STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

FINANCIAL AUDIT

FOR THE YEAR ENDED JUNE 30, 2018

PERFORMED AS SPECIAL ASSISTANT AUDITORS
FOR THE AUDITOR GENERAL, STATE OF ILLINOIS

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DEPARTMENT OF TRANSPORTATION
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DEPARTMENT OF TRANSPORTATION
AGENCY OFFICIALS
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AGENCY OFFICIALS

Acting Secretary	Omer Osman (2/25/2019 to present) Matt Magalis (1/1/2019 to 2/24/2019)
Secretary	Randall S. Blankenhorn (through 12/31/2018)
Assistant Secretary	Vacant (1/1/18 to present) Rich Brauer (through 12/31/2017)
Chief of Staff	Matt Magalis
Deputy Chief of Staff	Vacant (1/16/2018 to present) Justine Sydello (through 1/15/2018)
Chief Operating Officer	Vacant (1/13/2018 to present) Lisa Laws (through 1/12/2018)
Acting Chief Financial Officer	Joanne Woodworth (1/1/2019 to present) Matt Magalis (5/8/2018 to 12/31/2018)
Deputy Secretary for Project Implementation	Vacant (2/25/2019 to present) Omer Osman (through 2/24/2019)
Deputy Secretary for Program Development and External Affairs	Vacant (1/11/2019 to present) Justine Sydello (1/16/2018 to 1/20/2019) Vacant (through 1/15/2018)
Director, Office of Planning and Programming	Vacant (1/1/2019 to present) Erin Aleman (through 12/31/2018)
Director, Office of Highways Project Implementation	Paul Loete
Director, Office of Intermodal Project Implementation	Vacant (2/20/2019 to present) Beth McCluskey (through 2/19/2019)
Director, Office of Communications	Guy Tridgell
Director, Office of Legislative Affairs	Nicola Cortez-Hun
Director, Office of Finance and Administration	Vacant (5/8/2018 to present) Jeff Heck (through 5/7/2018)
Director, Office of Business and Workforce Diversity	Pamela Simon
Director, Office of Chief Counsel	Phil Kaufmann
Director, Office of Internal Audit	Stephen Kirk

AGENCY MAIN OFFICES ARE LOCATED AT:

2300 S. Dirksen Parkway
Springfield, IL 62764

69 W. Washington Street
Chicago, IL 60602

SUMMARY

The audit of the accompanying financial statements of the State of Illinois, Department of Transportation (the Department) was performed by CliftonLarsonAllen 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 a material weakness. The material weakness is described in the accompanying Schedule of Findings on pages 62-64 of this report as item 2018-001, *Inadequate Controls over Financial Reporting*.

EXIT CONFERENCE

The Department waived its option to hold an exit conference through correspondence from Judy Vollmar, Financial Services Section Chief, dated January 23, 2019. The Department's response to the recommendation was provided by Michele Kuntz, External Audit Liaison, in correspondence dated January 29, 2019.

CliftonLarsonAllen LLP
CLAconnect.com

INDEPENDENT AUDITORS' REPORT

Honorable Frank J. Mautino
Auditor General
State of Illinois

Report on the Financial Statements

As Special Assistant Auditors for the Auditor General, we have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the State of Illinois, Department of Transportation (the Department), as of and for the year ended June 30, 2018, 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.

Auditors' 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 from 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 auditors' 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, 2018, 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 Matters

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 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, 2018, 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.

As discussed in Note 13, the Department adopted Government Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, during the year ended June 30, 2018. As a result of the implementation of this standard, the Department reported a restatement for the change in accounting principle. Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Management has omitted a management's discussion and analysis, budgetary comparison information, pension-related supplementary information, and other postemployment benefits (OPEB) related supplementary information 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, nonmajor governmental funds, and motor fuel tax fund schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information, in the combining general fund, road fund, nonmajor governmental funds, and motor fuel tax fund schedules, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information, in the combining general fund, road fund, nonmajor governmental funds, and motor fuel tax fund schedules, 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 February 28, 2019 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 solely 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 effectiveness of the Department's 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.

CliftonLarsonAllen LLP

SIGNED ORIGINAL ON FILE

Peoria, Illinois
February 28, 2019

State of Illinois

Department of Transportation

Statement of Net Position

June 30, 2018 (Expressed in Thousands)

		Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Unexpended appropriations	$	811,194
Cash equity with State Treasurer		185,587
Cash and cash equivalents		29,550
Securities lending collateral equity with State Treasurer		4,237
Receivables, net:		
Taxes		17,025
Intergovernmental		200,210
Other		9,078
Due from other State funds		671,915
Due from State of Illinois component units, current		7,505
Inventories		73,975
Prepaid expenses		361
Loans receivable		6,449
Due from State of Illinois component units, long-term		84,213
Capital assets not being depreciated		3,086,453
Capital assets being depreciated, net		16,178,706
Total assets		21,366,458
Deferred outflows of resources - Pension		587,975
Deferred outflows of resources - Other postemployment benefits		57,159
Total deferred outflows of resources		645,134
Total assets and deferred outflows of resources		22,011,592
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		
Accounts payable and accrued liabilities		403,168
Intergovernmental payables		818,558
Due to other State funds		11,735
Due to State of Illinois component units		147,925
Obligations under securities lending of State Treasurer		4,237
Unearned revenue		3,735
Long term obligations:		
Due within one year		11,943
Due subsequent year		48,240
Net pension liability		3,320,122
Other postemployment benefits		2,256,985
Total liabilities		7,026,648
Deferred inflows of resources - Pension		303,358
Deferred inflows of resources - Other postemployment benefits		327,701
Total deferred inflows of resources		631,059
Total liabilities and deferred inflows of resources		7,657,707
NET POSITION		
Net investment in capital assets		19,258,822
Restricted for:		
Transportation programs		27,512
Debt service		6,050
Unrestricted		(4,938,499)
Total net position	$	14,353,885

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, 2018 (Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Governmental activities					
Transportation	$ 4,458,597	$ 56,655	$ 264,992	$ 1,292,821	$ (2,844,129)
Intergovernmental	581,582	-	-	-	(581,582)
Interest	952	-	-	-	(952)
Total governmental activities	$ 5,041,131	$ 56,655	$ 264,992	$ 1,292,821	(3,426,663)
General revenues and transfers					
Sales tax					464,077
Appropriations from State resources					10,342,062
Reappropriation to future year(s)					(5,297,143)
Lapsed appropriations					(1,800,982)
Receipts collected and transmitted to State Treasury					(1,431,042)
Net change in liabilities for reappropriated accounts					(61,113)
Other revenues					366
Interest and investment income					415
Amount of SAMS transfers-in					(526,186)
Amount of SAMS transfers-out					1,151,131
Transfers-in					234,959
Transfers-out					(9,540)
Total general revenues and transfers					3,067,004
Change in net position					(359,659)
Net position, July 1, 2017, as restated					14,713,544
Net position, June 30, 2018					$ 14,353,885

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

Balance Sheet - Governmental Funds

June 30, 2018 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Unexpended appropriations	$ 4,341	$ 537,862	$ 268,991	$ 811,194
Cash equity with State Treasurer	2,110	5,093	177,428	184,631
Cash and cash equivalents	-	-	29,550	29,550
Securities lending collateral equity with State Treasurer	-	189	4,048	4,237
Receivables, net:				
Taxes	-	-	17,025	17,025
Intergovernmental	-	172,820	27,390	200,210
Other	-	8,798	280	9,078
Due from other Department funds	-	23,203	21,181	44,384
Due from other State funds	529,252	14,619	128,033	671,904
Due from State of Illinois component units, current	-	7,505	-	7,505
Inventories	-	51,521	20,865	72,386
Loans receivable	-	55	6,394	6,449
Due from State of Illinois component units, long-term	-	84,213	-	84,213
Total assets	$ 535,703	$ 905,878	$ 701,185	$ 2,142,766
LIABILITIES				
Accounts payable and accrued liabilities	$ 15	$ 267,526	$ 135,627	$ 403,168
Intergovernmental payables	535,680	110,408	172,470	818,558
Due to other Department funds	-	851	43,533	44,384
Due to other State funds	8	11,307	420	11,735
Due to State of Illinois component units	-	147,770	155	147,925
Obligations under securities lending of State Treasurer	-	189	4,048	4,237
Unearned revenue	-	876	2,859	3,735
Total liabilities	535,703	538,927	359,112	1,433,742
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue	-	21,053	20,610	41,663
Total deferred inflows of resources	-	21,053	20,610	41,663
Total liabilities and deferred inflows of resources	535,703	559,980	379,722	1,475,405
FUND BALANCES				
Nonspendable - inventories	-	51,521	20,865	72,386
Restricted	-	-	33,562	33,562
Unrestricted				
Committed	-	294,377	284,396	578,773
Unassigned	-	-	(17,360)	(17,360)
Total fund balances	-	345,898	321,463	667,361
Total liabilities, deferred inflows of resources, and fund balances	$ 535,703	$ 905,878	$ 701,185	$ 2,142,766

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, 2018
(Expressed in Thousands)

Total fund balances - governmental funds		$ 667,361
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		19,265,159
Prepaid expenses for governmental activities are current uses of financial resources for funds.		361
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.		2,556
Revenues in the Statement of Activities that do not provide current financial resources are deferred in the funds.		41,663
Deferred outflows of resources related to pensions		587,975
Deferred inflows of resources related to pensions		(303,358)
Deferred outflows of resources related to other postemployment benefits		57,159
Deferred inflows of resources related to other postemployment benefits		(327,701)
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	$ (39,096)	
Capital lease obligations	(892)	
Auto liability claims	(11,460)	
Pollution remediation obligations	(3,400)	
Certificates of participation	(5,335)	
Net pension liability	(3,320,122)	
Other postemployment benefits	(2,256,985)	
		(5,637,290)
Net position of governmental activities		$ 14,353,885

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, 2018 (Expressed in Thousands)

	General Fund	Road Fund	Nonmajor Funds	Total Governmental Funds
REVENUES				
Sales taxes	$ 250,982	$ -	$ 213,095	$ 464,077
Motor fuel taxes	-	307,127	(307,127)	-
Operating grants - Federal	-	33,424	169,275	202,699
Capital grants - Federal	-	1,285,031	-	1,285,031
Other operating grants	-	81,329	2,004	83,333
Other capital grants	-	7,790	-	7,790
Licenses and fees	-	23,464	292	23,756
Other charges for services	-	41,237	1,511	42,748
Other	-	-	366	366
Interest and other investment income	-	7	408	415
Total revenues	250,982	1,779,409	79,824	2,110,215
EXPENDITURES				
Transportation	490,088	1,707,546	722,975	2,920,609
Intergovernmental	-	-	581,582	581,582
Debt service - principal	-	291	2,450	2,741
Debt service - interest	-	277	384	661
Capital outlays	-	609,751	548,212	1,157,963
Total expenditures	490,088	2,317,865	1,855,603	4,663,556
Deficiency of revenues under expenditures	(239,106)	(538,456)	(1,775,779)	(2,553,341)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES				
Appropriations from State resources	-	6,048,526	4,293,536	10,342,062
Reappropriation to future year(s)	-	(3,150,248)	(2,146,895)	(5,297,143)
Lapsed appropriations	-	(517,329)	(1,283,653)	(1,800,982)
Receipts collected and transmitted to State Treasury	-	(1,429,326)	(1,716)	(1,431,042)
Net change in liabilities for reappropriated accounts	4,147	(24,519)	(40,741)	(61,113)
Amount of SAMS Transfers-in	-	(305,185)	(221,001)	(526,186)
Amount of SAMS Transfers-out	-	-	1,151,131	1,151,131
Transfers-in	234,959	-	79,171	314,130
Transfers-out	-	(35,319)	(53,392)	(88,711)
Capital lease financing	-	174	-	174
Net other sources (uses) of financial resources	239,106	586,774	1,776,440	2,602,320
Net change in fund balances	-	48,318	661	48,979
Fund balances, July 1, 2017	-	297,580	320,802	618,382
FUND BALANCES, JUNE 30, 2018	$ -	$ 345,898	$ 321,463	$ 667,361

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, 2018
(Expressed in Thousands)

Net change in fund balances	$	48,979
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 depreciation exceeded capital outlays in the current period.		(137,165)
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.		2,450
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.		12,694
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.		(10)
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.		(408)
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.		(30,889)
Pension expenses required for Statement of Activities that are not in modified accrual statements.		(178,137)
Other postemployment benefit expenses required for Statement of Activities that are not in modified accrual statements		(69,042)
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.		(4,771)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Below are such activities.		
Decrease in compensated absences		1,079
Decrease in capital leases		117
Increase in auto liability claims		(1,556)
Increase in pollution remediation obligations		(3,000)
Change in net position of governmental activities	$	(359,659)

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

Statement of Net Position - Proprietary Fund
Air Transportation Revolving Fund (0309)
June 30, 2018 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
ASSETS	
Cash equity with State Treasurer	$ 956
Due from other State funds	11
Inventories	1,589
Total assets	$ 2,556
LIABILITIES	$ -
NET POSITION	
Unrestricted	2,556
Total net position	$ 2,556

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

Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund
Air Transportation Revolving Fund (0309)

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	$ -
OPERATING EXPENSES	
Cost of sales and services	10
Operating loss and change in net position	(10)
Net position, July 1, 2017	2,566
NET POSITION, JUNE 30, 2018	$ 2,556

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

Statement of Cash Flows - Proprietary Fund
Air Transportation Revolving Fund (0309)
For the Year Ended June 30, 2018 (Expressed in Thousands)

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments to suppliers for goods and services	$ (51)
Net cash used by operating activities	(51)
Net decrease in cash equity with State Treasurer	(51)
Cash equity with State Treasurer, July 1, 2017	1,007
CASH EQUITY WITH STATE TREASURER, JUNE 30, 2018	$ 956
Reconciliation of operating loss to net cash used by operating activities:	
OPERATING LOSS	$ (10)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in inventory	(16)
Decrease in accounts payable and accrued liabilities	(25)
NET CASH USED BY OPERATING ACTIVITIES	$ (51)

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

(1) Organization

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

(a) Financial Reporting Entity

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

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

2) Fiscal dependency and financial benefit or burden on the primary government.

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

(b) Basis of Presentation

The financial statements of the Department are intended to present the financial position, the changes in financial position, and the cash flows, when applicable, of only the portion of the governmental activities, each major fund of the State of Illinois, and the aggregate remaining fund information of the State of Illinois 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, 2018, 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 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 net position as the difference between the Department's assets plus deferred outflows of resources less liabilities less deferred inflows of resources. The assets and liabilities are presented in order of their relative liquidity by class of asset or liability with liabilities whose average maturities are greater than one year reported in two components - the amount due within one year and the amount due in more than one year.

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

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

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

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

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

Additionally, the Department reports the following fund types:

Governmental Fund Types:

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

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

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

Proprietary Fund Types:

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

(c) Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. 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.

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

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

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

(d) Shared Fund Presentation

The financial statement presentation for the General Fund, Road Fund, and nonmajor governmental funds represents only the portion of shared funds that can be directly attributed to the operations of the Department. Financial statements for total fund operations of the shared State funds are presented in the State of Illinois' Comprehensive Annual Financial Report.

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

<u>Unexpended Appropriations</u>

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

<u>Appropriations from State Resources</u>

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

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

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

<u>Lapsed Appropriations</u>

Lapsed appropriations are the legally adopted appropriations less net warrants issued for the 14 month period from July to August of the following year and re-appropriations to subsequent years according to SAMS records. For fiscal year 2018, the lapse period was extended through October.

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

This account reflects the amount which should be added to or subtracted from the current year appropriation for shared funds to reflect the increase or decrease from prior year to current year for amounts included in obligations for reapproiated 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" of 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 "grossing-up" of interdepartmental internal service fund activity.

(f) Cash and Cash Equivalents

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

(g) Inventories

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

(h) *Interfund Transactions*

The Department has the following types of interfund transactions between the 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 or 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 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 include property, plant, equipment, and infrastructure, are reported at cost or estimated historical cost. Contributed assets are reported at acquisition value at the time received. Capital assets are depreciated using the straight-line method.

Capitalization thresholds and the estimated useful lives are as follows:

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

(j) *Deferred Outflows/Inflows of Resources*

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outlfows of resources included the following related to pensions and other postemployment benefits: (i) differences between expected and actual experience, (ii) changes in assumptions, (iii) net difference between projected and actual investment earnings on pension plan investments, (iv) changes in proportion and differences between employer conbributions and proportionate share of contributions, and (v) Department contributions subsequent to the measurement date. In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until then. Deferred inflows of resources included the following related to pensions and other postemployment benefits: (i) differences between expected and actual experience, (ii) changes in assumptions, and (iii) changes in proportion and differences between employer contributions and proportionate share of contributions. Unavailable revenues in governmental funds include receivables not "available" to finance the current period.

(k) Compensated Absences

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

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

(l) Pollution Remediation Obligations

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

(m) Fund Balances

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

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

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

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

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

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

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

(n) Net Position

The Statement of Net Position presents the reporting entity's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference being reported as net position. Net position is reported in three categories:

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 attributable to the acquisition, construction, or improvement of those assets.

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

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

(o) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities as of 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) Pension Benefits

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 Plan's 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 plan and additions to/deductions from the Plan's 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) Other Postemployment Benefits

The Department's adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and GASB Statement No. 57, *Other Postemployment Benefits (OPEB) Measurements by Agent Employers and Agent Multiple-Employer Plans.* Implementation requires an employer whose employees are provided with defined contribution OPEB to recognize OPEB expense for the amount of contributions or credits to employees' accounts that are defined by the benefit terms as attributable to employees' services in the period, net of forfeited amounts that are removed from employees' accounts. A change in OPEB liability is required to be recognized for the difference between amounts recognized in expense and amounts paid by the employer to (or benefit payments through) a defined contribution OPEB plan. In governmental fund financial statements, OPEB expenditures are required to be recognized equal to the total of (1) amounts paid by the employer to (or benefit payments through) an OPEB plan and (2) the change between the beginning and ending balances of amounts normally expected to be liquidated with expendable available financial resources. An OPEB liability is required to be recognized to the extent the liability is normally expected to be liquidated with expendable available financial resources.

(r) Adoption of New Accounting Pronouncements

Effective for the year ended June 30, 2018, the Department adopted 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 implementation of this Statement had an impact on the Department's government-wide financial statements. Implementation resulted in the restatement of beginning net position. Information regarding the Department's restatement is disclosed in Note 13.

Effective for the year ended June 30, 2018, the Department adopted GASB Statement No. 81, *Irrevocable Split-Interest Agreements*, which provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts or other legally enforceable agreements with characteristics equivalent to split-interest agreements in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third-party, if the government controls the present service capacity of the beneficial interests. Additionally, this Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The implementation of this Statement had no impact on the Department's financial statements.

Effective for the year ended June 30, 2018, the Department adopted GASB Statement No. 85, *Omnibus 2017*, which establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pension and other postemployment benefits [OPEB]). The implementation of this Statement had no impact on the Department's financial statements.

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

(s) Future Adoption of GASB Statements

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

Effective for the year ending June 30, 2019, the Department will adopt GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which establishes and defines debt for purposes of disclosure in notes to financial statements as a liability that arises from contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines if credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. It also requires additional information be provided for direct borrowings and direct placements of debt separately from other debt. The impact this Statement will have on the Department's financial statements has not yet been determined.

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

Effective for the year ending June 30, 2020, the Department will adopt GASB Statement No. 90, *Majority Equity Interests*, which establishes standards to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and the relevance of financial statement information for certain component units. This Statement defines a majority equity interest and specifies how it is reported. In addition, this Statement provides guidance on how to present and report a component unit in which a government has a 100% equity interest. The impact this Statement will have on the Department's financial statements has not yet been determined.

Effective for the year ending June 30, 2021, the Department will adopt GASB Statement No. 87, *Leases*, which increases usefulness of government's financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement establishes a single model for lease accounting based on the foundation principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The impact this Statement will have on the Department's financial statements has not yet been determined.

Effective for the year ending June 30, 2021, the Department will adopt GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period,* which establishes requirements for interest cost incurred before the end of a construction period. This Statement provides guidance on how interest costs incurred before the end of construction should be recognized. The impact this Statement will have on the Department's financial statements has not yet been determined.

(3) Deposits and Investments

(a) Deposits

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

Cash and cash equivalents, which includes money market accounts and locally held funds, had a balance of $29.550 million at June 30, 2018.

<u>Concentration of Credit Risk:</u> Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department does not have a formal investment policy which restricts investments to address concentration of credit risk and had uncollateralized deposits of $1.425 million as of June 30, 2018.

(b) Investments

GASB Statement No. 72, *Fair Value Measurement and Application*, generally requires state and local governments to measure assets that meet the definition of an investment at fair value. GASB Statement No. 72 defines an investment asset as a security or other asset that a government holds primarily for the purpose of income or profit and has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. Investments exempt from fair value measurement include money market investments, which are measured at amortized cost.

The Department's investments consisted of money market funds, which are included within cash and cash equivalents on the Statement of Net Position. The balance of money market funds held as of June 30, 2018, measured at amortized cost, was $2.771 million.

The Department held no investments requiring fair value measurement as of June 30, 2018, in accordance with GASB Statement No. 72.

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.

The Department's investments in money market mutual funds have a weighted average maturity of 35 days as of June 30, 2018. The Department's investments in money market mutual funds credit ratings were AAA by Moody, AAAm by Standard & Poor's, and AAAmf by Fitch as of June 30, 2018.

Credit Risk: Credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The Department does not have a formal investment policy that limits investment choices. Cash received by the Department is initially deposited in clearing accounts maintained in banks located in Illinois that are insured by the Federal Deposit Insurance Corporation (FDIC). Surplus funds may be invested in interest-bearing accounts, or money market mutual funds, in FDIC-insured banks located in the State. The money market mutual funds are rated AAAm by Standard and Poor's.

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

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the Department's investment in a single issuer. The Department does not have a formal investment policy which restricts investments to address concentration of credit risk.

(c) Securities Lending Transactions

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

During fiscal year 2018, Deutsche Bank AG lent U.S. Agency securities and U.S. Treasury securities and received as collateral U.S. dollar denominated cash. Borrowers were required to deliver collateral for each loan equal to at least 100% of the aggregate fair value of the loaned securities. Loans are marked to market daily. If the fair value of collateral falls below 100%, the borrower must provide additional collateral to raise the fair value to 100%.

The State Treasurer did not impose any restrictions during fiscal year 2018 on the amount of loans amounts of available, eligible securities. In the event of borrower default, Deutsche Bank AG provides the State Treasurer with counterparty default indemnification. In addition, Deutsche Bank AG is obligated to indemnify the State Treasurer if Deutsche Bank AG loses any securities, collateral or investments of the State Treasurer in Deutsche Bank AG's custody. There were no losses during fiscal year 2018 resulting from a default of the borrowers or Deutsche Bank AG.

During fiscal year 2018, the State Treasurer and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested in repurchase agreements with approved counterparties collateralized with securities approved by Deutsche Bank AG and marked to market daily at no less than 102%. Because the loans are terminable at will, their duration did not generally match the duration of the investments made with cash collateral. The State Treasurer had no credit risk as a result of its securities lending program as the collateral held exceeded the fair value of the securities lent. The securities lending collateral invested in repurchase agreements and the fair value of securities on loan for the State Treasurer as of June 30, 2018, were $4,521,091,000 and $4,451,198,793, respectively.

(4) Accounts Receivable

Accounts Receivable and related allowance for doubtful accounts as of June 30, 2018, are as follows (amounts expressed in thousands):

Receivable Type	Road Fund	Nonmajor funds
Intergovernmental Receivables	$ 172,820	$ 27,390
Allowance for Doubtful Accounts	-	-
Intergovernmental Receivables, Net	$ 172,820	$ 27,390
Other Receivables	$ 11,993	$ 280
Allowance for Doubtful Accounts	(3,195)	-
Other Receivables, Net	$ 8,798	$ 280

(5) Interfund Balances and Activity

(a) Balances Due to/from Other Funds

The following balances (amounts expressed in thousands) as of June 30, 2018, represent amounts due from other Department and State of Illinois funds:

	Due from		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 529,252	Due from other State funds for June 2018 sales tax allocations, debt service payments and interfund borrowings.
Road	23,203	14,619	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June 2018 and from other State funds for services and reimbursements of expenditures incurred.
Nonmajor governmental funds	21,181	128,033	Due from Motor Fuel Tax Fund for motor fuel tax allocation from June 2018, from other Department funds for reimbursement of expenditures incurred and debt service payments and from other State funds for reimbursement of expenditures and interfund borrowings.
Internal service funds	-	11	Due from other State funds for air transportation services provided.
	$ 44,384	$ 671,915	

The following balances (amounts expressed in thousands) at June 30, 2018, represent amounts due to other Department and State of Illinois funds:

	Due to		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 8	Due to other State internal service funds for services received.
Road	851	11,307	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	43,533	420	Due to other Department Funds for motor fuel tax allocation for June 2018 and to other State funds for services received and retirement costs.
	$ 44,384	$ 11,735	

(b) *Transfers to/from Other Funds*

Interfund transfers in (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

	Transfers in from		
Fund	**Other Department Funds**	**Other State Funds**	**Description/Purpose**
General	$ -	$ 234,959	Transfers from other State funds for sales tax allocation, debt service, and for other purposes.
Nonmajor governmental funds	79,171	-	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.
	$ 79,171	$ 234,959	

Interfund transfers out (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

Fund	Transfers out to: Other Department Funds	Transfers out to: Other State Funds	Description/Purpose
Road	$ 35,319	$ -	Transfers to Department nonmajor governmental funds for debt service payments.
Nonmajor governmental funds	43,852	9,540	Transfers to other State funds for motor fuel tax allocation for June, administration of Railroad Safety program, and for other purposes.
	$ 79,171	$ 9,540	

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

The following balances (amounts expressed in thousands) as of June 30, 2018, represent amounts due from State of Illinois Component Units for reimbursements for expenditures incurred and services received:

Component Unit	Due from Road Fund
Illinois Toll Highway Authority	
Current	$ 7,505
Long-term	84,213
	$ 91,718

The following balances (amounts expressed in thousands) as of June 30, 2018, represent amounts due to State of Illinois Component Units for reimbursements for expenditures incurred for grant programs:

Component Unit	Due to: Road Fund	Due to: Nonmajor Governmental Funds
Illinois Toll Highway Authority	$ 140,472	$ -
Western Illinois University	-	154
Northern Illinois University	36	-
Southern Illinois University	128	-
University of Illinois	7,134	1
	$ 147,770	$ 155

STATE OF ILLINOIS
DEPARTMENT OF TRANSPORTATION

Notes to Financial Statements

June 30, 2018

6) Capital Assets

Capital asset activity (amounts expressed in thousands) for the year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deletions	Net Transfers	Balance June 30, 2018
Governmental activities:					
Capital assets not being depreciated:					
Land and land improvements	$ 2,939,721	$ 37,510	$ 494	$ 31,828	$ 3,008,565
Easements	11,341	53	-	-	11,394
Internally Generated Intangible Assets in Development	12,136	3,335	4,231	(2,147)	9,093
Construction in progress	247,288	77,209	-	(267,096)	57,401
Total capital assets not being depreciated	3,210,486	118,107	4,725	(237,415)	3,086,453
Capital assets being depreciated:					
Infrastructure	28,479,507	981,566	712,933	-	28,748,140
Site improvements	18,056	-	-	-	18,056
Buildings and building improvements	163,260	-	-	2,096	165,356
Easements	4,721	451	1,484	-	3,688
Equipment	479,959	57,665	2,053	247,417	782,988
Non-Internally generated software	153	-	-	-	153
Internally generated software	4,465	-	-	2,147	6,612
Capital leases - equipment	1,314	174	261	-	1,227
Total capital assets being depreciated	29,151,435	1,039,856	716,731	251,660	29,726,220
Less accumulated depreciation:					
Infrastructure	12,494,699	1,267,078	712,933	-	13,048,844
Site improvements	4,883	781	-	-	5,664
Buildings and building improvements	104,034	3,283	-	-	107,317
Easements	2,699	870	1,484	-	2,085
Equipment	358,795	22,040	2,053	1,551	380,333
Non-Internally generated software	35	15	-	-	50
Internally generated software	2,005	733	-	-	2,738
Capital leases - equipment	370	328	215	-	483
Total accumulated depreciation	12,967,520	1,295,128	716,685	1,551	13,547,514
Total capital assets being depreciated, net	16,183,915	(255,272)	46	250,109	16,178,706
Governmental activity capital assets, net	$ 19,394,401	$ (137,165)	$ 4,771	$ 12,694	$ 19,265,159

Depreciation expense for governmental activities (amounts expressed in thousands) for the year ended June 30, 2018, was charged to the following function:

Transportation	$ 1,295,128

(7) Long-Term Obligations

(a) Changes in Long-Term Obligations

Changes in long-term obligations (amounts expressed in thousands) for the year ended June 30, 2018, were as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 40,175	$ 27,165	$ 28,244	$ 39,096	$ 3,278
Capital lease obligations	1,009	174	291	892	252
Auto liability claims	9,904	3,312	1,756	11,460	2,673
Pollution remediation obligations	400	3,000	-	3,400	3,150
Certificates of participation	7,785	-	2,450	5,335	2,590
Pension liability	3,468,253	-	148,131	3,320,122	-
Other postemployment benefits	2,514,698	-	257,713	2,256,985	-
Total	$ 6,042,224	$ 33,651	$ 438,585	$ 5,637,290	$ 11,943

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 $1.227 million and $0.483 million, respectively, under capital lease arrangements as of June 30, 2018. 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 noncancelable leases for financial reporting. Future minimum commitments for noncancelable capital leases (amounts expressed in thousands) as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 252	$ 219	$ 471
2020	291	150	441
2021	309	62	371
2022	38	3	41
2023	2	-	2
	$ 892	$ 434	$ 1,326

(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 this certificate of participation (amounts expressed in thousands) as of June 30, 2018, are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	$ 2,590	$ 236	$ 2,826
2020	2,745	80	2,825
	$ 5,335	$ 316	$ 5,651

(8) Defined Benefit Pension Plan

Plan Description. Substantially all of the Department's full-time employees who are not eligible for participation in another state-sponsored retirement plan participate in the State Employees' Retirement System (SERS), which is a single-employer defined benefit pension trust fund in the State of Illinois reporting entity. 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, IL 62794-9255.

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

Members in SERS under 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**
A member must have a minimum of eight years of service credit and may retire at: • Age 60, with 8 years of service credit. • Any age, when the member's age (years & whole months) plus years of service credit (years & whole months) equal 85 years (1,020 months) (Rule of 85) with eight years of credited service. • Between ages 55-60 with 25-30 years of service credit (reduced 1/2 of 1% for each month under age 60). The retirement benefit is based on final average compensation and credited service. Final average compensation is the 48 highest consecutive months of service within the last 120 months of service. Under the Rule of 85, a member is eligible for the first 3% increase on January 1 following the first full year of retirement, even if the member is not age 60. If the member retires at age 60 or older, he/she will receive a 3% pension increase every year on January 1, following the first full year of retirement. If the member retires before age 60 with a reduced retirement benefit, he/she will receive a 3% pension increase every January 1 after the member turns age 60 and has been retired at least one full year. These pension increases are not limited by the 75% maximum.	A member must have a minimum of 10 years of credited service and may retire at: • Age 67, with 10 years of credited service. • Between ages 62-67 with 10 years of credited service (reduced 1/2 of 1% for each month under age 67). The retirement benefit is based on final average compensation and credited service. For regular formula employees, final average compensation is the average of the 96 highest consecutive months of service within the last 120 months of service. The retirement benefit is calculated on a maximum salary of $106,800. This amount increases annually by 3% or one-half of the Consumer Price Index, whichever is less. If the member retires at age 67 or older, he/she will receive a pension increase of 3% or one-half of the Consumer Price Index for the preceding calendar year, whichever is less, every year on January 1, following the first full year of retirement. The calendar year 2017 rate is $112,408. 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.

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 noncovered service. The maximum retirement annuity payable is 80% of final average compensation as calculated under the alternative formula.

SERS also provides occupational and nonoccupational (including temporary) disability benefits. To be eligible for nonoccupational (including temporary) disability benefits, an employee must have at least 18 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 18 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 (ILCS). Member contributions are based on fixed percentages of covered payroll ranging between 4.00% and 12.50%. Employee contributions are fully refundable, without interest, upon withdrawal from State employment. Tier 1 members contribute based on total annual compensation. Tier 2 members contribute based on an annual compensation rate not to exceed $106,800 with limitations for future years increased by the lessor of 3% or one-half of the annual percentage increase in the Consumer Price Index. For 2018, this amount was $113,645.

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 2018, 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 2018, the employer contribution rate was 47.342%. The Department's contribution amount for fiscal year 2018 was $210,854,887.

Pension liability, deferred outflows of resources, deferred inflows of resources and expense related to pensions. At June 30, 2018, the Department reported a liability of $3.320 billion 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, 2017 (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, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 10.0894%, which was a decrease of 0.0679% from its proportion measured as of the prior year measurement date of June 30, 2016.

For the year ended June 30, 2018, the Department recognized pension expense of $390 million. At June 30, 2018, the Department reported deferred outflows and deferred inflows of resources related to the pension liability, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,954	$ 105,159
Changes of assumptions	342,444	69,222
Net difference between projected and actual investment earnings on pension plan investments	2,895	-
Changes in proportion	29,827	128,977
Department contributions subsequent to the measurement date	210,855	-
Total	$ 587,975	$ 303,358

A total of $210,855 is reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. 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 Ending June 30,	
2019	$ 55,483
2020	29,360
2021	21,778
2022	(32,859)
Total	$ 73,762

Actuarial Methods and Assumptions. The total pension liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

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

Inflation: 2.75%

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

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

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

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

The long-term expected real rate of return on pension plan investments is determined using the best estimates of geometric real estates of 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, 2017, the best estimates of the geometric real rates of return are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
U.S. Equity	23%	5.50%
Developed Foreign Equity	13%	5.30%
Emerging Market Equity	8%	7.80%
Private Equity	7%	7.60%
Intermediate Investment Grade Bonds	14%	1.50%
Long-term Government Bonds	4%	1.80%
TIPS	4%	1.50%
High Yield and Bank Loans	5%	3.80%
Opportunistic Debt	8%	5.00%
Emerging Market Debt	2%	3.70%
Core Real Estate	5.5%	3.70%
Non Core Real Estate	4.5%	5.90%
Infrastructure	2%	5.80%
Total	**100%**	

Discount Rate. A discount rate of 6.78% was used to measure the total pension liability as of the measurement date of June 30, 2017, as compared to a discount rate of 6.64% used to measure the total pension liability as of the prior year measurement date. The June 30, 2017, single blended discount rate was based on the expected rate of return on pension plan investments of 7.00% and a municipal bond rate of 3.56%, 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 2073. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2073, and the municipal bond rate was applied to all benefit payments after that date.

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

	1% Decrease 5.78%	Discount Rate 6.78%	1% Increase 7.78%
Department's proportionate share of the net pension liability	$ 4,017,418	$ 3,320,122	$ 2,749,451

Payables to the pension plan. At June 30, 2018, the Department reported a payable of $7,123,155 to SERS for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

(9) Other Postemployment Benefits

Plan Description. The State Employees Group Insurance Act of 1971 (Act), as amended, authorizes the Illinois State Employees Group Insurance Program (SEGIP) to provide health, dental, vision, and life insurance benefits for certain retirees and their dependents. Substantially all of the Department's full-time employees are members of SEGIP. Members receiving monthly benefits from the General Assembly Retirement System (GARS), Judges Retirement System (JRS), State Employees' Retirement System of Illinois (SERS), Teachers' Retirement System (TRS), and State Universities Retirement System of Illinois (SURS) are eligible for these other postemployment benefits (OPEB). Certain TRS members eligible for coverage under SEGIP include: certified teachers employed by certain State agencies, executives employed by the Board of Education, regional superintendents, regional assistant superintendents, TRS employees, and members with certain reciprocal service.

The Department of Central Management Services administers these benefits for annuitants with the assistance of the public retirement systems sponsored by the State (GARS, JRS, SERS, TRS, and SURS). The State recognizes SEGIP OPEB benefits as a single-employer defined benefit plan. The plan does not issue a stand-alone financial report.

Benefits provided. The health, dental, and vision benefits provided to and contribution amounts required from annuitants are the result of collective bargaining between the State and the various unions representing the State's and the university component units' employees in accordance with limitations established in the Act. Therefore, the benefits provided and contribution amounts are subject to periodic change. Coverage through SEGIP becomes secondary to Medicare after Medicare eligibility has been reached. Members must enroll in Medicare Parts A and B to receive the subsidized SEGIP premium available to Medicare eligible participants. The Act requires the State to provide life insurance benefits for annuitants equal to their annual salary as of the last day of employment until age 60, at which time, the benefit amount becomes $5,000.

Funding policy and annual other postemployment benefit cost. OPEB offered through SEGIP are financed through a combination of retiree premiums, State contributions, and Federal government subsidies from the Medicare Part D program. Contributions are deposited in the Health Insurance Reserve Fund, which covers both active State employees and retirement members. Annuitants may be required to contribute towards health 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 SERS do not contribute toward health and vision benefits. For annuitants who retired on or after January 1, 1998, the annuitant's contribution amount is reduced 5% 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 and vision benefits. All annuitants are required to pay for dental benefits regardless of retirement date. The Director of Central Management Services shall, on an annual basis, determine the amount the State shall contribute toward the basic program of group health benefits. State contributions are made primarily from the General Revenue Fund on a pay-as-you-go basis. No assets are accumulated or dedicated to funding the retiree health insurance benefit and a separate trust has not been established for the funding of OPEB.

For fiscal year 2018, the annual cost of the basic program of group health, dental, and vision benefits before the State's contribution was $10,926.24 ($6,145.92 if Medicare eligible) if the annuitant chose benefits provided by a health maintenance organization and $14,939.04 ($5,165.04 if Medicare eligible) if the annuitant chose other benefits. The State is not required to fund the plan other than the pay-as-you-go amount necessary to provide the current benefits to retirees.

Total OPEB liability, deferred outflows of resources, deferred inflows of resources and expense related to OPEB. The total OPEB liability, as reported as of June 30, 2018, was measured as of June 30, 2017, with an actuarial valuation as of June 30, 2016. As of June 30, 2018, the Department recorded a liability of $2.257 billion for its proportionate share of the State's total OPEB liability. The Department's portion of the OPEB 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, 2017. As of the current year measurement date of June 30, 2017, the Department's proportion was 5.4617%, which was a decrease of 0.3193% from its proportion measured as of the prior year measurement date of June 30, 2016.

The Department recognized OPEB expense for the year ended June 30, 2018, of $88 million. As of June 30, 2018, the Department reported deferred outflows and deferred inflows of resources, as of the measurement date of June 30, 2017, from the following sources (amounts expressed in thousands):

Deferred outflows of resources		
Differences between expected and actual experience	$	723
Changes in proportion and differences between employer contributions and proportionate share of contributions		-
Department contributions subsequent to the measurement date		56,436
Total deferred outflows of resources	$	57,159

Deferred inflows of resources		
Changes of assumptions	$	214,300
Changes in proportion and differences between employer contributions and proportionate share of contributions		113,401
Total deferred inflows of resources	$	327,701

The amounts reported as deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction to the OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (amounts expressed in thousands):

Year Ending June 30,		
2019	$	(73,503)
2020		(73,503)
2021		(73,503)
2022		(73,503)
2023		(32,966)
Total	$	(326,978)

Actuarial methods and assumptions. The total OPEB liability was determined by an actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement unless otherwise specified. The actuarial valuation for the SEGIP was based on GARS, JRS, SERS, TRS, and SURS active, inactive, and retiree data as of June 30, 2016, for eligible SEGIP employees, and SEGIP retiree data as of June 30, 2016.

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal
Inflation Rate	2.75%
Projected Salary Increases*	3.00% - 15.00%
Discount Rate	3.56%
Healthcare Cost Trend Rate:	
Medical (Pre-Medicare)	8.0% grading down 0.5% in the first year to 7.5%, then grading down 0.01% in the second year to 7.49%, followed by grading down of 0.5% per year over 5 years to 4.99% in year 7
Medical (Post-Medicare)	9.0% grading down 0.5% per year over 9 years to 4.5%
Dental	7.5% grading down 0.5% per year over 6 years to 4.5%
Vision	3.00%
Retirees' share of benefit-related costs	Healthcare premium rates for members depend on the date of retirement and the years of service earned at retirement. Members who retired before January 1, 1998, are eligible for single coverage at no cost to the member. Members who retire after January 1, 1998, are eligible for single coverage provided they pay a portion of the premium equal to 5% for each year of service under 20 years. Eligible dependents receive coverage provided they pay 100% of the required dependent premium. Premiums for plan year 2017 and 2018 are based on actual premiums. Premiums after 2018 were projected based on the same healthcare cost trend rates applied to per capita claim costs but excluding the additional trend rate that estimates the impact of the Excise Tax.

* Dependent upon service and participation in the respective retirement systems. Includes inflation rate listed.

Additionally, the demographic assumptions used in the OPEB valuation are identical to those used in the June 30, 2016, valuations for GARS, JRS, SERS, TRS, and SURS as follows:

	Retirement age experience study^	Mortality^^
GARS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
JRS	July 2012 - June 2015	RP-2014 White Collar Total Healthy Annuitant mortality table, sex distinct, set forward 1 year for males and set back 1 year for females and generational mortality improvements using MP-2014 two-dimensional mortality improvement scales
SERS	July 2009 - June 2013	105% of the RP 2014 Healthy Annuitant mortality table, sex distinct, with rates projected to 2015; generational mortality improvement factors were added
TRS	July 2011 - June 2014	RP-2014 with future mortality improvements on a fully generational basis using projection table MP-2014
SURS	July 2010 - June 2014	RP-2014 White Collar, gender distinct, projected using MP-2014 two dimensional mortality improvement scale, set forward one year for male and female annuitants

^ The actuarial assumptions used in the respective actuarial valuations are based on the results of actuarial experience studies for the periods defined. A modified experience review was completed for SERS for the 3-year period ending June 30, 2015. Changes were made to the assumptions regarding investment rate of return, projected salary increases, inflation rate, and mortality based on this review. All other assumptions remained unchanged.
^^ Mortality rates are based on mortality tables published by the Society of Actuaries' Retirement Plans Experience Committee.

Discount rate. Retirees contribute a percentage of the premium rate based on service at retirement. The State contributes additional amounts to cover claims and expenses in excess of retiree contributions. Because plan benefits are financed on a pay-as-you-go basis, the single discount rate is based on a tax-exempt municipal bond rate index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. A single discount rate of 2.85% at June 30, 2016, and 3.56% at June 30, 2017, was used to measure the total OPEB liability.

Sensitivity of total OPEB liability to changes in the single discount rate. The following presents the plan's total OPEB liability, calculated using a Single Discount Rate of 3.56%, as well as what the plan's total OPEB liability would be if it were calculated using a Single Discount rate that is one percentage point higher (4.56%) or lower (2.56%) than the current rate (amounts expressed in thousands):

	1% Decrease (2.56%)	Current Single Discount Rate Assumption (3.56%)	1% Increase (4.56%)
Department's proportionate share of total OPEB liability	$ 2,560,531	$ 2,256,985	$ 1,955,148

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rate. The following presents the plans total OPEB liability, calculated using the healthcare cost trend rates as well as what the plan's total OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point higher or lower, than the current healthcare cost trend rates (amounts in table expressed in thousands). The key trend rates are 8.0% in 2018 decreasing to an ultimate trend rate of 4.99% in 2025, for non-Medicare coverage, and 9.0% decreasing to an ultimate trend rate of 4.5% in 2027 for Medicare coverage.

	1% Decrease	Current Healthcare Cost Trend Rates Assumption	1% Increase
Department's proportionate share of total OPEB liability	$ 1,928,575	$ 2,256,985	$ 2,528,111

(10) Fund Balance

(a) Categories

As of June 30, 2018, the Department's fund balances were classified as follows:

	Road Fund	Nonmajor Funds	Total
Nonspendable:			
Inventory	$ 51,521	$ 20,865	$ 72,386
Restricted:			
General Transportation	-	27,512	27,512
Debt Service	-	6,050	6,050
Total Restricted	-	33,562	33,562
Committed:			
General Transportation	294,377	284,396	578,773
Unassigned	-	(17,360)	(17,360)
Total Fund Balances	$ 345,898	$ 321,463	$ 667,361

(b) Fund Deficits

The Federal Local Airport Fund and Federal Mass Transit Trust Fund had deficit fund balances of $17.262 million and $98 thousand, respectively, as of June 30, 2018. The fund deficits will be eliminated by future recognition of earned but unavailable revenues and future grant resources.

(11) Risk Management

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

Auto liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. 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, 2017, and June 30, 2018:

Year Ended June 30	Beginning Balance	Increases	Decreases	Ending Balance
2017	$ 9,337	$ 2,439	$ 1,872	$ 9,904
2018	9,904	3,312	1,756	11,460

(12) Commitments and Contingencies

(a) Commitments

The Department has outstanding construction projects for highway program improvements and administrative expenses in which it has entered into future commitments. The amount of the Department's commitments was $3.769 billion as of June 30, 2018.

(b) Encumbrances

The Department has Road Fund encumbrances for goods ordered but not received prior to June 30, 2018, of $1.5 million.

(c) Operating Leases

The Department leases various real property and equipment under the terms of noncancelable operating lease agreements that require the Department to make minimum lease rental payments plus pay a pro rata share of certain operating costs. Rent expense under operating leases was $13.2 million for the year ended June 30, 2018.

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

Year Ending June 30,	Total
2019	$ 269
2020	10
2021	4
2022	3
2023	2
	$ 288

(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. As of June 30, 2018, there were no material questioned costs that have not been resolved with the federal awarding agencies. However, questioned costs could still be identified during audits to be conducted in the future. Management of the Department believes there will be no material adjustments to the federal grants and, accordingly, has not recorded a provision for possible repayment.

(e) Litigation

On April 19, 2004, an auto accident occurred wherein the plaintiff sued the State in Chraca v. Miles. On September 8, 2009, judgment was entered in the Circuit Court of Cook County for the amount of $23.8 million against the State. On February 18, 2010, the State appealed the judgment to the First District Appellate Court of Illinois. The Appellate Court has ruled against the State. The plaintiff is seeking to enforce the judgment through the Court of Claims. However, this was denied. On August 26, 2016, the Court of Claims granted the claimant's Motion to Reconsider. An amount of $2 million, the statutory limit on auto liability exposure per case, has been included in the long-term auto liability. Any amount to be paid in addition to this $2 million is uncertain at this time. Any court-ordered judgment amount, including the $2 million already accrued, would be paid from the Road Fund. A trial was held in February 2018 and a decision is pending.

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.

(13) Restatement

As shown in the following table, the financial statements of the Department have been restated as of June 30, 2017, due to the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This restatement affected the Statement of Activities, as follows (amounts expressed in thousands):

	Governmental Activities
Net position, June 30, 2017, as previously reported	$ 17,172,029
To record other postemployment benefits	(2,458,485)
Net position, June 30, 2017, as restated	$ 14,713,544

SUPPLEMENTARY INFORMATION

Combining Schedule of Accounts - General Fund

June 30, 2018 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	Total
ASSETS				
Unexpended appropriations	$ 4,341	$ -	$ -	$ 4,341
Cash equity with State Treasurer	-	-	2,110	2,110
Due from other State funds	-	-	529,252	529,252
Total assets	$ 4,341	$ -	$ 531,362	$ 535,703
LIABILITIES				
Accounts payable and accrued liabilities	$ -	$ -	$ 15	$ 15
Intergovernmental payables	4,341	-	531,339	535,680
Due to other State funds	-	-	8	8
Total liabilities	4,341	-	531,362	535,703
FUND BALANCES	-	-	-	-
Total liabilities and fund balances	$ 4,341	$ -	$ 531,362	$ 535,703

See accompanying independent auditors' report.

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	General Fund Accounts			
	General Revenue 0001	I-FLY 0306	Public Transportation 0627	Total
REVENUES				
Sales tax	$ -	$ -	$ 250,982	$ 250,982
Total revenues	-	-	250,982	250,982
EXPENDITURES				
Transportation	4,147	-	485,941	490,088
Total expenditures	4,147	-	485,941	490,088
Deficiency of revenues under expenditures	(4,147)	-	(234,959)	(239,106)
OTHER SOURCES OF FINANCIAL RESOURCES				
Net change in liabilities for reappropriated accounts	4,147	-	-	4,147
Transfers-in	-	-	234,959	234,959
Net other sources of financial resources	4,147	-	234,959	239,106
Net change in fund balances	-	-	-	-
Fund balances, July 1, 2017	-	-	-	-
FUND BALANCES, JUNE 30, 2018	$ -	$ -	$ -	$ -

See accompanying independent auditors' report.

State of Illinois

Department of Transportation

Combining Schedule of Accounts - Road Fund

June 30, 2018 (Expressed in Thousands)

	Road Fund Accounts		
	Road 0011	**Working Capital Revolving Loan 0307**	**Total**
ASSETS			
Unexpended appropriations	$ 537,862	$ -	$ 537,862
Cash equity with State Treasurer	4,627	466	5,093
Securities lending collateral equity with State Treasurer	-	189	189
Receivables, net:			
Intergovernmental	172,820	-	172,820
Other	8,797	1	8,798
Due from other Department funds	23,203	-	23,203
Due from other State funds	14,619	-	14,619
Due from State of Illinois component units, current	7,505	-	7,505
Inventories	51,521	-	51,521
Loans receivable, net	-	55	55
Due from State of Illinois component units, long-term	84,213	-	84,213
Total assets	$ 905,167	$ 711	$ 905,878
LIABILITIES			
Accounts payable and accrued liabilities	$ 267,526	$ -	$ 267,526
Intergovernmental payables	110,408	-	110,408
Due to other Department funds	851	-	851
Due to other State funds	11,307	-	11,307
Due to State of Illinois component units	147,770	-	147,770
Obligations under securities lending of State Treasurer	-	189	189
Unearned revenue	876	-	876
Total liabilities	538,738	189	538,927
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue	21,053	-	21,053
Total deferred inflows of resources	21,053	-	21,053
Total liabilities and deferred inflows of resources	559,791	189	559,980
FUND BALANCES			
Nonspendable portion of inventories	51,521	-	51,521
Committed	293,855	522	294,377
Total fund balances	345,376	522	345,898
Total liabilities, deferred inflows of resources, and fund balances	$ 905,167	$ 711	$ 905,878

See accompanying independent auditors' report.

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Road Fund Accounts: Road 0011	Road Fund Accounts: Working Capital Revolving Loan 0307	Total
REVENUES			
Motor fuel taxes	$ 307,127	$ -	$ 307,127
Operating grants - Federal	33,424	-	33,424
Capital grants - Federal	1,285,031	-	1,285,031
Other operating grants	81,329	-	81,329
Other capital grants	7,790	-	7,790
Licenses and fees	23,464	-	23,464
Other charges for services	41,237	-	41,237
Interest and other investment income	-	7	7
Total revenues	1,779,402	7	1,779,409
EXPENDITURES			
Transportation	1,707,546	-	1,707,546
Debt service - principal	291	-	291
Debt service - interest	277	-	277
Capital outlays	609,751	-	609,751
Total expenditures	2,317,865	-	2,317,865
Excess (deficiency) of revenues over (under) expenditures	(538,463)	7	(538,456)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES			
Appropriations from State resources	6,048,526	-	6,048,526
Reappropriation to future year(s)	(3,150,248)	-	(3,150,248)
Lapsed appropriations	(517,329)	-	(517,329)
Receipts collected and transmitted to State Treasury	(1,429,326)	-	(1,429,326)
Net change in liabilities for reappropriated accounts	(24,519)	-	(24,519)
Amount of SAMS Transfers-in	(305,185)	-	(305,185)
Transfers-out	(35,319)	-	(35,319)
Capital lease financing	174	-	174
Net other sources (uses) of financial resources	586,774	-	586,774
Net change in fund balances	48,311	7	48,318
Fund balances, July 1, 2017	297,065	515	297,580
FUND BALANCES, JUNE 30, 2018	$ 345,376	$ 522	$ 345,898

See accompanying independent auditors' report.

State of Illinois
Department of Transportation

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018 (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
ASSETS								
Unexpended appropriations	$ 88,067	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Cash equity with State Treasurer	-	73,747	773	2,518	171	2,667	2,854	43,248
Cash and cash equivalents	-	-	-	-	-	-	-	-
Securities lending collateral equity with State Treasurer	-	-	-	-	17	3,320	-	-
Receivables, net:								
Taxes	-	-	-	-	-	-	-	-
Intergovernmental	-	-	-	20,112	-	-	-	6,255
Other	-	-	-	-	-	13	25	-
Due from other Department funds	-	3,500	-	-	-	-	-	-
Due from other State funds	290	-	-	-	344	6,000	-	-
Inventories	-	-	-	-	-	-	-	20,865
Loans receivable, net	-	-	-	-	-	3,115	-	-
Total assets	$ 88,357	$ 77,247	$ 773	$ 22,630	$ 532	$ 15,115	$ 2,879	$ 70,368
LIABILITIES								
Accounts payable and accrued liabilities	$ 467	$ 10,530	$ 1	$ 5,849	$ -	$ -	$ 871	$ 14,410
Intergovernmental payables	43,937	5,386	-	14,252	-	-	-	-
Due to other Department funds	43,533	-	-	-	-	-	-	-
Due to other State funds	420	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	1	-	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	-	17	3,320	-	-
Unearned revenue	-	-	-	2,528	-	-	331	-
Total liabilities	88,357	15,916	1	22,630	17	3,320	1,202	14,410
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	17,262	-	-	-	3,032
Total deferred inflows of resources	-	-	-	17,262	-	-	-	3,032
Total liabilities and deferred inflows of resources	88,357	15,916	1	39,892	17	3,320	1,202	17,442
FUND BALANCES (DEFICITS)								
Nonspendable portion of inventories	-	-	-	-	-	-	-	20,865
Restricted	-	-	-	-	-	-	-	-
Unrestricted:								
Committed	-	61,331	772	-	515	11,795	1,677	32,061
Unassigned	-	-	-	(17,262)	-	-	-	-
Total fund balances (deficits)	-	61,331	772	(17,262)	515	11,795	1,677	52,926
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 88,357	$ 77,247	$ 773	$ 22,630	$ 532	$ 15,115	$ 2,879	$ 70,368

(Continued)

State of Illinois
Department of Transportation

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018 (Expressed in Thousands)

	Special Revenue							
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	High Speed Rail Escrow Account 1438	Rail Freight Loan Repayment 0936
ASSETS								
Unexpended appropriations	$ -	$ -	$ -	$ -	$ -	$ 624	$ -	$ -
Cash equity with State Treasurer	32,889	542	16,265	95	-	-	-	1,659
Cash and cash equivalents	-	-	-	-	-	-	25,090	-
Securities lending collateral equity with State Treasurer	-	-	-	39	-	-	-	672
Receivables, net:								
Taxes	-	-	17,025	-	-	-	-	-
Intergovernmental	-	-	-	-	1,023	-	-	-
Other	-	-	-	-	-	-	-	3
Due from other Department funds	-	-	-	-	-	-	-	-
Due from other State funds	-	-	121,399	-	-	-	-	-
Inventories	-	-	-	-	-	-	-	-
Loans receivable, net	-	-	-	-	-	-	-	-
Total assets	$ 32,889	$ 542	$ 154,689	$ 134	$ 1,023	$ 624	$ 25,090	$ 2,334
LIABILITIES								
Accounts payable and accrued liabilities	$ 148	$ -	$ -	$ -	$ 150	$ 624	$ 660	$ -
Intergovernmental payables	2,617	-	27,176	-	719	-	-	-
Due to other Department funds	-	-	-	-	-	-	-	-
Due to other State funds	-	-	-	-	-	-	-	-
Due to State of Illinois component units	-	-	-	-	154	-	-	-
Obligations under securities lending of State Treasurer	-	-	-	39	-	-	-	672
Unearned revenue	-	-	-	-	-	-	-	-
Total liabilities	2,765	-	27,176	39	1,023	624	660	672
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	-	98	-	-	-
Total deferred inflows of resources	-	-	-	-	98	-	-	-
Total liabilities and deferred inflows of resources	2,765	-	27,176	39	1,121	624	660	672
FUND BALANCES (DEFICITS)								
Nonspendable portion of inventories	-	-	-	-	-	-	-	-
Restricted	-	542	-	-	-	-	24,430	-
Unrestricted:								
Committed	30,124	-	127,513	95	-	-	-	1,662
Unassigned	-	-	-	-	(98)	-	-	-
Total fund balances (deficits)	30,124	542	127,513	95	(98)	-	24,430	1,662
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 32,889	$ 542	$ 154,689	$ 134	$ 1,023	$ 624	$ 25,090	$ 2,334

(Continued)

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2018 (Expressed in Thousands)

	Capital Projects					Debt Service		
	Transportation Bond Series A 0553	Transportation Bond Series B 0554	Transportation Bond Series D 0695	State Construction Account 902	IDOT Capital Projects 1494	General Obligation Bond Retirement and Interest 0101	IDOT Debt Service 2494	Total
ASSETS								
Unexpended appropriations	$ 12,016	$ 39,526	$ 64,621	$ 64,137	$ -	$ -	$ -	$ 268,991
Cash equity with State Treasurer	-	-	-	-	-	-	-	177,428
Cash and cash equivalents	-	-	-	-	1,689	-	2,771	29,550
Securities lending collateral equity with State Treasurer	-	-	-	-	-	-	-	4,048
Receivables, net:								
Taxes	-	-	-	-	-	-	-	17,025
Intergovernmental	-	-	-	-	-	-	-	27,390
Other	-	-	-	239	-	-	-	280
Due from other Department funds	-	-	-	16,830	851	-	-	21,181
Due from other State funds	-	-	-	-	-	-	-	128,033
Inventories	-	-	-	-	-	-	-	20,865
Loans receivable, net	-	-	-	-	-	3,279	-	6,394
Total assets	$ 12,016	$ 39,526	$ 64,621	$ 81,206	$ 2,540	$ 3,279	$ 2,771	$ 701,185
LIABILITIES								
Accounts payable and accrued liabilities	$ 5,826	$ 6,727	$ 25,326	$ 64,038	$ -	$ -	$ -	$ 135,627
Intergovernmental payables	6,190	32,799	39,295	99	-	-	-	172,470
Due to other Department funds	-	-	-	-	-	-	-	43,533
Due to other State funds	-	-	-	-	-	-	-	420
Due to State of Illinois component units	-	-	-	-	-	-	-	155
Obligations under securities lending of State Treasurer	-	-	-	-	-	-	-	4,048
Unearned revenue	-	-	-	-	-	-	-	2,859
Total liabilities	12,016	39,526	64,621	64,137	-	-	-	359,112
DEFERRED INFLOWS OF RESOURCES								
Unavailable revenue	-	-	-	218	-	-	-	20,610
Total deferred inflows of resources	-	-	-	218	-	-	-	20,610
Total liabilities and deferred inflows of resources	12,016	39,526	64,621	64,355	-	-	-	379,722
FUND BALANCES (DEFICITS)								
Nonspendable portion of inventories	-	-	-	-	-	-	-	20,865
Restricted	-	-	-	-	2,540	3,279	2,771	33,562
Unrestricted:								
Committed	-	-	-	16,851	-	-	-	284,396
Unassigned	-	-	-	-	-	-	-	(17,360)
Total fund balances (deficits)	-	-	-	16,851	2,540	3,279	2,771	321,463
Total liabilities, deferred inflows of resources, and fund balances (deficits)	$ 12,016	$ 39,526	$ 64,621	$ 81,206	$ 2,540	$ 3,279	$ 2,771	$ 701,185

See accompanying independent auditors' report.

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2018 (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	(529,283)	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	46,403	-	-	-	97,017
Other operating grants	-	-	-	2,004	-	-	-	-
Licenses and fees	-	-	292	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	1,511	-
Other	-	-	-	-	187	-	-	-
Interest and other investment income	-	-	-	-	3	205	-	-
Total revenues	(529,283)	-	292	48,407	190	205	1,511	97,017
EXPENDITURES								
Transportation	13,456	25,090	9	39,342	-	-	2,113	74,080
Intergovernmental	581,582	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	69,425
Total expenditures	595,038	25,090	9	39,342	-	-	2,113	143,505
Excess (deficiency) of revenues over (under) expenditures	(1,124,321)	(25,090)	283	9,065	190	205	(602)	(46,488)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	19,312	-	-	-	-	-	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	(5,856)	-	-	-	-	-	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	6,774	-	-	-	-	-	-	-
Amount of SAMS Transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS Transfers-out	1,151,131	-	-	-	-	-	-	-
Transfers-in	-	42,000	-	-	-	-	-	-
Transfers-out	(47,040)	(3,000)	-	(2)	(500)	-	-	-
Net other sources (uses) of financial resources	1,124,321	39,000	-	(2)	(500)	-	-	-
Net change in fund balances	-	13,910	283	9,063	(310)	205	(602)	(46,488)
Fund balances (deficits), July 1, 2017	-	47,421	489	(26,325)	825	11,590	2,279	99,414
FUND BALANCES (DEFICITS), JUNE 30, 2018	$ -	$ 61,331	$ 772	$ (17,262)	$ 515	$ 11,795	$ 1,677	$ 52,926

(Continued)

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Special Revenue							
	Downstate Transit Improvement 0559	Transportation Safety Highway Hire-Back 0589	Downstate Public Transportation 0648	Airport Land Loan Revolving 0669	Federal Mass Transit Trust 0853	Cycle Rider Safety Training 0863	High Speed Rail Escrow Account 1438	Rail Freight Loan Repayment 0936
REVENUES								
Sales tax	$ -	$ -	$ 213,095	$ -	$ -	$ -	$ -	$ -
Motor fuel taxes	-	-	-	-	-	-	-	-
Operating grants - Federal	-	-	-	-	25,855	-	-	-
Other operating grants	-	-	-	-	-	-	-	-
Licenses and fees	-	-	-	-	-	-	-	-
Other charges for services	-	-	-	-	-	-	-	-
Other	-	179	-	-	-	-	-	-
Interest and other investment income	-	-	-	1	-	-	18	31
Total revenues	-	179	213,095	1	25,855	-	18	31
EXPENDITURES								
Transportation	7,560	-	204,222	-	25,750	3,508	5,588	354
Intergovernmental	-	-	-	-	-	-	-	-
Debt service - principal	-	-	-	-	-	-	-	-
Debt service - interest	-	-	-	-	-	-	-	-
Capital outlays	-	-	-	-	-	-	-	-
Total expenditures	7,560	-	204,222	-	25,750	3,508	5,588	354
Excess (deficiency) of revenues over (under) expenditures	(7,560)	179	8,873	1	105	(3,508)	(5,570)	(323)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	-	-	-	-	-	13,374	-	-
Reappropriation to future year(s)	-	-	-	-	-	-	-	-
Lapsed appropriations	-	-	-	-	-	(10,467)	-	-
Receipts collected and transmitted to State Treasury	-	-	-	-	-	-	-	-
Net change in liabilities for reappropriated accounts	-	-	-	-	-	601	-	-
Amount of SAMS Transfers-in	-	-	-	-	-	-	-	-
Amount of SAMS Transfers-out	-	-	-	-	-	-	-	-
Transfers-in	1,850	-	-	-	-	-	30,000	-
Transfers-out	-	-	(1,850)	-	-	-	-	(1,000)
Net other sources (uses) of financial resources	1,850	-	(1,850)	-	-	3,508	30,000	(1,000)
Net change in fund balances	(5,710)	179	7,023	1	105	-	24,430	(1,323)
Fund balances (deficits), July 1, 2017	35,834	363	120,490	94	(203)	-	-	2,985
FUND BALANCES (DEFICITS), JUNE 30, 2018	$ 30,124	$ 542	$ 127,513	$ 95	$ (98)	$ -	$ 24,430	$ 1,662

(Continued)

State of Illinois
Department of Transportation

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

For the Year Ended June 30, 2018 (Expressed in Thousands)

	Capital Projects					Debt Service		
	Transportation Bond Series A 0553	**Transportation Bond Series B 0554**	**Transportation Bond Series D 0695**	**State Construction Account 902**	**IDOT Capital Projects 1494**	**General Obligation Bond Retirement and Interest 0101**	**IDOT Debt Service 2494**	**Total**
REVENUES								
Sales tax	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 213,095
Motor fuel taxes	-	-	-	222,156	-	-	-	(307,127)
Operating grants - Federal	-	-	-	-	-	-	-	169,275
Other operating grants	-	-	-	-	-	-	-	2,004
Licenses and fees	-	-	-	-	-	-	-	292
Other charges for services	-	-	-	-	-	-	-	1,511
Other	-	-	-	-	-	-	-	366
Interest and other investment income	-	-	-	-	-	145	5	408
Total revenues	-	-	-	222,156	-	145	5	79,824
EXPENDITURES								
Transportation	4,960	181,193	45,475	88,200	2,074	-	1	722,975
Intergovernmental	-	-	-	-	-	-	-	581,582
Debt service - principal	-	-	-	-	-	-	2,450	2,450
Debt service - interest	-	-	-	-	-	-	384	384
Capital outlays	25,086	2,275	(2,439)	453,865	-	-	-	548,212
Total expenditures	30,046	183,468	43,036	542,065	2,074	-	2,835	1,855,603
Excess (deficiency) of revenues over (under) expenditures	(30,046)	(183,468)	(43,036)	(319,909)	(2,074)	145	(2,830)	(1,775,779)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES								
Appropriations from State resources	78,989	1,960,611	771,325	1,449,925	-	-	-	4,293,536
Reappropriation to future year(s)	(41,543)	(638,793)	(574,079)	(892,480)	-	-	-	(2,146,895)
Lapsed appropriations	(11,614)	(1,097,377)	(158,339)	-	-	-	-	(1,283,653)
Receipts collected and transmitted to State Treasury	-	-	-	-	-	(1,716)	-	(1,716)
Net change in liabilities for reappropriated accounts	4,214	(40,973)	4,129	(15,486)	-	-	-	(40,741)
Amount of SAMS Transfers-in	-	-	-	(221,001)	-	-	-	(221,001)
Amount of SAMS Transfers-out	-	-	-	-	-	-	-	1,151,131
Transfers-in	-	-	-	-	2,417	2	2,902	79,171
Transfers-out	-	-	-	-	-	-	-	(53,392)
Net other sources (uses) of financial resources	30,046	183,468	43,036	320,958	2,417	(1,714)	2,902	1,776,440
Net change in fund balances	-	-	-	1,049	343	(1,569)	72	661
Fund balances (deficits), July 1, 2017	-	-	-	15,802	2,197	4,848	2,699	320,802
FUND BALANCES (DEFICITS), JUNE 30, 2018	$ -	$ -	$ -	$ 16,851	$ 2,540	$ 3,279	$ 2,771	$ 321,463

See accompanying independent auditors' report.

Combining Schedule of Accounts - Motor Fuel Tax Fund

June 30, 2018 (Expressed in Thousands)

	Special Revenue					
	Motor Fuel Tax 0012	Motor Fuel Tax-Counties 0413	Motor Fuel Tax-Municipalities 0414	Motor Fuel Tax-Townships and Road Districts 0415	Eliminations	Total
ASSETS						
Unexpended appropriations	$ 88,067	$ -	$ -	$ -	$ -	$ 88,067
Due from other State funds	290	-	-	-	-	290
Due from other Department funds	-	15,382	21,573	6,982	(43,937)	-
Total assets	$ 88,357	$ 15,382	$ 21,573	$ 6,982	$ (43,937)	$ 88,357
LIABILITIES						
Accounts payable and accrued liabilities	$ 467	$ -	$ -	$ -	$ -	$ 467
Intergovernmental payables	-	15,382	21,573	6,982	-	43,937
Due to other Department funds	87,470	-	-	-	(43,937)	43,533
Due to other State funds	420	-	-	-	-	420
Total liabilities	88,357	15,382	21,573	6,982	(43,937)	88,357
FUND BALANCES	-	-	-	-	-	-
Total liabilities and fund balances	$ 88,357	$ 15,382	$ 21,573	$ 6,982	$ (43,937)	$ 88,357

See accompanying independent auditors' report.

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, 2018 (Expressed in Thousands)

	Special Revenue					
	Motor Fuel Tax 0012	Motor Fuel Tax- Counties 0413	Motor Fuel Tax- Municipalities 0414	Motor Fuel Tax- Townships and Road Districts 0415	Eliminations	Total
REVENUES						
Motor fuel taxes	$ (1,110,865)	$ 203,612	$ 285,556	$ 92,414	$ -	$ (529,283)
Total revenues	(1,110,865)	203,612	285,556	92,414	-	(529,283)
EXPENDITURES						
Transportation	13,456	-	-	-	-	13,456
Intergovernmental	-	203,612	285,556	92,414	-	581,582
Total expenditures	13,456	203,612	285,556	92,414	-	595,038
Deficiency of revenues under expenditures	(1,124,321)	-	-	-	-	(1,124,321)
OTHER SOURCES (USES) OF FINANCIAL RESOURCES						
Appropriations from State resources	19,312	-	-	-	-	19,312
Lapsed appropriations	(5,856)	-	-	-	-	(5,856)
Net change in liabilities for reappropriated accounts	6,774	-	-	-	-	6,774
Amount of SAMS Transfers-out	1,151,131	-	-	-	-	1,151,131
Transfers-out	(47,040)	-	-	-	-	(47,040)
Net other sources (uses) of financial resources	1,124,321	-	-	-	-	1,124,321
Net change in fund balances	-	-	-	-	-	-
Fund balances, July 1, 2017	-	-	-	-	-	-
FUND BALANCES, JUNE 30, 2018	$ -	$ -	$ -	$ -	$ -	$ -

See accompanying independent auditors' report.

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

Honorable Frank J. Mautino
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 (the Department) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated February 28, 2019.

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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings as item 2018-001 that we consider to be a material weakness.

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Compliance and Other Matters

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

The Department's Response to Findings

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

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.

CliftonLarsonAllen LLP

SIGNED ORIGINAL ON FILE

Peoria, Illinois
February 28, 2019

Finding 2018-001 Inadequate Controls over Financial Reporting

The Illinois Department of Transportation's (Department) internal controls over financial reporting were insufficient to prevent misstatements.

During our audit of the significant balances comprising the Department's financial statements, we noted the following errors and deficiencies related to financial statement classification and presentation:

- Implementation of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*

  In the first draft of the Department's financial statements received on October 15, 2018, the engagement team noted management did not appropriately implement GASB Statement No. 75. Specifically, the Department did not restate beginning net position in the government-wide financial statements.

  The effect of this misstatement in the Department's government-wide financial statements resulted in an overstatement of the beginning of the year net position and current period transportation expenses totaling $2,458,485,000. There was no impact on total net position as of June 30, 2018. The Department corrected this item in the financial statements and the restatement was reflected in subsequent drafts of the financial statements received.

- Classification of Fund Balances in the Governmental Funds Financial Statements

  The Department inappropriately grossed-up a deficit balance in unassigned fund balance within the governmental fund financial statements for Fund 0433, the Federal High Speed Rail Transit Fund. During fiscal year 2018, Fund 0433 acquired inventory which was classified as a nonspendable portion of inventories in the governmental funds financial statements. Rather than reducing the available committed fund balance for Fund 0433, the Department reported a deficit fund balance for the amount of fund balance reported as a nonspendable portion of inventories. The Department's expenditures did not exceed amounts committed to the purpose for Fund 0433.

  The effect of this misstatement in the Department's governmental funds financial statements was an overstatement of committed fund balance, and a corresponding understatement of unassigned fund balance, totaling $20,865,000 as of June 30, 2018. The Department corrected this item in the financial statements.

- Classification of Liabilities in the Government-wide and Governmental Funds Financial Statements

  The Department's underlying calculations used to estimate accounts payable at the end of the fiscal year inappropriately allocated amounts to accounts payable and accrued liabilities instead of intergovernmental payables for Fund 0553, *Transportation Bond Series A*.

The effect of this misstatement in the Department's government-wide and governmental funds financial statements was an overstatement of accounts payable and accrued liabilities and an understatement of intergovernmental payables totaling $5,717,000 as of June 30, 2018. The Department corrected this item in the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, paragraph 244, requires changes adopted to conform to the provisions of this Statement to be applied retroactively by restating the financial statements as of the beginning of the earliest year presented.

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, paragraph 19, states the amount that should be reported as nonspendable fund balance should be determined before classifying amounts in the restricted, committed, and assigned fund balance classifications. Further, paragraph 17 states, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Department's chart of accounts segregates amounts reported as general accounts payable and accrued liabilities from those amounts considered payable to governmental entities for financial reporting purposes.

Additionally, the Fiscal Control and Internal auditing Act (30 ILCS 10/3001) requires the Department to establish and maintain a system, or systems, of internal fiscal and administrative controls to provide assurance: (1) resources are utilized efficiently, effectively, and in compliance with applicable law; (2) obligations and costs are in compliance with applicable law; (3) funds, property and other assets and resources are safeguarded against waste, loss, unauthorized use, and misappropriation; (4) revenues, expenditures, and transfers of assets, resources or funds applicable to operations are properly recorded and accounted for to permit preparation of accounts and reliable financial and statistical reports and to maintain accountability over the State's resources; and (5) funds held outside the State Treasury are managed, used, and obtained in strict accordance with the terms of their enabling authorities and that no unauthorized funds exist. Effective internal controls should include procedures to ensure adherence to accounting principles generally accepted in the United State of America and the appropriate presentation of amounts reported in the Department's financial statements.

In discussing these conditions with Department officials, they stated Department personnel misinterpreted the Illinois Office of the Comptroller's direction on how to reflect the implementation of GASB Statement No. 75 in their financial statements, the inappropriate unassigned fund balance deficit gross-up in Fund 433 was due to Department management oversight, and the accounts payable estimation model for one fund (Fund 553) had a formula error in the file due to clerical error.

Insufficient and/or ineffective controls over financial reporting can lead to significant reporting inaccuracies in the financial statements. Additionally, inaccuracies in the recorded amounts of the Department's financial statement balances could delay the completion of the audit process. (Finding Code No. 2018-001)

Recommendation:

We recommend the Department enhance and improve its controls over financial reporting to ensure amounts reported within the Department's annual financial statements are accurate and presented in accordance with accounting principles generally accepted in the United States.

Department Response:

The Department agrees with the finding.

The Department considers these errors to be one-time misstatements related to activities new in fiscal year 2018 (new GASB standard implementation, first-time inventory recorded in Fund 433) and process improvement implementations (formula calculation error in new stream-lined accounts payable model estimate Excel file). The errors are not systemic in nature and did not result in a misstatement of total net position on the Department's financial statements. Going forward, the Department will implement additional review procedures for any new types of fund or financial statement activities.