to the same one-quarter reimbursement arrangement. The State of Missouri assesses 5.3% interest on the unpaid balance.

As of June 30, 2005, the balance of the Illinois/Missouri Joint Agreement was \$5.155 million and is included in the government-wide financial statements. In subsequent years, this liability will be liquidated from future resources of the State Construction Fund, a major governmental fund. Future Illinois/Missouri Joint Agreement payment requirements at June 30, 2005, are as follows:

<b>Illinois/Missouri Joint Agreement (Rounded to Nearest Thousand)</b>			
<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,727	\$ 273	\$ 2,000
2007	1,818	182	2,000
2008	1,191	85	1,276
2009	419	22	441
	<u>\$ 5,155</u>	<u>\$ 562</u>	<u>\$ 5,717</u>

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*(c) Capital Lease Obligations*

The Department leases land, office facilities, office and computer equipment and other assets with a historical cost and accumulated depreciation of \$8.391 million and \$3.355 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. Interest varies from 4.4% - 6.6%. Future minimum lease payments (amounts expressed in thousands) at June 30, 2005 are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 19	\$ 5	\$ 24
2007	12	1	13
	<u>\$ 31</u>	<u>\$ 6</u>	<u>\$ 37</u>

*(d) Installment Purchase Obligations*

The Department has acquired certain land, office facilities, office and computer equipment and other assets through installment purchase arrangements. Interest varies from 4.4% - 6.3%. Future debt service requirements under installment purchase contracts (amounts expressed in thousands) at June 30, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 411	\$ 22	\$ 433

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**(e) 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, 2005, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 1,380	\$ 1,524	\$ 2,904
2007	1,450	1,456	2,906
2008	1,520	1,383	2,903
2009	1,600	1,305	2,905
2010	1,680	1,222	2,902
2011-2015	9,850	4,668	14,518
2016-2019	10,100	1,519	11,619
	<u>\$ 27,580</u>	<u>\$ 13,077</u>	<u>\$ 40,657</u>

**(7) Pension Plan**

Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a pension trust fund in the State of Illinois reporting entity. The SERS is a single-employer defined benefit public employee retirement system (PERS) in which State employees participate, except those covered by the State Universities, Teachers', General Assembly, and Judges' Retirement Systems. The financial position and results of operations of the SERS for fiscal year 2005 are included in the State of Illinois' Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2005. The SERS issues a separate CAFR that may be obtained by writing to the SERS, 2101 South Veterans Parkway, Springfield, Illinois, 62794-9255.

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

The Department pays employer retirement contributions based upon an actuarially determined percentage of their payrolls. For fiscal year 2005, the employer contribution rate was 16.107%. Effective for pay periods beginning after December 31, 1991, the State opted to pay the employee portion of retirement for most State agencies (including the Department) with employees covered by the State Employees' and Teachers' Retirement Systems. However, effective with the fiscal year 2004 budget, the State opted to stop paying the portion or a part of the portion of retirement for many State agencies (including the Department) for certain classes of employees covered by the State Employees' and Teachers' Retirement Systems. The pickup, when applicable, is subject to sufficient annual appropriations and those employees covered may vary across employee groups and State agencies.

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June 30, 2005

**(8) Post-employment Benefits**

The State provides health, dental and life insurance benefits for certain retirees and their dependents. Substantially all State employees become eligible for post-employment benefits if they eventually become annuitants of one of the State sponsored pension plans. Health and dental benefits include basic benefits for annuitants under the State's self-insurance plan and insurance contracts currently in force. Life insurance benefits are limited to \$5,000 per annuitant age 60 and older. The total cost of health, dental, and life insurance benefits of all members, including post-employment health, dental, and life insurance benefits, is recognized as an expenditure for the State in the Illinois Comprehensive Annual Financial Report. The total costs incurred for health, dental, and life insurance benefits are not separated by Department for annuitants and their dependents nor active employees and their dependents.

**(9) Fund Deficits**

The Federal Local Airport Fund and Federal Mass Transit Fund had deficit fund balances (amounts expressed in thousands) of \$1,301 and \$446, respectively, at June 30, 2005. These deficits will be eliminated by future recognition of earned but unavailable revenues.

**(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; workers compensation and natural disasters. The State retains the risk of loss (i.e. self-insured) for these risks

The Department's risk management activities for auto liability claims are financed through appropriations to the Department and are reported in the Road Fund. The claims are administered by the Illinois Department of Central Management Services. 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 amounts of settlements did not exceed insurance coverage for any of the past three years. During the current fiscal year the payment of workers compensation liabilities were transferred to the Illinois Department of Central Management Services. Changes in the reported liabilities of the Department (amounts expressed in thousands) for the years ended June 30, 2004 and 2005 were as follows:

		Beginning of Fiscal- year Liability	Current- year Claims and Changes in Estimates	Claim Payments	Transfer of Liability to Central Management Services	End of Fiscal-year Liability
2004	\$	25,674	16,059	12,477	—	29,256
2005	\$	29,256	1,085	1,525	25,330	3,486

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2005

**(11) Commitments and Contingencies**

**(a) Construction Commitments**

The Department has outstanding construction contracts for highway program improvements. The Department's commitments with contractors was \$1.143 billion at June 30, 2005 with \$.802 billion of the commitments available for federal reimbursement.

The Department has other outstanding commitments of \$1.402 billion at June 30, 2005, to be fulfilled from future years' re-appropriated amounts. These commitments consist of contracts entered into during the current and/or prior fiscal years that will not be fulfilled until a subsequent fiscal period. The Department considers these contracts as a legal commitment and includes such amounts outstanding at the end of the current fiscal year as part of the subsequent year's appropriated budget.

**(b) Operating Leases**

The Department leases various real property and equipment under the terms of a noncancelable operating lease agreements that requires the Department to make minimum lease payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was \$11.924 million for the year ended June 30, 2005.

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

Year Ending June 30	Amount
2006	\$ 2,253
2007	2,237
2008	381
2009	340
2010	330
2011-2015	626
	\$ 6,167

**(c) Federal Funding**

The Department receives federal grants which are subject to review and audit by federal grantor agencies. Certain costs could be questioned as not being an eligible expenditure under the terms of the grants. At June 30, 2005, 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.

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION**

Notes to Financial Statements

June 30, 2005

***(d) Litigation***

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



**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Balance Sheet  
Nonmajor Governmental Funds**

June 30, 2005 (Expressed in Thousands)

	Grade Crossing Protection	Special Revenue							Federal Civil Preparedness
		Aeronautics	Federal Local Airport	State Rail Freight Loan Repayment	Tax Recovery	Federal High Speed Rail	Federal Civil Preparedness		
<b>ASSETS</b>									
Unexpended appropriations	—	—	—	—	—	—	—	—	—
Cash equity with State Treasurer	9,166	7	3,888	8,176	447	2,460	—	—	—
Cash and cash equivalents	138	—	—	—	—	—	—	—	—
Intergovernmental receivables, net	—	—	26,897	—	—	—	—	—	—
Other receivables, net	—	—	—	21	—	—	—	—	—
Due from other Department funds	2,250	—	999	—	—	—	—	—	—
Due from other State funds	—	—	—	—	—	—	—	—	160
Loans receivable, net	—	—	—	28,425	—	—	—	—	—
<b>Total assets</b>	<b>\$ 11,554</b>	<b>7</b>	<b>31,784</b>	<b>36,622</b>	<b>447</b>	<b>2,460</b>	<b>—</b>	<b>—</b>	<b>160</b>
<b>LIABILITIES</b>									
Accounts payable and accrued liabilities	2,736	—	9,252	116	—	2,460	—	—	160
Intergovernmental payables	1,460	—	18,328	—	—	—	—	—	—
Due to other Department funds	—	—	124	—	—	—	—	—	—
Due to other State funds	—	—	—	—	1	—	—	—	—
Due to State of Illinois component units	—	—	—	—	—	—	—	—	—
Unavailable revenue	—	—	1,301	—	—	—	—	—	—
Deferred revenue	—	—	4,080	—	—	—	—	—	—
<b>Total liabilities</b>	<b>4,196</b>	<b>—</b>	<b>33,085</b>	<b>116</b>	<b>1</b>	<b>2,460</b>	<b>—</b>	<b>—</b>	<b>160</b>
<b>FUND BALANCES (DEFICITS)</b>									
Reserved for loans and notes receivable	—	—	—	26,565	—	—	—	—	—
Unreserved, designated for debt service	—	—	—	—	—	—	—	—	—
Unreserved, unrestricted	7,358	7	(1,301)	9,941	446	—	—	—	—
<b>Total fund balances (deficits)</b>	<b>7,358</b>	<b>7</b>	<b>(1,301)</b>	<b>36,506</b>	<b>446</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>
<b>Total liabilities and fund balances</b>	<b>\$ 11,554</b>	<b>7</b>	<b>31,784</b>	<b>36,622</b>	<b>447</b>	<b>2,460</b>	<b>—</b>	<b>—</b>	<b>160</b>

(Continued)

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Balance Sheet  
Nonmajor Governmental Funds**

June 30, 2005 (Expressed in Thousands)

	Special Revenue									
	Transportation Safety Highway Hire-Back	Public Transportation	Down-State Public Transportation	Airport Land Loan Revolving	Metro-East Public Transportation	Federal Mass Transit	Cycle Rider Safety Training	Rail Freight Loan Repayment		
<b>ASSETS</b>										
Unexpended appropriations	\$ —	—	—	—	—	—	943	—	—	—
Cash equity with State Treasurer	59	—	23,146	1,688	1,548	13	—	4,786	—	—
Cash and cash equivalents	—	—	—	—	—	—	—	—	—	—
Intergovernmental receivables, net	—	—	—	—	—	1,341	—	—	—	—
Other receivables, net	—	—	—	4	—	—	—	11	—	—
Due from other Department funds	—	—	—	—	—	—	—	—	—	—
Due from other State funds	—	43,750	—	—	2,352	—	—	—	—	—
Loans receivable, net	—	—	—	—	—	—	—	—	—	3,982
<b>Total assets</b>	\$ 59	43,750	23,146	1,692	3,900	1,354	943	3,982	—	8,779
<b>LIABILITIES</b>										
Accounts payable and accrued liabilities	—	—	—	—	—	95	1	517	—	—
Intergovernmental payables	—	43,750	2,173	—	1,220	1,033	—	—	—	—
Due to other Department funds	—	—	2,475	—	—	—	—	—	—	—
Due to other State funds	—	—	—	—	—	—	—	—	—	—
Due to State of Illinois component units	—	—	—	—	—	226	942	—	—	—
Unavailable revenue	—	—	—	—	—	446	—	—	—	—
Deferred revenue	—	—	—	—	—	—	—	—	—	—
<b>Total liabilities</b>	—	43,750	4,648	—	1,220	1,800	943	517	—	—
<b>FUND BALANCES (DEFICITS)</b>										
Reserved for loans and notes receivable	—	—	—	—	—	—	—	3,248	—	—
Unreserved, designated for debt service	—	—	—	—	—	—	—	—	—	—
Unreserved, unrestricted	59	—	18,498	1,692	2,680	(446)	—	5,014	—	—
<b>Total fund balances (deficits)</b>	59	—	18,498	1,692	2,680	(446)	—	8,262	—	—
<b>Total liabilities and fund balance</b>	59	43,750	23,146	1,692	3,900	1,354	943	8,779	—	—

(Continued)

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Balance Sheet  
Nonmajor Governmental Funds**

June 30, 2005 (Expressed in Thousands)

	Capital Projects				Debt Service			Total
	Capital Development	Transportation		IDOT Capital Projects	General Obligation		IDOT COP Debt Service	
		Bond Series A	Bond Series B		Bond Retirement and Interest			
<b>ASSETS</b>								
Unexpended appropriations	—	22,159	24,666	—	—	—	—	47,768
Cash equity with State Treasurer	—	—	—	—	—	—	—	55,384
Cash and cash equivalents	—	12,843	14	—	—	—	—	12,995
Intergovernmental receivables, net	—	—	—	—	—	—	—	28,238
Other receivables, net	—	—	—	—	—	—	—	36
Due from other Department funds	—	—	—	—	—	50	—	3,299
Due from other State funds	—	—	—	—	—	—	—	46,262
Loans receivable, net	—	—	—	—	—	20,462	—	52,869
<b>Total assets</b>	<b>\$ —</b>	<b>35,002</b>	<b>24,680</b>	<b>—</b>	<b>20,512</b>	<b>—</b>	<b>—</b>	<b>246,851</b>
<b>LIABILITIES</b>								
Accounts payable and accrued liabilities	—	35,002	3,588	—	—	—	—	53,927
Intergovernmental payables	—	—	20,093	—	—	—	—	88,057
Due to other Department funds	—	—	999	—	—	—	—	3,598
Due to other State funds	—	—	—	—	—	—	—	1
Due to State of Illinois component units	—	—	—	—	—	—	—	1,168
Unavailable revenue	—	—	—	—	—	—	—	1,747
Deferred revenue	—	—	—	—	—	—	—	4,080
<b>Total liabilities</b>	<b>—</b>	<b>35,002</b>	<b>24,680</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>152,578</b>
<b>FUND BALANCES (DEFICITS)</b>								
Reserved for loans and notes receivable	—	—	—	—	19,361	—	—	49,174
Unreserved, designated for debt service	—	—	—	—	1,151	—	—	1,151
Unreserved, unrestricted	—	—	—	—	—	—	—	43,948
<b>Total fund balances (deficits)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>20,512</b>	<b>—</b>	<b>—</b>	<b>94,273</b>
<b>Total liabilities and fund balance</b>	<b>\$ —</b>	<b>35,002</b>	<b>24,680</b>	<b>—</b>	<b>20,512</b>	<b>—</b>	<b>—</b>	<b>246,851</b>

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Statement of Revenues,  
Expenditures, and Changes in Fund Balances (Deficits) -  
Nonmajor Governmental Funds**

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Special Revenue						
	Grade Crossing Protection	Aeronautics	Federal Local Airport	State Rail Freight Loan Repayment	Tax Recovery	Federal High Speed Rail	Federal Civil Preparedness
<b>REVENUES</b>							
Operating grants - Federal	—	—	126,891	—	—	3,117	2,848
Other operating grants	—	—	10,542	—	—	—	—
Licenses and fees	—	20	—	—	—	—	—
Other charges for services	—	—	—	—	390	—	—
Interest and other investment income	—	—	—	947	—	—	—
Other	—	—	—	—	—	—	—
<b>Total revenues</b>	—	20	137,433	947	390	3,117	2,848
<b>EXPENDITURES</b>							
Transportation	26,207	24	138,103	2,092	220	3,117	317
Debt service -- principal	—	—	—	—	—	—	—
Debt service -- interest	—	—	—	—	—	—	—
Capital outlays	—	—	—	—	—	—	2,531
<b>Total expenditures</b>	26,207	24	138,103	2,092	220	3,117	2,848
<b>Excess (deficiency) of revenues over expenditures</b>	(26,207)	(4)	(670)	(1,145)	170	—	—
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>							
Appropriations from State resources	—	—	—	—	—	—	12,270
Reappropriations to future year(s)	—	—	—	—	—	—	(9,582)
Lapsed appropriations	—	—	—	—	—	—	—
Receipts collected and transmitted to State Treasury for reappropriated accounts	—	—	—	—	—	—	(2,688)
Transfers-in	27,000	—	—	—	—	—	—
Transfers-out	(2,250)	—	(74)	(4,054)	—	—	—
<b>Net other sources (uses) of financial resources</b>	24,750	—	(74)	(4,054)	—	—	—
<b>Net change in fund balances</b>	(1,457)	(4)	(744)	(5,199)	170	—	—
<b>Fund balances (deficits), July 1, 2004</b>	8,815	11	(557)	41,705	276	—	—
<b>FUND BALANCES (DEFICITS), JUNE 30, 2005</b>	\$ 7,358	7	(1,301)	36,506	446	—	—

(Continued)

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Statement of Revenues,  
Expenditures and Changes in Fund Balance (Deficits) -  
Nonmajor Governmental Funds**

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Special Revenue									
	Transportation Safety Highway Hire-Back	Public Transportation	Down-State Public Transportation	Airport Land Loan Revolving	Metro-East Public Transportation	Federal Mass Transit	Cycle Rider Safety Training	Rail Freight Loan Repayment		
<b>REVENUES</b>										
Operating grants - Federal	—	—	—	—	—	8,656	—	—	—	—
Other operating grants	—	—	—	—	—	—	—	—	—	—
Licenses and fees	—	—	—	—	—	—	—	—	—	—
Other charges for services	—	—	—	—	—	—	—	—	—	—
Interest and other investment income	—	—	—	47	—	—	—	—	—	308
Other	52	—	—	—	—	—	—	—	—	—
<b>Total revenues</b>	52	—	—	47	—	8,656	—	—	—	308
Transportation	—	273,921	43,370	—	17,445	9,016	2,770	—	—	1,051
Debt service - principal	—	—	—	—	—	—	—	—	—	—
Debt service - interest	—	—	—	—	—	—	—	—	—	—
Capital outlays	—	—	—	—	—	—	—	—	—	—
<b>Total expenditures</b>	—	273,921	43,370	—	17,445	9,016	2,770	—	—	1,051
<b>Excess (deficiency) of revenues over expenditures</b>	52	(273,921)	(43,370)	47	(17,445)	(360)	(2,770)	—	—	(743)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>										
Appropriations from State resources	—	—	—	—	—	—	5,681	—	—	—
Reappropriations to future year(s)	—	—	—	—	—	—	(2,653)	—	—	—
Lapsed appropriations	—	—	—	—	—	—	(91)	—	—	—
Receipts collected and transmitted to State Treasury	—	—	—	—	—	—	—	—	—	—
Net change in liabilities for reappropriated accounts	—	—	—	—	—	—	(167)	—	—	—
Transfers-in	(3)	273,921	55,444	—	15,751	—	—	—	—	—
Transfers-out	(3)	273,921	(7,676)	—	—	—	—	—	—	—
<b>Net other sources (uses) of financial resources</b>	(3)	273,921	47,768	—	15,751	—	2,770	—	—	—
<b>Net change in fund balances</b>	49	—	4,398	47	(1,694)	(360)	—	—	—	(743)
Fund balances (deficits), July 1, 2004	10	—	14,100	1,645	4,374	(86)	—	—	—	9,005
<b>FUND BALANCES (DEFICITS), JUNE 30, 2005</b>	59	—	18,498	1,692	2,680	(446)	—	—	—	8,262

(Continued)

**STATE OF ILLINOIS  
DEPARTMENT OF TRANSPORTATION  
Combining Statement of Revenues,  
Expenditures and Changes in Fund Balance (Deficits) -  
Nonmajor Governmental Funds**

For the Year Ended June 30, 2005 (Expressed in Thousands)

	Capital Projects			Debt Service		Total
	Capital Development	Transportation Bond Series A	Transportation Bond Series B	IDOT Capital Projects	General Obligation Bond Retirement and Interest	
<b>REVENUES</b>						
Operating grants - Federal	\$					141,512
Other operating grants						10,542
Licenses and fees						20
Other charges for services						390
Interest and other investment income					532	1,834
Other					49	101
<b>Total revenues</b>					581	154,399
<b>EXPENDITURES</b>						
Transportation		4,600	85,912	1,158		609,323
Debt service - principal						1,315
Debt service - interest						1,588
Capital outlays		333,764	1,329			337,624
<b>Total expenditures</b>		338,364	87,241	1,158		949,850
Excess (deficiency) of revenues over expenditures		(338,364)	(87,241)	(1,158)	581	(795,451)
<b>OTHER SOURCES (USES) OF FINANCIAL RESOURCES</b>						
Appropriations from State resources	183	694,187	461,746			1,174,067
Reappropriations to future year(s)	(76)	(350,425)	(286,607)			(649,343)
Lapsed appropriations	(107)		(100,322)			(100,520)
Receipts collected and transmitted to State Treasury			(370)		(1,961)	(5,019)
Net change in liabilities for reappropriated accounts		(5,398)	12,794			7,229
Transfers-in				1,158		376,251
Transfers-out						(14,057)
<b>Net other sources (uses) of financial resources</b>		338,364	87,241	1,158	(1,887)	788,608
<b>Net change in fund balances</b>						(6,843)
Fund balances (deficits), July 1, 2004						101,116
<b>FUND BALANCES (DEFICITS), JUNE 30, 2005</b>	\$				20,512	94,273