

FINANCIAL AUDIT  
INCLUDING THE PROVISIONS OF THE SINGLE AUDIT ACT  
OF THE  
MICHIGAN DEPARTMENT OF TRANSPORTATION

October 1, 2000 through September 30, 2002

“...The auditor general shall conduct post audits of financial transactions and accounts of the state and of all branches, departments, offices, boards, commissions, agencies, authorities and institutions of the state established by this constitution or by law, and performance post audits thereof.”

– Article IV, Section 53 of the Michigan Constitution

**Audit report information may be accessed at:**  
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Michigan  
Office of the Auditor General  
**REPORT SUMMARY**

**Financial Audit**

*Including the Provisions of the Single Audit Act  
October 1, 2000 through September 30, 2002*

*Michigan Department of Transportation*

Report Number:  
59-100-03

Released:  
December 2003

*A Single Audit is designed to meet the needs of all financial report users, including an entity's federal grantor agencies. The audit determines if the financial schedules and/or financial statements are fairly presented; considers internal control over financial reporting and internal control over federal program compliance; determines compliance with State compliance requirements material to the financial schedules and/or financial statements; and assesses compliance with direct and material requirements of the major federal programs.*

**Financial Statements:**

**Auditor's Report Issued**

We issued an unqualified opinion on the Michigan Department of Transportation's (MDOT's) financial statements.

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**Internal Control Over Financial Reporting**

We did not identify any material weaknesses in internal control over financial reporting. However, we did identify reportable conditions (Findings 1 through 3).

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**Noncompliance Material to the Financial Statements**

We did not identify any instances of noncompliance applicable to the financial statements that are required to be reported under *Government Auditing Standards*.

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**Federal Awards:**

**Auditor's Reports Issued on Compliance**

We audited 5 programs as major programs and issued 5 unqualified opinions. The federal programs audited as major programs are identified on the back of this summary.

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**Internal Control Over Major Programs**

We did not identify material weaknesses in internal control over any major program. However, we did identify reportable conditions (Findings 4 through 7).

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**Required Reporting of Noncompliance**

We identified instances of noncompliance that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133 (Findings 4, 5 and 7).

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**Systems of Accounting and Internal Control:**

We determined that MDOT was in substantial compliance with Sections 18.1483 - 18.1487 of the *Michigan Compiled Laws*.

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We audited the following programs as major programs:

<u>CFDA Number</u>	<u>Program Title</u>	<u>Compliance Opinion</u>
20.205	Highway Planning and Construction	Unqualified
20.500	Federal Transit: Capital Investment Grants	Unqualified
20.505	Federal Transit: Metropolitan Planning Grants	Unqualified
20.509	Formula Grants for Other Than Urbanized Areas	Unqualified
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	Unqualified

A copy of the full report can be obtained by calling 517.334.8050 or by visiting our Web site at: [www.state.mi.us/audgen/](http://www.state.mi.us/audgen/)



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

December 30, 2003

Mr. Ted B. Wahby, Chairperson  
State Transportation Commission  
and  
Ms. Gloria J. Jeff, Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 2000 through September 30, 2002.

This report contains our report summary; our independent auditor's report on the financial statements; and the MDOT financial statements, notes to the financial statements, and supplemental financial statements and schedules. This report also contains our independent auditor's reports on compliance and on internal control over financial reporting and on compliance with requirements applicable to each major program and on internal control over compliance in accordance with U.S. Office of Management and Budget Circular A-133 and our schedule of findings and questioned costs. In addition, this report contains MDOT's summary schedule of prior audit findings, its corrective action plan, and a glossary of acronyms and terms.

Our findings and recommendations are contained in Section II and Section III of the schedule of findings and questioned costs. The agency preliminary responses are contained in the corrective action plan. The *Michigan Compiled Laws* and administrative procedures require that the audited agency develop a formal response within 60 days after release of the audit report.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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AUDITOR GENERAL

## Independent Auditor's Report on the Financial Statements

May 22, 2003

Mr. Ted B. Wahby, Chairperson  
State Transportation Commission  
and  
Ms. Gloria J. Jeff, Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

We have audited the financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As described in Note 1d, the financial statements present only the Michigan Department of Transportation and do not purport to, and do not, present fairly the financial position of the State of Michigan or its special revenue and debt service funds as of September 30, 2002 and September 30, 2001 and the changes in financial position thereof for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Michigan Department of Transportation as of September 30, 2002 and September 30, 2001 and the changes in financial position for the fiscal years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 22, 2003 on our tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The schedule of expenditures of federal awards, required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other supplemental financial statements and schedules, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the Department's financial statements referred to in the first paragraph. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

AUDITOR GENERAL

MICHIGAN DEPARTMENT OF TRANSPORTATION  
 Combined Balance Sheet  
 As of September 30  
 (In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2002	2001	2002	2001	2002	2001
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$ 2,142	\$ 394	\$	\$	\$ 2,142	\$ 394
Equity in Common Cash	1,292,026	1,181,848	190		1,292,216	1,181,848
Receivables (Note 3):						
Taxes, interest, and penalties (at net)	122,315	114,943			122,315	114,943
Federal aid	192,287	188,973			192,287	188,973
Local units	58,806	39,285			58,806	39,285
Other funds and component units	62,133	65,692			62,133	65,692
Miscellaneous	16,957	11,576			16,957	11,576
Inventories	8,287	8,079			8,287	8,079
Total Current Assets	<u>\$ 1,754,955</u>	<u>\$ 1,610,791</u>	<u>\$ 190</u>	<u>\$ 0</u>	<u>\$ 1,755,145</u>	<u>\$ 1,610,791</u>
Noncurrent Assets:						
Receivables:						
Taxes	\$ 4,322	\$ 6,347	\$	\$	\$ 4,322	\$ 6,347
Local units	40,069	40,301			40,069	40,301
Advances to other funds	27,734	26,442			27,734	26,442
Land contracts	3,007	3,935			3,007	3,935
Miscellaneous	2,604	2,935			2,604	2,935
Total Noncurrent Assets	<u>\$ 77,736</u>	<u>\$ 79,958</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 77,736</u>	<u>\$ 79,958</u>
Total Assets	<u>\$ 1,832,691</u>	<u>\$ 1,690,750</u>	<u>\$ 190</u>	<u>\$ 0</u>	<u>\$ 1,832,881</u>	<u>\$ 1,690,750</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Warrants outstanding	\$ 11,932	\$ 12,982	\$	\$	\$ 11,932	\$ 12,982
Accounts payable	499,325	448,992	190		499,515	448,992
Contract reserve payable	19,337	16,240			19,337	16,240
Due to other funds and component units (Note 11)	95,075	66,299			95,075	66,299
Deposits, permits, and other liabilities	1,332	3,735			1,332	3,735
Deferred revenue	42,392	28,212			42,392	28,212
Total Current Liabilities	<u>\$ 669,392</u>	<u>\$ 576,461</u>	<u>\$ 190</u>	<u>\$ 0</u>	<u>\$ 669,582</u>	<u>\$ 576,461</u>
Long-Term Liabilities:						
Deferred revenue	21,597	24,486			21,597	24,486
Advances from other funds	27,734	26,442			27,734	26,442
Total Liabilities	<u>\$ 718,722</u>	<u>\$ 627,389</u>	<u>\$ 190</u>	<u>\$ 0</u>	<u>\$ 718,913</u>	<u>\$ 627,389</u>
Fund Balances (Note 1f):						
Reserved for encumbrances	\$ 62,716	\$ 70,267	\$	\$	\$ 62,716	\$ 70,267
Reserved for unencumbered restricted revenue balances	239,252	216,691			239,252	216,691
Reserved for unencumbered capital outlay and work projects	203,850	136,990			203,850	136,990
Reserved for revolving loans	31,590	38,146			31,590	38,146
Reserved for construction and debt service	45,315	35,902			45,315	35,902
Reserved for noncurrent assets	29,690	25,985			29,690	25,985
Total Reserved	<u>\$ 612,412</u>	<u>\$ 523,982</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 612,412</u>	<u>\$ 523,982</u>
Unreserved	501,556	539,379			501,556	539,379
Total Fund Balances	<u>\$ 1,113,968</u>	<u>\$ 1,063,361</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,113,968</u>	<u>\$ 1,063,361</u>
Total Liabilities and Fund Balances	<u>\$ 1,832,691</u>	<u>\$ 1,690,750</u>	<u>\$ 190</u>	<u>\$ 0</u>	<u>\$ 1,832,881</u>	<u>\$ 1,690,750</u>

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

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
**Combined Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Fiscal Years Ended September 30**  
(In Thousands)

	Special Revenue		Debt Service		Totals (Memorandum Only)	
	2002	2001	2002	2001	2002	2001
<b>REVENUES</b>						
Taxes	\$ 1,995,635	\$ 1,925,948	\$	\$	\$ 1,995,635	\$ 1,925,948
Licenses and permits	74,398	74,141			74,398	74,141
Federal aid	944,540	988,275			944,540	988,275
Local participation	133,273	121,320			133,273	121,320
Interest earnings	22,042	32,890	1	1	22,043	32,891
Nonoperating revenue - bridges	2,223	2,309			2,223	2,309
Miscellaneous revenue	41,189	33,220			41,189	33,220
<b>Total Revenues</b>	<b>\$ 3,213,301</b>	<b>\$ 3,178,102</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 3,213,301</b>	<b>\$ 3,178,104</b>
<b>EXPENDITURES</b>						
Administration and Operations:						
Administration and maintenance	\$ 384,719	\$ 378,971	\$	\$	\$ 384,719	\$ 378,971
Bus operating assistance grants	172,043	165,625			172,043	165,625
Counties and local municipalities	1,127,295	1,141,957			1,127,295	1,141,957
Airport development	153,249	124,736			153,249	124,736
Nonoperating expenditures - bridges	2,152	2,286			2,152	2,286
Trust fund construction activity	277,694	244,617			277,694	244,617
Capital lease payments	252	463			252	463
Costs of bond issuance			1,299	293	1,299	293
Bond principal retirement			30,820	29,135	30,820	29,135
Bond interest and fiscal charges			57,224	40,758	57,224	40,758
<b>Total Administration and Operations</b>	<b>\$ 2,117,404</b>	<b>\$ 2,058,654</b>	<b>\$ 89,343</b>	<b>\$ 70,187</b>	<b>\$ 2,206,747</b>	<b>\$ 2,128,841</b>
Capital Outlay:						
Roads and bridges	\$ 1,144,124	\$ 1,174,939	\$	\$	\$ 1,144,124	\$ 1,174,939
Other capital outlay	12,654	15,164			12,654	15,164
<b>Total Capital Outlay</b>	<b>\$ 1,156,778</b>	<b>\$ 1,190,103</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,156,778</b>	<b>\$ 1,190,103</b>
<b>Total Expenditures</b>	<b>\$ 3,274,182</b>	<b>\$ 3,248,757</b>	<b>\$ 89,343</b>	<b>\$ 70,187</b>	<b>\$ 3,363,525</b>	<b>\$ 3,318,944</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>\$ (60,881)</b>	<b>\$ (70,655)</b>	<b>\$ (89,342)</b>	<b>\$ (70,185)</b>	<b>\$ (150,224)</b>	<b>\$ (140,840)</b>
<b>OTHER FINANCING SOURCES</b>						
Michigan Transportation Fund distribution	\$ 801,587	\$ 793,491	\$	\$	\$ 801,587	\$ 793,491
Grants and transfers from other funds and component units	230,437	201,091	88,044	69,893	318,481	270,984
Proceeds from notes issued	200,000	400,000			200,000	400,000
Proceeds from bonds issued	82,310	308,200	187,490	27,765	269,800	335,965
Premium on bonds issued	6,722	3,901	12,653	600	19,375	4,501
<b>Total Other Financing Sources</b>	<b>\$ 1,321,057</b>	<b>\$ 1,706,684</b>	<b>\$ 288,187</b>	<b>\$ 98,258</b>	<b>\$ 1,609,244</b>	<b>\$ 1,804,942</b>
<b>OTHER FINANCING USES</b>						
Michigan Transportation Fund distribution	\$ 801,587	\$ 793,491	\$	\$	\$ 801,587	\$ 793,491
Grants and transfers to other funds and component units (Note 11)	319,937	229,351	1	1	319,938	229,352
Debt service	88,043	68,898			88,043	68,898
Payment to refunded bond escrow agent			198,844	28,072	198,844	28,072
<b>Total Other Financing Uses</b>	<b>\$ 1,209,567</b>	<b>\$ 1,091,740</b>	<b>\$ 198,845</b>	<b>\$ 28,073</b>	<b>\$ 1,408,412</b>	<b>\$ 1,119,814</b>
<b>Excess of Other Financing Sources Over (Under) Other Financing Uses</b>	<b>\$ 111,489</b>	<b>\$ 614,943</b>	<b>\$ 89,342</b>	<b>\$ 70,185</b>	<b>\$ 200,831</b>	<b>\$ 685,128</b>
<b>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</b>	<b>\$ 50,608</b>	<b>\$ 544,288</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 50,608</b>	<b>\$ 544,288</b>
Fund balances - Beginning of fiscal year	1,063,361	519,072			1,063,361	519,072
<b>Fund balances - End of fiscal year</b>	<b>\$ 1,113,968</b>	<b>1,063,361</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 1,113,968</b>	<b>\$ 1,063,361</b>

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

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)  
 Special Revenue Funds  
Fiscal Years Ended September 30  
 (In Thousands)

(Statutory/Budgetary Basis)	2002			2001		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>						
Taxes	\$ 1,995,635	\$ 1,995,635	\$ 0	\$ 1,925,948	\$ 1,925,948	\$ 0
Licenses and permits	74,398	74,398	0	74,141	74,141	0
Federal aid	701,066	701,066	0	773,730	773,730	0
Local participation	47,907	47,907	0	57,711	57,711	0
Interest earnings	13,546	13,546	0	27,667	27,667	0
Nonoperating revenue - bridges	2,223	2,223	0	2,309	2,309	0
Miscellaneous revenue	40,955	40,955	0	33,218	33,218	0
<b>Total Revenues</b>	<b>\$ 2,875,730</b>	<b>\$ 2,875,730</b>	<b>\$ 0</b>	<b>\$ 2,894,724</b>	<b>\$ 2,894,724</b>	<b>\$ 0</b>
<b>EXPENDITURES AND ENCUMBRANCES</b>						
Administration and Operations:						
Administration and maintenance	\$ 441,794	\$ 402,020	\$ 39,773	\$ 434,668	\$ 401,862	\$ 32,805
Bus operating assistance grants	176,291	172,043	4,248	166,306	166,273	33
Counties and local municipalities	1,243,381	1,159,620	83,761	1,256,846	1,174,335	82,511
Airport development	156,871	156,072	799	128,633	127,641	992
Nonoperating expenditures - bridges	2,223	2,152	71	2,309	2,286	23
<b>Total Administration and Operations</b>	<b>\$ 2,020,560</b>	<b>\$ 1,891,907</b>	<b>\$ 128,652</b>	<b>\$ 1,988,762</b>	<b>\$ 1,872,398</b>	<b>\$ 116,365</b>
Capital Outlay:						
Roads and bridges	\$ 792,448	\$ 780,886	\$ 11,562	\$ 924,693	\$ 924,137	\$ 556
Other capital outlay	61,588	16,248	45,340	57,093	20,762	36,331
<b>Total Capital Outlay</b>	<b>\$ 854,036</b>	<b>\$ 797,134</b>	<b>\$ 56,903</b>	<b>\$ 981,786</b>	<b>\$ 944,899</b>	<b>\$ 36,887</b>
<b>Total Expenditures and Encumbrances</b>	<b>\$ 2,874,596</b>	<b>\$ 2,689,041</b>	<b>\$ 185,554</b>	<b>\$ 2,970,548</b>	<b>\$ 2,817,296</b>	<b>\$ 153,252</b>
Excess of Revenues Over (Under) Expenditures and Encumbrances	\$ 1,134	\$ 186,689	\$ 185,554	\$ (75,824)	\$ 77,428	\$ 153,252
<b>OTHER FINANCING SOURCES</b>						
Michigan Transportation Fund distribution	\$ 801,587	\$ 801,587	\$ 0	\$ 793,491	\$ 793,491	\$ 0
Grants and transfers from other funds and component units	216,909	216,909	0	194,761	194,761	0
<b>Total Other Financing Sources</b>	<b>\$ 1,018,496</b>	<b>\$ 1,018,496</b>	<b>\$ 0</b>	<b>\$ 988,252</b>	<b>\$ 988,252</b>	<b>\$ 0</b>
<b>OTHER FINANCING USES</b>						
Michigan Transportation Fund distribution	\$ 812,540	\$ 801,587	\$ 10,953	\$ 799,217	\$ 793,491	\$ 5,726
Grants and transfers to other funds and component units	301,192	303,834	(2,642)	232,344	224,326	8,018
Debt service	88,492	88,044	447	68,898	68,898	0
<b>Total Other Financing Uses</b>	<b>\$ 1,202,223</b>	<b>\$ 1,193,465</b>	<b>\$ 8,758</b>	<b>\$ 1,100,460</b>	<b>\$ 1,086,716</b>	<b>\$ 13,744</b>
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ (183,728)	\$ (174,969)	\$ 8,758	\$ (112,208)	\$ (98,464)	\$ 13,744
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	\$ (182,594)	\$ 11,719	\$ 194,313	\$ (188,032)	\$ (21,036)	\$ 166,996
<b>RECONCILING ITEMS</b>						
Encumbrances at September 30		\$ 62,716			\$ 70,267	
Funds not annually budgeted		(23,828)			495,057	
<b>Net Reconciling Items</b>		<b>\$ 38,888</b>			<b>\$ 565,325</b>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 50,608			\$ 544,288	
<b>FUND BALANCES (GAAP BASIS)</b>						
Beginning balances		1,063,361			519,072	
Ending balances		<b>\$ 1,113,968</b>			<b>\$ 1,063,361</b>	

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

## Notes to the Financial Statements

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial statements report the financial position and the changes in financial position of the following funds administered by the Michigan Department of Transportation (MDOT) as of and for the fiscal years ended September 30, 2002 and September 30, 2001:

#### Special Revenue Funds

Michigan Transportation Fund

State Trunkline Fund

Comprehensive Transportation Fund

State Aeronautics Fund

Combined State Trunkline Bond Proceeds Fund

Combined Comprehensive Transportation Bond Proceeds Fund

Transportation Related Trust Fund

#### Debt Service Funds

Combined State Trunkline Bond and Interest Redemption Fund

Combined Comprehensive Transportation Bond and Interest  
Redemption Fund

These funds are a part of the State of Michigan's reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The notes accompanying these financial statements relate directly to MDOT. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies; Budgeting, Budgetary Control, and Legal Compliance; Treasurer's Common Cash; and Pension Benefits and Other Postemployment Benefits.

#### b. Joint Venture

On September 1, 2000, the International Bridge Authority paid off the 40-year bonds that financed the construction of the International Bridge at Sault St. Marie, Michigan. As a result, the International Bridge Authority

was dissolved, and MDOT and the St. Mary's River Bridge Company (SMRBC) of Canada share ownership of the International Bridge. A 40-year intergovernmental agreement between MDOT and SMRBC went into effect on September 1, 2000. This agreement formed the Joint International Bridge Authority (JIBA) and the International Bridge Administration (IBA). The JIBA is a nonprofit organization with six members. The Governor of Michigan selected three members and three members were selected by SMRBC, which is controlled by the Minister of Transport. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA. Neither owner is required to provide financial support for the bridge.

During fiscal year 2000-01, the IBA changed its year-end from August 31 to December 31. Therefore, comparative financial statements were not available for August 31, 2001. However, summary financial information for the IBA for the sixteen months ended December 31, 2001 follows (in thousands):

	<u>As of December 31, 2001</u>
Assets	\$5,851
Liabilities	\$ 857
Total Equity	\$4,993
Total Revenues and Other Sources	\$6,765*
Total Expenditures and Other Uses	\$4,189
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$2,575

\* "Total Revenues and Other Sources" includes a \$341 thousand gain on the sale of fixed assets.

c. Component Unit

The Mackinac Bridge Authority, a component unit of the State of Michigan, is reported on in the *SOMCAFR* and is not reported on in these financial statements. The Mackinac Bridge Authority separately issues its own audited financial statements. These statements may be obtained by directly contacting the Mackinac Bridge Authority at (906) 643-7600.



Further information regarding the relationship between MDOT and the Mackinac Bridge Authority is provided in Note 10 of this report.

d. Basis of Presentation

The financial transactions of MDOT are recorded in individual funds in the State's central accounting system. The accompanying financial statements present only MDOT. Accordingly, they do not purport to, and do not, present fairly the financial position and the changes in financial position of the State of Michigan or its special revenue and debt service funds in conformity with generally accepted accounting principles. The various transportation funds are combined in the *SOMCAFR* into the governmental fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group includes operating funds that account for the proceeds of certain specific revenue sources, which are legally restricted for specified purposes.

Debt Service Funds: This fund group accounts for the accumulation of resources for, and the payment of, general long-term debt principal and interest.

Totals (Memorandum Only)

Amounts in the "Totals (Memorandum Only)" columns represent summations of the fund types and are presented only for analytical purposes. The summations include interfund transactions that have not been eliminated and the caption "amounts to be provided," which is not an asset in the usual sense. Consequently, amounts shown in the "Totals (Memorandum Only)" columns are not comparable to a consolidation.

e. Measurement Focus and Basis of Accounting

The financial statements contained in this report are presented using the current financial resources measurement focus and the modified accrual basis of accounting as provided by generally accepted accounting principles applicable to governments. Under the modified accrual basis of accounting, revenues are recognized as they become susceptible to

accrual, generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred; however, certain expenditures related to long-term obligations are recorded only when payment is due and payable.

f. Reserved Fund Balance

A comparative analysis of the State Trunkline Fund reserved fund balance at September 30, 2002 and September 30, 2001 follows (in thousands):

	<u>As of September 30</u>	
	<u>2002</u>	<u>2001</u>
Reserves:		
Capital Outlay:		
Facilities	\$ 19,101	\$ 23,414
Institutional roads	1,567	856
Road and bridge	169,899	93,758
Total Capital Outlay Reserves	<u>\$190,567</u>	<u>\$118,028</u>
Encumbrances	<u>\$ 21,128</u>	<u>\$ 28,948</u>
Restricted revenue	\$232,920	\$209,164
Work projects	<u>\$ 5,037</u>	<u>\$ 7,220</u>
Revolving loan program	<u>\$ 18,390</u>	<u>\$ 21,746</u>
Construction and debt service	<u>\$ 45,315</u>	<u>\$ 35,902</u>
Noncurrent Assets:		
Capital equipment loans	\$ 21,325	\$ 18,296
Maintenance advances	8,365	7,689
Total Noncurrent Assets	<u>\$ 29,690</u>	<u>\$ 25,985</u>
Total Reserved Fund Balance	<u><u>\$543,047</u></u>	<u><u>\$446,993</u></u>

Note 2 Budgeting and Budgetary Control

The *SOMCAFR* provides disclosures regarding budgetary control. The budget column of the budget and actual statement represents legislative authorization after adjustments for carry-overs, transfers, and restricted revenue shortfalls. "Favorable variances" generally reflect unused general purpose spending authority ("lapses") and/or unused restricted revenue authority, which carry

over as a reservation of fund balance and/or general purpose revenue exceeding estimates. "Unfavorable variances" reflect either general purpose revenue estimate shortfalls or budgetary overdrafts. If both favorable and unfavorable variances exist for a particular line, the amount shown is the net variance.

For purposes of reporting complete information on financial operations of the Blue Water Bridge Fund, a subfund of the State Trunkline Fund, the financial statements reflect intrafund transactions between the Blue Water Bridge Fund and the State Trunkline Fund. In fiscal years 2001-02 and 2000-01, amounts were appropriated in the Blue Water Bridge Fund for operational costs and for partial repayment of the loan due to the State Trunkline Fund. Loan repayments made in fiscal years 2001-02 and 2000-01 were \$1.7 million and \$2.5 million, respectively. The repayment reduced amounts due to other funds.

### Note 3 Current Receivables

#### a. Contested and Delinquent Receivables

Current receivables, which include contested and delinquent receivables, recorded in the financial statements represent amounts due to MDOT as of September 30, 2002 and September 30, 2001 and will be collected within 12 months. Receivables not due for collection within 12 months are classified as long-term assets with an offsetting deferred revenue or fund balance reserve. Because of the uncertainty associated with contested receivables in litigation or pending litigation and delinquent receivables referred to a third party for collection, these contested and delinquent receivables are recorded in an allowance for doubtful accounts, with the net amount reported in the financial statements.

The following provides information regarding contested and delinquent receivables as of September 30, 2002 and September 30, 2001 (in thousands):

	Contested Receivables		Delinquent Receivables		Fund Total	
	As of September 30		As of September 30		As of September 30	
	2002	2001	2002	2001	2002	2001
State Trunkline Fund	\$	\$	\$5,277	\$ 603	\$ 5,277	\$ 603
Comprehensive Transportation Fund	3,000	3,000	271	271	3,271	3,271
State Aeronautics Fund	5,594	769			5,594	\$ 769
Combined State Trunkline Bond Proceeds Fund			264	264	264	264
Transportation Related Trust Fund			3	9	3	9
Total Allowance for Doubtful Accounts	<u>\$8,594</u>	<u>\$3,769</u>	<u>\$5,815</u>	<u>\$1,147</u>	<u>\$14,409</u>	<u>\$4,916</u>

b. Taxes Receivable

The net receivable for motor fuel taxes in the Michigan Transportation Fund consisted of gross current receivables of \$400.0 million and \$227.8 million and allowances for uncollectible receivables of \$271.3 million and \$118.4 million as of September 30, 2002 and September 30, 2001, respectively. The reporting of a gross receivable net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the *SOMCAFR*.

c. Federal Highway Administration (FHWA) Receivable

MDOT recorded federal aid receivables in the State Trunkline Fund, Combined State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling \$141.6 million and \$154.4 million for the fiscal years ended September 30, 2002 and September 30, 2001, respectively. Of those amounts, \$61.8 million and \$64.4 million, respectively, were recorded from the "To-Be-Billed Summary." The "To-Be-Billed Summary" consists primarily of project costs that exceeded the contract amounts agreed to by FHWA and represents federal funds earned by MDOT but not requested for reimbursement. Consistent with past practices, contract amounts will be increased as federal aid becomes available. No long-term federal aid receivables were recorded for the fiscal years ended September 30, 2002 and September 30, 2001.

d. Advanced Construction

Under an arrangement with FHWA, MDOT has, over a period of years, qualified a number of construction projects for federal reimbursement without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of MDOT, provided that there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government to allow states to obtain federal reimbursement not received during the construction period in case a relatively greater amount of federal aid became available at some later date or to assist in balancing the federal aid from year to year.

Advanced construction expenditure activity during the audit period follows (in millions):

	Fiscal Year	
	2001-02	2000-01
Beginning balance of advanced construction expenditures	\$ 213.3	\$ 119.5
Add: State Trunkline Fund advanced construction expenditures incurred	212.6	212.2
Subtract: Advanced construction expenditures placed under reimbursement agreement	(72.1)	(118.4)
Ending balance of advanced construction expenditures	<u>\$ 353.8</u>	<u>\$ 213.3</u>

Note 4 General Long-Term Obligations

a. Bonded Debt

Revenue Dedicated Bonded Debt: MDOT has periodically issued long-term bonds for specific purposes with the stipulation that financing of debt requirements is to come strictly from designated revenue sources. The State of Michigan's general credit does not support such issues. Act 51, P.A. 1951, as amended, provides that money deposited in the State Trunkline Fund and/or the Comprehensive Transportation Fund is appropriated for specific purposes in order of priority. A sufficient portion of the State Trunkline Fund and the Comprehensive Transportation Fund is irrevocably appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The State Trunkline Series 1989 A bond

issue and the State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$35.7 million and \$97.7 million, respectively. These bonds are recorded in the amounts of \$26.7 million and \$65.0 million, respectively, which are the accreted values\* at September 30, 2002. These bonds mature in the years 2004 to 2009 and 2006 to 2013, respectively.

Revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 2002 and September 30, 2001 are as follows:

Revenue Dedicated Bonded Debt  
(In Thousands)

	Amounts Issued	Outstanding at September 30		Maturities		Average Interest Rate
		2002	2001	First Year	Last Year	
<u>Comprehensive Transportation Fund Bonds:</u>						
1992 (Series A and B Refunding)	\$ 164,965	\$	\$ 104,680	1996	2022	5.96%
1996 (Series A Refunding)	22,650	22,280	22,360	1998	2014	5.42%
1998 (Series A Refunding)	38,640	38,640	38,640	2005	2011	4.66%
2001 (Series A Refunding)	27,765	27,765	27,765	2008	2022	5.01%
2002 (Series A Refunding)	89,620	89,620		2003	2011	5.06%
2002 (Series B)	82,310	82,310		2004	2022	5.13%
<u>State Trunkline Fund Bonds:</u>						
1989 (Series A)	135,779	26,702	24,946	1994	2009	6.97%
1992 (Series A and B Refunding)	353,210	76,045	172,281	1999	2013	6.16%
1994 (Series A and B Refunding)	240,990	18,625	34,445	1996	2006	5.53%
1996 (Series A)	54,500	6,635	10,290	1998	2008	5.71%
1998 (Series A)	377,890	377,890	377,890	2006	2027	5.09%
2001 (Series A)	308,200	308,200	308,200	2003	2031	5.27%
2002 (Refunding)	97,870	97,870		2004	2022	4.71%
Total Revenue Dedicated Bonded Debt	<u>\$1,994,389</u>	<u>\$1,172,582</u>	<u>\$1,121,497</u>			

Advance Refunding and Defeasance: MDOT has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues was placed in trust and used to purchase securities of the U.S. government and related agencies at various interest rates and maturities sufficient to meet all debt service

\* See glossary at end of report for definition.

requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements because MDOT defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes the defeased bonds outstanding at September 30, 2002 and September 30, 2001:

Summary of Refunding Transactions  
(In Millions)

	Amounts Issued	Balance With Trustee At September 30	
		2002	2001
<u>Comprehensive Transportation Fund Bonds:</u>			
1992 (Series A)	\$ 32.6	\$ 0	\$ 32.4
<u>State Trunkline Fund Bonds:</u>			
1992 (Series A - Partial)	194.2	194.2	131.2
1992 (Series B - Partial)	83.4	83.4	56.8
1994 (Series A - Partial)	120.3	120.3	112.8
1996 (Series A - Partial)	43.9	43.9	41.2
Total	<u>\$ 474.4</u>	<u>\$441.9</u>	<u>\$374.4</u>

b. Revenue Dedicated Notes Payable

MDOT issued grant anticipation notes in the fiscal years ended September 30, 2002 and September 30, 2001. The notes have variable rates that may bear interest at a daily interest rate, a weekly interest rate, note interest term rate, a long-term interest rate, or an auction rate securities interest rate. The notes are issued in accordance with the authorization provided in Act 51, P.A. 1951, as amended. The principal and interest on the notes are payable solely from and are secured by an irrevocable pledge of the State share of all federal grants received each year under the Federal-Aid Highway Program.

The following table summarizes the revenue dedicated notes payable at September 30, 2002 and September 30, 2001:

Revenue Dedicated Notes Payable  
(In Thousands)

	Amounts Issued	Outstanding at September 30		Maturities
		2002	2001	
2001 (Series A, B, C, D)	\$400,000	\$400,000	\$400,000	2008
2002 (Series A, B, C, D)	200,000	200,000		2009
Total Revenue Dedicated Notes Payable	<u>\$600,000</u>	<u>\$600,000</u>	<u>\$400,000</u>	

c. Other General Long-Term Obligations

Capital Leases: Capitalized lease liabilities are described in more detail in Note 5.

Compensated Absences: Compensated absences liabilities are described in more detail in Note 6b.

Claims and Judgments: The liability recorded for claims and judgments consists of projected amounts for highway-related negligence cases based upon historical loss ratios. MDOT continues to contest all of these claims and may incur no liability in the individual cases involved. Therefore, the allowance for litigation losses may be overstated (to the extent that losses do not occur) or understated (if the losses exceed the projected amounts).



Changes in General Long-Term Obligations: Changes in general long-term obligations for the fiscal year ended September 30, 2002 and September 30, 2001 are summarized as follows (in thousands):

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	As of September 30		As of September 30	
	2002	2001	2002	2001
<u>Bonds and Capital Lease Obligations:</u>				
Balance - Beginning	\$1,121,496	\$ 836,704	\$ 2,108	\$ 2,361
New bond issues/capital lease additions and adjustments	269,800	335,965		
Accretion on capital appreciation bonds	5,651	5,302		
Bond principal retirements/capital lease payments, deletions, and adjustments	(224,365)	(56,475)	(1,105)	(253)
Balance - Ending	<u>\$1,172,582</u>	<u>\$1,121,496</u>	<u>\$ 1,002</u>	<u>\$ 2,108</u>
	Claims and Judgments		Compensated Absences Liabilities	
	As of September 30		As of September 30	
	2002	2001	2002	2001
<u>Other Obligations:</u>				
Balance - Beginning	\$ 4,628	\$ 5,906	\$ 29,654	\$32,847
Net increase (decrease) in estimated liabilities	(3,500)	(1,278)	795	(3,193)
Balance - Ending	<u>\$ 1,128</u>	<u>\$ 4,628</u>	<u>\$ 30,449</u>	<u>\$29,654</u>

Note 5 Leases

MDOT leases office facilities under noncancelable leasing arrangements. Most leases have cancellation clauses with 1- to 6-month notice requirements in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered in the determination of whether a lease is cancelable because the likelihood that such clauses will be exercised is considered remote. Leases that are in the nature of acquisitions are classified as "capital" leases; therefore, assets and liabilities are recorded at lease inception. Other leases are classified as "operating" leases, and these are treated as rent commitments rather than acquisitions.

Rental expenditures incurred under operating leases totaled \$1,999,558 and \$1,926,704 during fiscal years 2001-02 and 2000-01, respectively.

Summaries of the noncancelable operating and capital leasing commitments to maturity for fiscal years 2001-02 and 2000-01 follow:

Noncancelable Lease Commitments  
Fiscal Year 2001-02  
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2003	\$ 1,934	\$ 84	\$ 76	\$ 56	\$ 216
2004	1,218	92	68	56	216
2005	792	100	60	56	216
2006	168	109	50	56	216
2007	48	120	40	56	216
2008 - 2015	32	497	91	143	732
Total	\$ 4,192	\$ 1,002	\$ 385	\$ 423	\$1,810

Noncancelable Lease Commitments  
Fiscal Year 2000-01  
(In Thousands)

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
2002	\$ 2,430	\$ 249	\$ 173	\$ 120	\$ 541
2003	2,152	218	150	108	476
2004	1,485	160	134	77	372
2005	782	176	119	77	372
2006	130	192	102	77	372
2007 - 2011	112	924	234	288	1,446
2012 - 2015		189	19	37	245
Total	\$ 7,090	\$ 2,108	\$ 931	\$ 784	\$3,823

The preceding tables are consistent with *SOMCAFR* in that they do not include leases for State-owned buildings, leases for an amount less than \$10,000, lease extensions less than 12 months, and lease payment changes less than \$200.

All of the preceding capital leases are related to governmental fund operations and the total of capital lease principal is recorded in the government-wide statements of the *SOMCAFR*.

The historical cost of assets acquired under capital leases, which are included in the government-wide statements of the *SOMCAFR*, at September 30, 2002 and September 30, 2001 follows (in thousands):

	As of September 30	
	2002	2001
Buildings	\$ 1,320	\$ 2,903

Note 6 Employee Benefits - Retirement and Compensated Absences

a. Retirement Contributions

MDOT employees are members of the State Employees' Retirement System. Retirement contributions are transferred from MDOT's special revenue funds to the State Employees' Retirement Fund.

MDOT's retirement contributions were as follows (in thousands):

	Fiscal Year	
	2001-02	2000-01
State Trunkline Fund	\$ 18,961	\$ 19,801
Comprehensive Transportation Fund	643	651
State Aeronautics Fund	404	429
Total MDOT Contributions	\$ 20,008	\$ 20,882

b. Compensated Absences

MDOT has accrued liabilities for compensated absences as required by the Governmental Accounting Standards Board (GASB). Liabilities related

to governmental fund types are recorded in the government-wide statements in the *SOMCAFR*, unless the liability is "due and payable" (i.e., liabilities are recognized in the year the employee leaves State service) at year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the balance sheet.

The following table summarizes MDOT related compensated absences liabilities as of September 30, 2002 and September 30, 2001 (in thousands):

	Sick Leave		Annual Leave		Total	
	As of September 30		As of September 30		As of September 30	
	2002	2001	2002	2001	2002	2001
State Trunkline Fund	\$15,255	\$14,590	\$13,183	\$13,081	\$28,439	\$27,671
Comprehensive Transportation Fund	626	641	542	471	1,168	1,112
State Aeronautics Fund	530	548	313	323	843	872
Total	\$16,411	\$15,778	\$14,037	\$13,876	\$30,449	\$29,654

If an MDOT employee transfers to another department, the related compensated absences liability is assumed by the employee's new department.

For a more detailed explanation of retirement benefits and compensated absences accruals, refer to the *SOMCAFR*.

Note 7 Capital Assets

Capital assets owned by MDOT, including property, plant, equipment, and infrastructure items (roads, bridges, ramps, railroads, rest areas, and welcome centers), are reported in the government-wide financial statements of the *SOMCAFR*. The capital assets reported by MDOT have been expanded as a result of the implementation of GASB Statement No. 34. For more information on the reporting of capital assets under this Statement, see Note 9 of the *SOMCAFR*.

Classification: The following tables summarize, by major class of asset, fiscal year 2001-02 and 2000-01 changes in reported costs for MDOT's capital assets:

Changes in Capital Assets  
Fiscal Year 2001-02  
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital Assets, Not Depreciated:</u>					
Roads	\$10,379.0	\$ 54.6	\$ (141.6)	\$	\$ 10,292.0
Land and land improvements*	2,813.9	3.6		(2.9)	2,814.6
Bridges	1,215.9	90.1	(110.5)		1,195.5
Construction in progress*	458.3	533.5	(114.9)		876.9
<u>Capital Assets, Depreciated:</u>					
Ramps	419.5	20.9	(1.7)	58.4	497.1
Equipment	123.1	16.8	(7.3)	(18.9)	113.7
Buildings	85.2	11.3	(1.6)	26.1	121.1
Railroads	35.7		(0.7)		35.0
Rest areas and welcome centers	35.0	1.4	(0.7)	18.9	54.6
Land improvements	2.6	0.2			2.8
Airports	1.9				1.9
<u>Less Accumulated Depreciation for:</u>					
Ramps	(245.9)	(19.5)		(6.0)	(271.4)
Equipment	(84.5)	(13.6)	7.2	10.6	(80.3)
Buildings	(33.4)	(2.4)	1.0	(1.6)	(36.4)
Railroads	(17.7)	(0.9)		0.3	(18.2)
Rest areas and welcome centers	(18.8)	(1.3)		(5.7)	(25.8)
Land improvements	(0.6)	(0.1)			(0.7)
Airports	(0.2)	(0.1)			(0.3)
Total Capital Assets	<u>\$15,169.0</u>	<u>\$ 694.5</u>	<u>\$ (370.8)</u>	<u>\$ 79.2</u>	<u>\$ 15,572.1</u>

Changes in Capital Assets  
Fiscal Year 2000-01  
(In Millions)

	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital Assets, Not Depreciated:</u>					
Roads	\$10,380.5	\$ 171.8	\$ (173.4)		\$10,379.0
Land and land improvements*	2,819.9	82.1	(10.1)		2,891.9
Bridges	1,164.7	92.3	(41.0)		1,215.9
Construction in progress*		380.3			380.3
<u>Capital Assets, Depreciated:</u>					
Ramps	419.5				419.5
Equipment	107.2	16.2	(4.7)	4.4	123.1
Buildings	89.2	2.3		(6.3)	85.2
Railroads	35.7				35.7
Rest areas and welcome centers	32.2	2.8			35.0
Land improvements	2.6				2.6
Airports	1.9				1.9
<u>Less Accumulated Depreciation for:</u>					
Ramps	(229.1)	(16.8)			(245.9)
Equipment	(71.6)	(13.2)		0.3	(84.5)
Buildings	(34.7)	(2.3)		3.5	(33.4)
Railroads	(16.8)	(0.9)			(17.7)
Rest areas and welcome centers	(18.0)	(0.8)			(18.8)
Land improvements	(0.5)	(0.1)			(0.6)
Airports	(0.2)	(0.1)			(0.2)
<b>Total Capital Assets</b>	<b>\$14,682.5</b>	<b>\$ 713.3</b>	<b>\$ (229.2)</b>	<b>\$ 1.9</b>	<b>\$15,169.0</b>

\* The beginning balances reported for the "Land and land improvements" and "Construction in progress" lines included a \$78 million prior period adjustment that reclassified capitalized expenditures from "Land and land improvements" to "Construction in progress." Therefore, the fiscal year 2001-02 beginning balances for these lines do not match the fiscal year 2000-01 ending balances.

Funding Source: Following is a summary of funding sources for investment in capital assets as of September 30, 2002 and September 30, 2001 (in millions):

	Investment	
	As of September 30	
	2002	2001
State Trunkline Fund	\$ 15,519.7	\$ 15,119.9
Comprehensive Transportation Fund	33.4	29.0
State Aeronautics Fund	18.9	20.1
Total Investment in Capital Assets	\$ 15,572.1	\$ 15,169.0

Note 8 Excess of Expenditures Over Appropriation

Budgetary control for State Trunkline Fund, State Aeronautics Fund, Michigan Transportation Fund, and Comprehensive Transportation Fund expenditures is established by line-item appropriation within each fund's total appropriation.

MDOT incurred no overexpenditures in fiscal years 2001-02 and 2000-01.

Note 9 Interfund Transfers by the Michigan Transportation Fund

Interfund transfers are reported as other financing sources and uses on the combined statement of revenues, expenditures, and changes in fund balances.

MDOT's most significant interfund transfer is the distribution of Michigan Transportation Fund (MTF) revenues to the State Trunkline Fund and Comprehensive Transportation Fund. This distribution is in accordance with Section 247.660 of the *Michigan Compiled Laws* (Section 10, Act 51, P.A. 1951).

MTF collects various taxes, such as gasoline taxes, diesel taxes, motor carrier taxes, and vehicle license taxes. Before the distribution is calculated, various deductions are taken from MTF's total gross receipts. These deductions include funding for debt service payments, the Rail Grade Crossing Program, administrative costs for divisions within MDOT, and grants with other State agencies.

The Comprehensive Transportation Fund receives 10% of the remaining balance from MTF. After the Comprehensive Transportation Fund's balance is

distributed, additional deductions are taken for the Critical Bridge Program, the Economic Development Program, and the Local Road Program. Three of the four cents a gallon that MDOT receives for gasoline taxes is then added to the total. The State Trunkline Fund receives 39.1% of the remaining balance.

Other transfers by MTF are also required by Act 51, P.A. 1951, or the current year's appropriations act. The table below shows MTF's interfund transfers in fiscal years 2001-02 and 2000-01:

MTF Interfund Transactions

	Fiscal Year Ended September 30	
	2002	2001
State Trunkline Fund	\$ 641,056,029	\$634,294,118
Comprehensive Transportation Fund	160,530,656	159,197,092
Other State agencies	114,366,591	68,812,701
Debt service funds	43,000,000	43,000,000
Economic Development Program	40,275,000	40,275,000
Local Road Program	33,000,000	33,000,000
Critical Bridge Program	7,383,948	7,384,167
Bureau of Transportation Planning	5,840,700	4,555,555
Bureau of Highways	2,543,489	3,015,027
Rail Grade Crossing Program	3,000,000	3,000,000
Railroad Safety and Tariffs Program	1,229,625	1,094,567
Bureau of Finance and Administration	999,980	1,086,400
Worker's Compensation Fund	35,900	35,900
Office of Information Management	24,230	7,416
Total	<u>\$1,053,286,148</u>	<u>\$998,757,943</u>

Note 10 Component Unit - Mackinac Bridge Authority

The Mackinac Bridge Authority, which is reported as a component unit in the *SOMCAFR*, has received \$75.3 million of subsidies over the years for operations (\$12.3 million) and debt service (\$63.0 million). These subsidies were provided by the State Trunkline Fund and the Michigan Transportation Fund, respectively, both of which are special revenue funds. The Authority redeemed its remaining bonds on July 1, 1986.

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund



for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order No. 1986-14 created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the State funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid \$9.3 million between fiscal years 1992-93 and 1999-2000, with additional repayments of \$250,000 in fiscal years 2001-02 and 2000-01, to the Michigan Transportation Fund. A balance of \$53.3 million is owed to the Michigan Transportation Fund and a balance of \$12.3 million is owed to the State Trunkline Fund.

For the fiscal years ended September 30, 2002 and September 30, 2001, current receivables of \$710,743 and \$1,318,079, respectively, are recorded in the State Trunkline Fund's balance sheet as an amount due from component units for the Authority's reimbursement of payroll and related expenses. An account payable due to MDOT is recorded in the Authority's balance sheet for each year.

#### Note 11 Contingencies and Commitments

##### a. Litigation

MDOT is party to various legal proceedings seeking damages and other relief, including injunctive or mandatory relief. The ultimate disposition and consequences of such legal proceedings is not presently determinable, but such ultimate disposition and consequences of all these legal proceedings will not, themselves, in the opinion of the State of Michigan's Attorney General, have a materially adverse effect on MDOT's financial position.

MDOT accrues liabilities related to significant legal proceedings if a loss is probable and reasonably estimable. In the event that a significant,

probable, and reasonably estimable loss is not settled prior to preparation of these statements, the obligation is recorded as a general long-term obligation (see Note 4 for more information).

A lawsuit pending that may have a significant impact on MDOT's finances, if resolved in a manner unfavorable to MDOT, is *County Road Association of Michigan et al v John M. Engler et al*. In March 2002, the County Road Association of Michigan and the Chippewa County Road Commission filed a lawsuit against John M. Engler and various State department directors concerning the provisions of Executive Order No. 2001-9. For further information on the lawsuit, see Note 23 of the fiscal year 2001-02 SOMCAFR.

As a result of Executive Order No. 2001-9, MDOT established a payable due to the State's General Fund for \$12.75 million in the Comprehensive Transportation Fund. Also, MDOT transferred \$20 million from the Michigan Transportation Fund to the Department of State and established a payable due to the Department of State for \$20 million associated with the collection of motor vehicle taxes and fees. In addition, MDOT transferred \$6.7 million from the Michigan Transportation Fund to the Department of Treasury for expenditures associated with the Department of Treasury's collection of motor vehicle taxes and fees.

b. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2002 and September 30, 2001, MDOT estimates the disallowance of recognized revenues will not be material to the financial statements.

c. Construction Projects

MDOT has entered into construction contracts that will be paid with future transportation related funds. As of September 30, 2002 and September 30, 2001, the balances remaining on these contracts were

\$624.5 million and \$583.2 million, respectively. The breakdown among special revenue funds is as follows (in millions):

	As of September 30	
	2002	2001
State Trunkline Fund	\$313.3	\$283.3
Comprehensive Transportation Fund	3.3	0.2
State Aeronautics Fund	18.9	3.8
Bond Proceeds Funds	208.8	220.7
Transportation Related Trust Fund	80.2	75.2
Total	<u>\$624.5</u>	<u>\$583.2</u>

Fund balances available to provide for the contracts are as follows (in millions):

	Reserved Fund Balance		Unreserved Fund Balance	
	As of September 30		As of September 30	
	2002	2001	2002	2001
State Trunkline Fund	\$431.6	\$334.5	\$	\$
Comprehensive Transportation Fund	45.5	45.8		
State Aeronautics Fund	10.7	14.8		
Bond Proceeds Funds			500.4	524.3
Transportation Related Trust Fund				
Total	<u>\$487.8</u>	<u>\$395.1</u>	<u>\$500.4</u>	<u>\$524.3</u>

**SUPPLEMENTAL FINANCIAL  
STATEMENTS AND SCHEDULES**

## Descriptions of Special Revenue Funds

### **MICHIGAN TRANSPORTATION FUND**

This Fund, established by Section 10, Act 51, P.A. 1951, as amended, is administered jointly by the Michigan Department of Transportation and the Department of State. In addition, Fund revenue is also collected by the Department of Treasury. The Fund is a receiving fund for the several tax revenues dedicated to highway purposes. Transfers are made to the General Fund to pay the cost of collection of the dedicated revenues and to the State Trunkline Fund, Comprehensive Transportation Fund, Economic Development Fund (a subfund of the State Trunkline Fund), and the Recreation Improvement Fund (a subfund within the General Fund at the Department of Natural Resources) in accordance with statutory formulas. Expenditures consist of grants to counties, cities, and villages for highway purposes in accordance with statutory formulas.

### **STATE TRUNKLINE FUND**

This Fund provides for construction and maintenance of highways. Its overall budget is subject to annual legislative review and appropriation, but the State Transportation Commission has significant discretion in determining the funding of individual projects. Major financing sources are transfers from the Michigan Transportation Fund, federal aid, and local participation. Expenditures and transfers are for administration, highway maintenance and construction, debt service, and various contractual obligations. This Fund was also used to record loans made to local units of government for reconstructing and resurfacing roadways. In accordance with the annual statutory provisions, unencumbered balances at fiscal year-end are transferred to the road and bridge construction account of the Fund.

In fiscal year 1987-88, the Economic Development Fund (EDF), a subfund, was created within the State Trunkline Fund. The statements for the State Trunkline Fund include the financial activity for EDF. A separate schedule summarizing EDF activity is included as a supplemental schedule in this report.

The Blue Water Bridge Fund (BWBF) was created as a subfund of the State Trunkline Fund during fiscal year 1993-94 to account for the Blue Water Bridge Project. Through provisions of Section 1012 in the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to BWBF for construction of the Blue Water Bridge Project. Repayment of the \$45 million loan began

in 1998. Repayments of the loan are expected to occur each fiscal year. The term of the loan will not exceed 30 years from the time the loan was obligated. A separate schedule summarizing BWBF activity is included as a supplemental schedule in this report.

### **COMPREHENSIVE TRANSPORTATION FUND**

This Fund was created for the purpose of planning, developing, and funding public transportation systems within the State. It was created by Acts 326, 327, and 328, P.A. 1972, and Act 197, P.A. 1973. In 1975, Acts 195, 196, and 239 were enacted, providing further additions and amendments to the laws governing this Fund. Fund revenues consist primarily of federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

### **STATE AERONAUTICS FUND**

This Fund, established by Act 327, P.A. 1945, administers development and capital improvement projects for local airports. Its budget is subject to annual legislative review and appropriation. Financing consists mostly of federal and local contributions and aviation fuel taxes. Expenditures and transfers are for administration and local airport improvement project costs. In accordance with statutory provisions, any unencumbered balance at fiscal year-end lapses and reverts to the Fund for appropriation in the following fiscal year.

### **COMBINED STATE TRUNKLINE BOND PROCEEDS FUND**

This Fund was established pursuant to Section 18b, Act 51, P.A. 1951, as amended, to account for the proceeds of State trunkline revenue dedicated bonds. These bonds are being used in part to finance the costs of reconstructing and resurfacing portions of the State trunkline system.

### **COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND**

This Fund was established pursuant to Section 18b, Act 51, P. A. 1951, as amended, to account for the proceeds of comprehensive transportation revenue dedicated bonds. These bonds are being used to finance part of the construction and acquisition of comprehensive transportation projects.

## **TRANSPORTATION RELATED TRUST FUND**

To achieve administrative efficiencies, effective October 1, 1990, the Special Federal Bridge Replacement Trust Fund, Federal County Road Trust Fund, Federal Urban Transportation System Trust Fund, and Highway Topics and Safety Program Trust Fund were combined in a single trust fund. The functions and purposes of these funds, although combined in a single fund, remain unchanged. At the end of fiscal year 1999-2000, the Metropolitan Planning Fund was closed to this trust fund. Changes in the financial activities of the Metropolitan Planning Fund changed the Michigan Department of Transportation's role from custodial agent to a trustee. At the end of fiscal year 2000-01, all of the transportation related trust funds were determined to be special revenue funds, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34. The following funds are included in the special revenue fund:

### **SPECIAL FEDERAL BRIDGE REPLACEMENT FUND**

This Fund was authorized by enabling legislation associated with Section 144 of the Federal Highway Act of 1970. The Fund accounts for the federal, State, and local funding used to upgrade State and locally owned bridges.

### **FEDERAL COUNTY ROAD FUND**

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1944, as amended. The Fund accounts for the federal, State, and local money expended to meet the road construction needs of rural areas and communities with populations less than 5,000.

### **FEDERAL URBAN TRANSPORTATION SYSTEM FUND**

This Fund was authorized by enabling legislation associated with the Federal Highway Act of 1970, as amended. The Fund accounts for the federal, State, and local money expended to meet the road construction needs of communities with populations of 5,000 or more.

### **HIGHWAY TOPICS AND SAFETY PROGRAM FUND**

This Fund was established by enabling legislation associated with the Federal Highway Acts of 1968 and 1973. The Fund accounts for federal, State, and local money used to fund urban and road safety projects.

**METROPOLITAN PLANNING FUND**

This Fund was established by Sections 112 and 134 of the Federal Highway Act of 1973 to account for federal funds that reimburse local regional planning agencies for operating expenses.



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MICHIGAN DEPARTMENT OF TRANSPORTATION  
Combining Balance Sheet - Special Revenue Funds  
As of September 30  
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2002	2001	2002	2001	2002	2001
<b>ASSETS</b>						
Current Assets:						
Cash and cash equivalents	\$	\$	\$ 1,078	\$ 326	\$	\$ 1
Equity in Common Cash	208,954	181,976	477,331	397,287	59,308	69,653
Receivables:						
Taxes, interest, and penalties (at net)	121,264	114,409				
Federal aid			102,321	99,224	6,247	12,754
Local units			28,213	20,754	361	344
Other funds and components units			48,123	48,862	12,848	12,090
Miscellaneous	7,429	4,614	8,784	6,465	406	133
Inventories			8,287	8,079		
Total Current Assets	<u>\$ 337,647</u>	<u>\$ 300,999</u>	<u>\$ 674,137</u>	<u>\$ 580,997</u>	<u>\$ 79,171</u>	<u>\$ 94,975</u>
Noncurrent Assets:						
Receivables:						
Taxes	\$ 4,307	\$ 6,347	\$	\$	\$	\$
Local units			35,566	37,173	3,713	2,154
Advances to other funds			27,734	26,442		
Land contracts			3,007	3,935		
Miscellaneous					2,604	2,935
Total Noncurrent Assets	<u>\$ 4,307</u>	<u>\$ 6,347</u>	<u>\$ 66,307</u>	<u>\$ 67,549</u>	<u>\$ 6,317</u>	<u>\$ 5,089</u>
Total Assets	<u>\$ 341,954</u>	<u>\$ 307,345</u>	<u>\$ 740,444</u>	<u>\$ 648,547</u>	<u>\$ 85,488</u>	<u>\$ 100,064</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Warrants outstanding	\$ 654	\$ 1,430	\$ 6,913	\$ 6,790	\$ 2,398	\$ 876
Accounts payable	236,958	232,969	126,881	130,084	10,432	21,118
Contract reserve payable			7,988	10,200	27	39
Due to other funds and components units	78,060	54,634	3,057	6,330	12,778	41
Deposits, permits, and other liabilities			657	2,881	675	854
Deferred revenue	21,974	11,966	9,497	3,621		
Total Current Liabilities	<u>\$ 337,647</u>	<u>\$ 300,999</u>	<u>\$ 154,992</u>	<u>\$ 159,907</u>	<u>\$ 26,311</u>	<u>\$ 22,927</u>
Long-Term Liabilities:						
Deferred revenue	4,307	6,347	14,671	15,205	2,604	2,935
Advances from other funds			27,734	26,442		
Total Liabilities	<u>\$ 341,954</u>	<u>\$ 307,345</u>	<u>\$ 197,397</u>	<u>\$ 201,553</u>	<u>\$ 28,915</u>	<u>\$ 25,862</u>
Fund Balances:						
Reserved for encumbrances	\$	\$	\$ 21,128	\$ 28,948	\$ 38,713	\$ 38,379
Reserved for unencumbered restricted revenue balances			232,920	209,164	6,332	7,373
Reserved for unencumbered capital outlay and work projects			195,604	125,248	430	
Reserved for revolving loans			18,390	21,746	11,000	14,200
Reserved for construction and debt service			45,315	35,902		
Reserved for noncurrent assets			29,690	25,985		
Total Reserved	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 543,047</u>	<u>\$ 446,993</u>	<u>\$ 56,475</u>	<u>\$ 59,952</u>
Unreserved					98	14,250
Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 543,047</u>	<u>\$ 446,993</u>	<u>\$ 56,573</u>	<u>\$ 74,202</u>
Total Liabilities and Fund Balances	<u>\$ 341,954</u>	<u>\$ 307,345</u>	<u>\$ 740,444</u>	<u>\$ 648,547</u>	<u>\$ 85,488</u>	<u>\$ 100,064</u>

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
\$ 435	\$ 5	\$ 4	\$	\$	\$	\$ 625	\$ 62	\$ 2,142	\$ 394
21,554	11,082	434,171	514,108	90,708	7,742			1,292,026	1,181,848
1,051	535							122,315	114,943
44,418	21,797	5,430	23,078			33,871	32,119	192,287	188,973
14,524	3,751	501	1,874			15,207	12,562	58,806	39,285
		1,162	4,740					62,133	65,692
84	40	136	4			117	319	16,957	11,576
								8,287	8,079
<u>\$ 82,067</u>	<u>\$ 37,211</u>	<u>\$ 441,405</u>	<u>\$ 543,805</u>	<u>\$ 90,708</u>	<u>\$ 7,742</u>	<u>\$ 49,820</u>	<u>\$ 45,062</u>	<u>\$ 1,754,955</u>	<u>\$ 1,610,791</u>
\$ 15	\$ 790	\$	\$	\$	\$	\$	\$	\$ 4,322	\$ 6,347
	974							40,069	40,301
								27,734	26,442
								3,007	3,935
								2,604	2,935
<u>\$ 805</u>	<u>\$ 974</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 77,736</u>	<u>\$ 79,958</u>
<u>\$ 82,872</u>	<u>\$ 38,184</u>	<u>\$ 441,405</u>	<u>\$ 543,805</u>	<u>\$ 90,708</u>	<u>\$ 7,742</u>	<u>\$ 49,820</u>	<u>\$ 45,062</u>	<u>\$ 1,832,691</u>	<u>\$ 1,690,750</u>
\$ 613	\$ 891	\$ 597	\$ 1,499	\$ 88	\$ 2	\$ 670	\$ 1,494	\$ 11,932	\$ 12,982
62,526	13,291	28,951	23,075	354	612	33,223	27,843	499,325	448,992
849	983	1,158	1,126			9,315	3,892	19,337	16,240
17	26					1,162	5,268	95,075	66,299
								1,332	3,735
4,941	5,092	529	969			5,451	6,565	42,392	28,212
<u>\$ 68,946</u>	<u>\$ 20,283</u>	<u>\$ 31,234</u>	<u>\$ 26,669</u>	<u>\$ 442</u>	<u>\$ 614</u>	<u>\$ 49,820</u>	<u>\$ 45,062</u>	<u>\$ 669,392</u>	<u>\$ 576,461</u>
15								21,597	24,486
								27,734	26,442
<u>\$ 68,961</u>	<u>\$ 20,283</u>	<u>\$ 31,234</u>	<u>\$ 26,669</u>	<u>\$ 442</u>	<u>\$ 614</u>	<u>\$ 49,820</u>	<u>\$ 45,062</u>	<u>\$ 718,722</u>	<u>\$ 627,389</u>
\$ 2,874	\$ 2,940	\$	\$	\$	\$	\$	\$	\$ 62,716	\$ 70,267
	154							239,252	216,691
7,816	11,742							203,850	136,990
2,200	2,200							31,590	38,146
								45,315	35,902
								29,690	25,985
<u>\$ 12,890</u>	<u>\$ 17,036</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 612,412</u>	<u>\$ 523,982</u>
1,021	865	410,171	517,136	90,266	7,128			501,556	539,379
<u>\$ 13,912</u>	<u>\$ 17,901</u>	<u>\$ 410,171</u>	<u>\$ 517,136</u>	<u>\$ 90,266</u>	<u>\$ 7,128</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,113,968</u>	<u>\$ 1,063,361</u>
<u>\$ 82,872</u>	<u>\$ 38,184</u>	<u>\$ 441,405</u>	<u>\$ 543,805</u>	<u>\$ 90,708</u>	<u>\$ 7,742</u>	<u>\$ 49,820</u>	<u>\$ 45,062</u>	<u>\$ 1,832,691</u>	<u>\$ 1,690,750</u>

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Special Revenue Funds  
Fiscal Years Ended September 30  
(In Thousands)

	Michigan Transportation Fund		State Trunkline Fund		Comprehensive Transportation Fund	
	2002	2001	2002	2001	2002	2001
<b>REVENUES</b>						
Taxes	\$ 1,910,117	\$ 1,845,514	\$	\$	\$ 78,819	\$ 73,728
Licenses and permits	58,024	54,671	15,794	18,898	294	258
Federal aid			567,187	655,096	27,789	31,987
Local participation			31,514	36,205	43	65
Interest earnings	4,496	10,985	7,815	13,684	727	2,240
Nonoperating revenue - bridges			2,223	2,309		
Miscellaneous revenue	258	381	38,356	29,973	1,254	2,077
Total Revenues	<u>\$ 1,972,895</u>	<u>\$ 1,911,550</u>	<u>\$ 662,889</u>	<u>\$ 756,167</u>	<u>\$ 108,926</u>	<u>\$ 110,356</u>
<b>EXPENDITURES</b>						
Administration and Operations:						
Administration and maintenance	\$ 43	\$	\$ 368,797	\$ 362,197	\$ 9,795	\$ 9,876
Bus operating assistance grants					172,043	165,625
Counties and local municipalities	920,905	914,782	137,941	140,162	62,306	81,840
Airport development						
Nonoperating expenditures - bridges			2,152	2,286		
Trust fund construction activity						
Capital lease payments			252	463		
Total Administration and Operations	<u>\$ 920,948</u>	<u>\$ 914,782</u>	<u>\$ 509,142</u>	<u>\$ 505,109</u>	<u>\$ 244,144</u>	<u>\$ 257,340</u>
Capital Outlay:						
Roads and bridges	\$	\$	\$ 780,108	\$ 923,000	\$	\$
Other capital outlay			12,654	15,164		
Total Capital Outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 792,762</u>	<u>\$ 938,164</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 920,948</u>	<u>\$ 914,782</u>	<u>\$ 1,301,903</u>	<u>\$ 1,443,272</u>	<u>\$ 244,144</u>	<u>257,340</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 1,051,947</u>	<u>\$ 996,768</u>	<u>\$ (639,014)</u>	<u>\$ (687,105)</u>	<u>\$ (135,218)</u>	<u>\$ (146,984)</u>
<b>OTHER FINANCING SOURCES</b>						
Michigan Transportation Fund distribution	\$	\$	\$ 641,056	\$ 634,294	\$ 160,531	\$ 159,197
Grants and transfers from other funds and component units	1,340	1,990	189,732	174,508	1,238	1,103
Proceeds from notes issued						
Proceeds from bonds issued						
Premium on bonds issued						
Total Other Financing Sources	<u>\$ 1,340</u>	<u>\$ 1,990</u>	<u>\$ 830,788</u>	<u>\$ 808,802</u>	<u>\$ 161,769</u>	<u>\$ 160,300</u>
<b>OTHER FINANCING USES</b>						
Michigan Transportation Fund distribution	\$ 801,587	\$ 793,491	\$	\$	\$	\$
Grants and transfers to other funds and component units	251,699	205,267	29,027	16,712	22,829	2,083
Debt service			66,692	47,200	21,351	21,698
Total Other Financing Uses	<u>\$ 1,053,286</u>	<u>\$ 998,758</u>	<u>\$ 95,720</u>	<u>\$ 63,913</u>	<u>\$ 44,180</u>	<u>\$ 23,781</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (1,051,947)</u>	<u>\$ (996,768)</u>	<u>\$ 735,067</u>	<u>\$ 744,889</u>	<u>\$ 117,589</u>	<u>\$ 136,519</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$</u>	<u>\$</u>	<u>\$ 96,054</u>	<u>\$ 57,784</u>	<u>\$ (17,629)</u>	<u>\$ (10,465)</u>
Fund balances - Beginning of fiscal year			446,993	389,209	74,202	84,667
Fund balances - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 543,047</u>	<u>\$ 446,993</u>	<u>\$ 56,573</u>	<u>\$ 74,202</u>

State Aeronautics Fund		Combined State Trunkline Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Transportation Related Trust Fund		Totals	
2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
\$ 6,699	\$ 6,706	\$	\$	\$	\$	\$	\$	\$ 1,995,635	\$ 1,925,948
286	314							74,398	74,141
106,090	86,647	49,334	31,312			194,139	183,232	944,540	988,275
16,351	21,440	6,679	8,516			78,687	55,093	133,273	121,320
508	758	8,252	4,615	244	607			22,042	32,890
								2,223	2,309
1,086	785	217		7	2	11		41,189	33,220
<u>\$ 131,020</u>	<u>\$ 116,651</u>	<u>\$ 64,482</u>	<u>\$ 44,444</u>	<u>\$ 251</u>	<u>\$ 609</u>	<u>\$ 272,838</u>	<u>\$ 238,325</u>	<u>\$ 3,213,301</u>	<u>\$ 3,178,102</u>
\$ 6,081	\$ 6,898	\$ 3	\$	\$	\$	\$	\$	\$ 384,719	\$ 378,971
								172,043	165,625
				6,143	5,173			1,127,295	1,141,957
153,249	124,736							153,249	124,736
								2,152	2,286
						277,694	244,617	277,694	244,617
								252	463
<u>\$ 159,330</u>	<u>\$ 131,634</u>	<u>\$ 3</u>	<u>\$ 0</u>	<u>\$ 6,143</u>	<u>\$ 5,173</u>	<u>\$ 277,694</u>	<u>\$ 244,617</u>	<u>\$ 2,117,404</u>	<u>\$ 2,058,654</u>
\$	\$	\$ 364,016	\$ 251,939	\$	\$	\$	\$	\$ 1,144,124	\$ 1,174,939
								12,654	15,164
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 364,016</u>	<u>\$ 251,939</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,156,778</u>	<u>\$ 1,190,103</u>
\$ 159,330	\$ 131,634	\$ 364,019	\$ 251,939	\$ 6,143	\$ 5,173	\$ 277,694	\$ 244,617	\$ 3,274,182	\$ 3,248,757
\$ (28,310)	\$ (14,984)	\$ (299,537)	\$ (207,496)	\$ (5,892)	\$ (4,563)	\$ (4,856)	\$ (6,291)	\$ (60,881)	\$ (70,655)
\$	\$	\$	\$	\$	\$	\$	\$	\$ 801,587	\$ 793,491
24,599	17,160	8,640	31			4,888	6,300	230,437	201,091
		\$ 200,000	400,000					200,000	400,000
			308,200	82,310				82,310	308,200
			3,901	6,722				6,722	3,901
<u>\$ 24,599</u>	<u>\$ 17,160</u>	<u>\$ 208,640</u>	<u>\$ 712,132</u>	<u>\$ 89,033</u>	<u>\$ 0</u>	<u>\$ 4,888</u>	<u>\$ 6,300</u>	<u>\$ 1,321,057</u>	<u>\$ 1,706,684</u>
\$	\$	\$	\$	\$	\$	\$	\$	\$ 801,587	\$ 793,491
279	265	16,068	5,013	3	3	32	8	319,937	229,351
								88,043	68,898
<u>\$ 279</u>	<u>\$ 265</u>	<u>\$ 16,068</u>	<u>\$ 5,013</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 32</u>	<u>\$ 8</u>	<u>\$ 1,209,567</u>	<u>\$ 1,091,740</u>
\$ 24,321	\$ 16,895	\$ 192,572	\$ 707,119	\$ 89,030	\$ (3)	\$ 4,856	\$ 6,291	\$ 111,489	\$ 614,943
\$ (3,990)	\$ 1,912	\$ (106,965)	\$ 499,624	\$ 83,138	\$ (4,566)	\$ 0	\$ 0	\$ 50,608	\$ 544,288
17,901	15,990	517,136	17,512	7,128	11,694			1,063,361	519,072
<u>\$ 13,912</u>	<u>\$ 17,901</u>	<u>\$ 410,171</u>	<u>\$ 517,136</u>	<u>\$ 90,266</u>	<u>\$ 7,128</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,113,968</u>	<u>\$ 1,063,361</u>

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)  
Special Revenue Funds  
Fiscal Year Ended September 30, 2002  
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>									
Taxes	\$ 1,910,117	\$ 1,910,117	\$ 0	\$	\$	\$	\$ 78,819	\$ 78,819	\$ 0
Licenses and permits	58,024	58,024	0	15,794	15,794	0	294	294	0
Federal aid				567,187	567,187	0	27,789	27,789	0
Local participation				31,514	31,514	0	43	43	0
Interest earnings	4,496	4,496	0	7,815	7,815	0	727	727	0
Nonoperating revenue - bridges				2,223	2,223	0			
Miscellaneous revenue	258	258	0	38,356	38,356	0	1,254	1,254	0
<b>Total Revenues</b>	<b>\$ 1,972,895</b>	<b>\$ 1,972,895</b>	<b>\$ 0</b>	<b>\$ 662,889</b>	<b>\$ 662,889</b>	<b>\$ 0</b>	<b>\$ 108,926</b>	<b>\$ 108,926</b>	<b>\$ 0</b>
<b>EXPENDITURES AND ENCUMBRANCES</b>									
Administration and Operations:									
Administration and maintenance	\$	\$ 43	\$ (43)	\$ 423,431	\$ 385,805	\$ 37,626	\$ 11,250	\$ 10,040	\$ 1,210
Bus operating assistance grants							176,291	172,043	4,248
Counties and local municipalities	934,947	920,905	14,042	196,690	137,941	58,749	111,743	100,774	10,970
Airport development									
Nonoperating expenditure - bridges				2,223	2,152	71			
<b>Total Administration and Operations</b>	<b>\$ 934,947</b>	<b>\$ 920,948</b>	<b>\$ 13,999</b>	<b>\$ 622,344</b>	<b>\$ 525,898</b>	<b>\$ 96,447</b>	<b>\$ 299,285</b>	<b>\$ 282,857</b>	<b>\$ 16,428</b>
Capital Outlay:									
Roads and bridges	\$	\$	\$	\$ 792,448	\$ 780,886	\$ 11,562	\$	\$	\$
Other capital outlay				61,588	16,248	45,340			
<b>Total Capital Outlay</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 854,036</b>	<b>\$ 797,134</b>	<b>\$ 56,902</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Total Expenditures and Encumbrances</b>	<b>\$ 934,947</b>	<b>\$ 920,948</b>	<b>\$ 13,999</b>	<b>\$ 1,476,381</b>	<b>\$ 1,323,031</b>	<b>\$ 153,349</b>	<b>\$ 299,285</b>	<b>\$ 282,857</b>	<b>\$ 16,428</b>
Excess of Revenues Over (Under) Expenditures and Encumbrances	\$ 1,037,948	\$ 1,051,947	\$ 13,999	\$ (813,492)	\$ (660,142)	\$ 153,349	\$ (190,359)	\$ (173,931)	\$ 16,428
<b>OTHER FINANCING SOURCES</b>									
Michigan Transportation Fund distribution	\$	\$	\$	\$ 641,056	\$ 641,056	\$ 0	\$ 160,531	\$ 160,531	\$ 0
Grants and transfers from other funds and component units	1,340	1,340	0	189,732	189,732	0	1,238	1,238	0
<b>Total Other Financing Sources</b>	<b>\$ 1,340</b>	<b>\$ 1,340</b>	<b>\$ 0</b>	<b>\$ 830,788</b>	<b>\$ 830,788</b>	<b>\$ 0</b>	<b>\$ 161,769</b>	<b>\$ 161,769</b>	<b>\$ 0</b>
<b>OTHER FINANCING USES</b>									
Michigan Transportation Fund distribution	\$ 812,540	\$ 801,587	\$ 10,953	\$	\$	\$	\$	\$	\$
Grants and transfers to other funds and component units	262,731	251,699	11,031	15,253	29,027	(13,775)	22,795	22,829	(34)
Debt service				66,693	66,693	0	21,799	21,351	448
<b>Total Financing Uses</b>	<b>\$ 1,075,270</b>	<b>\$ 1,053,286</b>	<b>\$ 21,984</b>	<b>\$ 81,945</b>	<b>\$ 95,721</b>	<b>\$ (13,776)</b>	<b>\$ 44,594</b>	<b>\$ 44,180</b>	<b>\$ 414</b>
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ (1,073,931)	\$ (1,051,947)	\$ 21,984	\$ 748,842	\$ 735,066	\$ (13,776)	\$ 117,175	\$ 117,589	\$ 414
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	\$ (35,983)	\$ 0	\$ 35,983	\$ (64,649)	\$ 74,925	\$ 139,574	\$ (73,184)	\$ (56,342)	\$ 16,842
<b>RECONCILING ITEMS</b>									
Encumbrances at September 30		\$			\$ 21,128			\$ 38,713	
Funds not annually budgeted									
<b>Net Reconciling Items</b>		<b>\$ 0</b>			<b>\$ 21,128</b>			<b>\$ 38,713</b>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 96,054			\$ (17,629)	
<b>FUND BALANCES (GAAP BASIS)</b>									
Beginning balances					446,993			74,202	
Ending balances		\$ 0			\$ 543,047			\$ 56,573	

State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund	Budget	Actual	Variance Favorable (Unfavorable)
\$ 6,699	\$ 6,699	\$ 0	\$	\$	\$	\$ 1,995,635	\$ 1,995,635	\$ 0
286	286	0				74,398	74,398	0
106,090	106,090	0				701,066	701,066	0
16,351	16,351	0				47,907	47,907	0
508	508	0				13,546	13,546	0
						2,223	2,223	0
1,086	1,086	0				40,955	40,955	0
<u>\$ 131,020</u>	<u>\$ 131,020</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,875,730</u>	<u>\$ 2,875,730</u>	<u>\$ 0</u>
\$ 7,113	\$ 6,132	\$ 981	\$	\$	\$	\$ 441,794	\$ 402,020	\$ 39,773
						176,291	172,043	4,248
						1,243,381	1,159,620	83,761
156,871	156,072	799				156,871	156,072	799
						2,223	2,152	71
<u>\$ 163,984</u>	<u>\$ 162,204</u>	<u>\$ 1,779</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,020,559</u>	<u>\$ 1,891,907</u>	<u>\$ 128,652</u>
\$	\$	\$	\$	\$	\$	\$ 792,448	\$ 780,886	\$ 11,562
						61,588	16,248	45,340
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 854,036</u>	<u>\$ 797,134</u>	<u>\$ 56,903</u>
\$ 163,984	\$ 162,204	\$ 1,779	\$ 0	\$ 0	\$ 0	\$ 2,874,596	\$ 2,689,041	\$ 185,554
\$ (32,964)	\$ (31,185)	\$ 1,779	\$ 0	\$ 0	\$ 0	\$ 1,134	\$ 186,689	\$ 185,554
\$	\$	\$	\$	\$	\$	\$ 801,587	\$ 801,587	\$ 0
24,599	24,599	0				216,909	216,909	0
<u>\$ 24,599</u>	<u>\$ 24,599</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,018,496</u>	<u>\$ 1,018,496</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$	\$	\$ 812,540	\$ 801,587	\$ 10,953
413	279	135				301,192	303,834	(2,642)
						88,492	88,044	447
<u>\$ 413</u>	<u>\$ 279</u>	<u>\$ 135</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,202,223</u>	<u>\$ 1,193,465</u>	<u>\$ 8,758</u>
\$ 24,186	\$ 24,321	\$ 135	\$ 0	\$ 0	\$ 0	\$ (183,728)	\$ (174,969)	\$ 8,758
<u>\$ (8,778)</u>	<u>\$ (6,864)</u>	<u>\$ 1,914</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (182,594)</u>	<u>\$ 11,719</u>	<u>\$ 194,313</u>
\$ 2,874			\$ (106,965)	\$ 83,138	\$ 0	\$ 62,716	(23,828)	
\$ 2,874			\$ (106,965)	\$ 83,138	\$ 0	\$ 38,888		
\$ (3,990)			\$ (106,965)	\$ 83,138	\$ 0	\$ 50,608		
17,901			517,136	7,128		1,063,361		
<u>\$ 13,912</u>			<u>\$ 410,171</u>	<u>\$ 90,266</u>	<u>\$ 0</u>	<u>\$ 1,113,968</u>		

**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual (Note 2)  
Special Revenue Funds  
Fiscal Year Ended September 30, 2001  
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund			Comprehensive Transportation Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>									
Taxes	\$ 1,845,514	\$ 1,845,514	\$ 0	\$	\$	\$	\$ 73,728	\$ 73,728	\$ 0
Licenses and permits	54,671	54,671	0	18,898	18,898	0	258	258	0
Federal aid				655,096	655,096	0	31,987	31,987	0
Local participation				36,205	36,205	0	65	65	0
Interest earnings	10,985	10,985	0	13,684	13,684	0	2,240	2,240	0
Nonoperating revenue - bridges				2,309	2,309	0			
Miscellaneous revenue	381	381	0	29,973	29,973	0	2,077	2,077	0
<b>Total Revenues</b>	<b>\$ 1,911,550</b>	<b>\$ 1,911,550</b>	<b>\$ 0</b>	<b>\$ 756,166</b>	<b>\$ 756,166</b>	<b>\$ 0</b>	<b>\$ 110,356</b>	<b>\$ 110,356</b>	<b>\$ 0</b>
<b>EXPENDITURES AND ENCUMBRANCES</b>									
Administration and Operations:									
Administration and maintenance	\$	\$	\$	\$ 415,163	\$ 384,873	\$ 30,290	\$ 11,627	\$ 10,055	\$ 1,572
Bus operating assistance grants							166,306	166,273	33
Counties and local municipalities	921,401	914,782	6,619	200,987	140,162	60,825	134,459	119,391	15,068
Airport development									
Nonoperating expenditure - bridges				2,309	2,286	23			
<b>Total Administration and Operations</b>	<b>\$ 921,401</b>	<b>\$ 914,782</b>	<b>\$ 6,619</b>	<b>\$ 618,459</b>	<b>\$ 527,322</b>	<b>\$ 91,138</b>	<b>\$ 312,392</b>	<b>\$ 295,719</b>	<b>\$ 16,673</b>
Capital Outlay:									
Roads and bridges	\$	\$	\$	\$ 924,693	\$ 924,137	\$ 555	\$	\$	\$
Other capital outlay				57,093	20,762	36,331			
<b>Total Capital Outlay</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 981,786</b>	<b>\$ 944,898</b>	<b>\$ 36,888</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>
<b>Total Expenditures and Encumbrances</b>	<b>\$ 921,401</b>	<b>\$ 914,782</b>	<b>\$ 6,619</b>	<b>\$ 1,600,245</b>	<b>\$ 1,472,219</b>	<b>\$ 128,025</b>	<b>\$ 312,392</b>	<b>\$ 295,719</b>	<b>\$ 16,673</b>
Excess of Revenues Over (Under) Expenditures and Encumbrances	\$ 990,150	\$ 996,768	\$ 6,619	\$ (844,079)	\$ (716,055)	\$ 128,025	\$ (202,036)	\$ (185,363)	\$ 16,673
<b>OTHER FINANCING SOURCES</b>									
Michigan Transportation Fund distributor Grants and transfers from other funds and component units	\$ 1,990	\$ 1,990	\$ 0	\$ 174,508	\$ 174,508	\$ 0	\$ 1,103	\$ 1,103	\$ 0
<b>Total Other Financing Sources</b>	<b>\$ 1,990</b>	<b>\$ 1,990</b>	<b>\$ 0</b>	<b>\$ 808,802</b>	<b>\$ 808,802</b>	<b>\$ 0</b>	<b>\$ 160,300</b>	<b>\$ 160,300</b>	<b>\$ 0</b>
<b>OTHER FINANCING USES</b>									
Michigan Transportation Fund distributor Grants and transfers to other funds and component units	\$ 799,217	\$ 793,491	\$ 5,726	\$	\$	\$	\$	\$	\$
Debt service	215,129	205,267	9,862	16,601	16,712	(111)	278	2,083	(1,805)
<b>Total Financing Uses</b>	<b>\$ 1,014,346</b>	<b>\$ 998,758</b>	<b>\$ 15,588</b>	<b>\$ 63,802</b>	<b>\$ 63,912</b>	<b>\$ (111)</b>	<b>\$ 21,976</b>	<b>\$ 23,781</b>	<b>\$ (1,805)</b>
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ (1,012,356)	\$ (996,768)	\$ 15,588	\$ 745,000	\$ 744,889	\$ (111)	\$ 138,324	\$ 136,518	\$ (1,805)
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	\$ (22,207)	\$ 0	\$ 22,207	\$ (99,077)	\$ 28,836	\$ 127,913	\$ (63,712)	\$ (48,844)	\$ 14,868
<b>RECONCILING ITEMS</b>									
Encumbrances at September 30		\$			\$ 28,948			\$ 38,379	
Funds not annually budgeted									
<b>Net Reconciling Items</b>		<b>\$ 0</b>			<b>\$ 28,948</b>			<b>\$ 38,379</b>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 57,784			\$ (10,465)	
<b>FUND BALANCES (GAAP BASIS)</b>									
Beginning balances					389,209			84,667	
Ending balances		\$ 0			\$ 446,993			\$ 74,202	



State Aeronautics Fund			Funds Not Annually Budgeted			Totals		
Budget	Actual	Variance Favorable (Unfavorable)	Combined State Trunkline Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund	Transportation Related Trust Fund	Budget	Actual	Variance Favorable (Unfavorable)
\$ 6,706	\$ 6,706	\$ 0	\$	\$	\$	\$ 1,925,948	\$ 1,925,948	\$ 0
314	314	0				74,141	74,141	0
86,647	86,647	0				773,730	773,730	0
21,440	21,440	0				57,711	57,711	0
758	758	0				27,667	27,667	0
785	785	0				2,309	2,309	0
						33,218	33,218	0
<u>\$ 116,651</u>	<u>\$ 116,651</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,894,724</u>	<u>\$ 2,894,724</u>	<u>\$ 0</u>
\$ 7,878	\$ 6,934	\$ 944	\$	\$	\$	\$ 434,668	\$ 401,862	\$ 32,805
						166,306	166,273	33
						1,256,846	1,174,335	82,511
128,633	127,641	992				128,633	127,641	992
						2,309	2,286	23
<u>\$ 136,511</u>	<u>\$ 134,575</u>	<u>\$ 1,936</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,988,762</u>	<u>\$ 1,872,398</u>	<u>\$ 116,365</u>
\$	\$	\$	\$	\$	\$	\$ 924,693	\$ 924,137	\$ 556
						57,093	20,762	36,331
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 981,786</u>	<u>\$ 944,899</u>	<u>\$ 36,887</u>
\$ 136,511	\$ 134,575	\$ 1,936	\$ 0	\$ 0	\$ 0	\$ 2,970,548	\$ 2,817,296	\$ 153,252
\$ (19,860)	\$ (17,925)	\$ 1,936	\$ 0	\$ 0	\$ 0	\$ (75,824)	\$ 77,428	\$ 153,252
\$	\$	\$	\$	\$	\$	\$ 793,491	\$ 793,491	\$ 0
17,160	17,160	0				194,761	194,761	0
<u>\$ 17,160</u>	<u>\$ 17,160</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 988,252</u>	<u>\$ 988,252</u>	<u>\$ 0</u>
\$	\$	\$	\$	\$	\$	\$ 799,217	\$ 793,491	\$ 5,726
336	265	72				232,344	224,326	8,018
						68,898	68,898	0
<u>\$ 336</u>	<u>\$ 265</u>	<u>\$ 72</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,100,460</u>	<u>\$ 1,086,716</u>	<u>\$ 13,744</u>
\$ 16,824	\$ 16,895	\$ 72	\$ 0	\$ 0	\$ 0	\$ (112,208)	\$ (98,464)	\$ 13,744
<u>\$ (3,037)</u>	<u>\$ (1,029)</u>	<u>\$ 2,008</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (188,032)</u>	<u>\$ (21,036)</u>	<u>\$ 166,996</u>
\$ 2,940			\$ 499,624	\$ (4,566)			\$ 70,267	
							495,057	
<u>\$ 2,940</u>			<u>\$ 499,624</u>	<u>\$ (4,566)</u>	<u>\$ 0</u>		<u>\$ 565,325</u>	
\$ 1,912			\$ 499,624	\$ (4,566)	\$ 0		\$ 544,288	
15,990			17,512	11,694			519,072	
<u>\$ 17,901</u>			<u>\$ 517,136</u>	<u>\$ 7,128</u>	<u>\$ 0</u>		<u>\$ 1,063,361</u>	

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## Descriptions of Debt Service Funds

### **COMBINED STATE TRUNKLINE BOND AND INTEREST REDEMPTION FUND**

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all State Trunkline Fund related bond issues. As of October 1, 1986, the debt service funds for the outstanding bond issues were merged by equity transfer into this debt service fund. The merged funds include the 1983 State Trunkline Fund Bond and Interest Redemption Fund, the 1984 State Trunkline Fund Bond and Interest Redemption Fund, the 1986 State Trunkline Refunding Bond and Interest Redemption Fund, and the Michigan Trunkline Bond and Interest Redemption Fund, Series II through IX. All subsequent State Trunkline Fund related bond issues are accounted for in this Fund.

The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the State Trunkline Fund. Debt service requirements are funded by annual appropriations in the State Trunkline Fund.

### **COMBINED COMPREHENSIVE TRANSPORTATION BOND AND INTEREST REDEMPTION FUND**

This Fund was established pursuant to Act 51, P.A. 1951, as amended, to account for debt service on all Comprehensive Transportation Fund related bond issues. As of October 1, 1986, the debt service funds for outstanding bond issues were merged by equity transfer into this debt service fund. The merged funds include the Comprehensive Transportation Bond and Interest Redemption Fund and the 1986 Comprehensive Transportation Refunding Bond and Interest Redemption Fund. All subsequent Comprehensive Transportation Fund related bond issues are accounted for in this Fund.

The bonds are not general obligations of the State of Michigan but are payable solely out of funds restricted as to use for comprehensive transportation purposes by Article IX, Section 9 of the Michigan Constitution and irrevocably pledged by law for deposit in the Comprehensive Transportation Fund. Debt service requirements are funded by annual appropriations in the Comprehensive Transportation Fund.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet

Debt Service Funds

As of September 30

(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Totals	
	2002	2001	2002	2001	2002	2001
<b>ASSETS</b>						
Current Assets:						
Equity in Common Cash	\$ 190	\$	\$	\$	\$ 190	\$
Total Assets	\$ 190	\$ 0	\$ 0	\$ 0	\$ 190	\$ 0
<b>LIABILITIES AND FUND BALANCES</b>						
Current Liabilities:						
Accounts payable	\$ 190	\$	\$	\$	\$ 190	\$ 0
Total Liabilities	\$ 190	\$ 0	\$ 0	\$ 0	\$ 190	\$ 0
Fund Balances	0	0	0	0	0	0
Total Liabilities and Fund Balances	\$ 190	\$ 0	\$ 0	\$ 0	\$ 190	\$ 0

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Debt Service Funds  
Fiscal Years Ended September 30  
(In Thousands)

	Combined State Trunkline Bond and Interest Redemption Fund		Combined Comprehensive Transportation Bond and Interest Redemption Fund		Total	
	2002	2001	2002	2001	2002	2001
<b>REVENUES</b>						
Interest earnings	\$	\$	\$ 1	\$ 1	\$ 1	\$ 1
Total Revenues	\$ 0	\$ 0	\$ 1	\$ 1	\$ 1	\$ 1
<b>EXPENDITURES</b>						
Cost of issuance	\$ 683	\$	\$ 616	\$ 293	\$ 1,299	\$ 293
Bond principal retirement	19,690	18,670	11,130	10,465	30,820	29,135
Bond interest and fiscal charges	47,003	29,526	10,221	11,233	57,224	40,758
Total Expenditures	\$67,376	\$ 48,196	\$ 21,967	\$ 21,991	\$ 89,343	\$ 70,187
Excess of Revenues Over (Under) Expenditures	\$ (67,375)	\$ (48,195)	\$ (21,967)	\$ (21,990)	\$ (89,342)	\$ (70,185)
<b>OTHER FINANCING SOURCES</b>						
Proceeds from refunding bond issues	\$ 97,870	\$	\$ 89,620	\$ 27,765	\$ 187,490	\$ 27,765
Premium on bonds issued	6,630		6,023	600	12,653	600
Transfer from State Trunkline Fund	66,693	48,196			66,693	48,196
Transfer from Comprehensive Transportation Fund			21,351	21,698	21,351	21,698
Total Other Financing Sources	\$ 171,193	\$ 48,195	\$ 116,994	\$ 50,063	\$ 288,187	\$ 98,258
<b>OTHER FINANCING USES</b>						
Transfer to Department of Treasury for operations	\$	\$	\$ 1	\$ 1	\$ 1	\$ 1
Payment to refunded bond escrow agent	103,817		95,027	28,072	198,844	28,072
Total Other Financing Uses	\$ 103,817	\$ 0	\$ 95,028	\$ 28,073	\$ 198,845	\$ 28,073
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ 67,375	\$ 48,195	\$ 21,967	\$ 21,990	\$ 89,342	\$ 70,185
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$	\$	\$	\$	\$	\$
Fund balances - Beginning of fiscal year						
Fund balances - End of fiscal year	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Economic Development Fund  
Fiscal Years Ended September 30  
(In Thousands)

	2002	2001
<b>REVENUES AND OTHER SOURCES</b>		
Licenses and permits	\$ 10,241	\$ 13,486
Federal aid	40,225	33,037
Local participation	20,147	21,013
Interest earnings	2,273	5,301
Transfers - Michigan Transportation Fund	40,275	40,275
Transfers - Other	395	
Miscellaneous	708	
Total Revenues and Other Sources	\$ 114,264	\$ 113,111
<b>EXPENDITURES AND OTHER USES</b>		
Administration	\$ 447	\$ 500
Forest roads	5,025	5,034
Targeted industries - State takeovers	21,164	19,202
Rural county urban system	3,250	3,440
Urban county congestion	33,856	29,861
Rural county primary	36,859	44,345
Debt service	9,355	6,607
Total Expenditures and Other Uses	\$ 109,956	\$ 108,988
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 4,308	\$ 4,123
Fund Balances - Beginning of fiscal year	87,807	83,684
Fund Balances - End of fiscal year	\$ 92,115	\$ 87,807

The Economic Development Fund (EDF) was created as a subfund of the State Trunkline Fund during fiscal year 1987-88. The amounts shown in this schedule have been reported as part of the State Trunkline Fund in previous statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to EDF.

Revenues are derived from the Michigan Transportation Fund, increased motor vehicle fee income, federal funds for expenditures eligible for matching, local matching funds which are not less than 25% for each project, and interest earnings. EDF money is expended for the purpose of enhancing the State's ability to compete in an international economy, serving as a catalyst for the economic growth of the State, and improving the quality of life in the rural and urban areas of the State.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Schedule of Revenues, Expenditures, and Changes in Fund Balances  
Blue Water Bridge Fund  
Fiscal Years Ended September 30  
(In Thousands)

	<u>2002</u>	<u>2001</u>
REVENUES AND OTHER SOURCES		
Interest earnings	\$ 342	\$ 1,015
Miscellaneous	11,136	11,478
Total Revenues and Other Sources	<u>\$ 11,478</u>	<u>\$ 12,493</u>
EXPENDITURES AND OTHER USES		
Administration and maintenance	\$ 3,954	\$ 3,823
Roads and bridges	1,529	6,309
Grants and transfers to other funds	2,534	41
Debt service	2,309	2,308
Total Expenditures and Other Uses	<u>\$ 10,326</u>	<u>\$ 12,481</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 1,152	\$ 11
Fund Balances - Beginning of fiscal year	<u>(15,186)</u>	<u>(15,197)</u>
Fund Balances - End of fiscal year	<u>\$ (14,034)</u>	<u>\$ (15,186)</u>

The Blue Water Bridge Fund (BWBF) was created as a subfund of the State Trunkline Fund during fiscal year 1993-94. The amounts shown in this schedule have been reported as part of the State Trunkline Fund in previous statements of this report. This supplemental schedule was prepared to provide additional information pertaining specifically to BWBF.

Through provisions of Section 1012 of the federal Intermodal Surface Transportation Efficiency Act of 1991, the State Trunkline Fund received federal funds to be loaned to BWBF for construction of the Blue Water Bridge Project. Repayment of the \$45 million loan will begin no later than five years after the facility is opened to traffic. The term of the loan will not exceed 30 years from the time that the loan was obligated.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Schedule of Debt Service Requirements on Outstanding Bonds  
State Trunkline Fund and Comprehensive Transportation Fund  
September 30, 2002  
(In Thousands)

Fiscal Years Ending September 30	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2003	\$ 26,220	\$ 39,604	\$ 65,824	\$ 11,655	\$ 11,975	\$ 23,630	\$ 37,875	\$ 51,579	\$ 89,454
2004	27,630	40,419	68,049	14,845	12,825	27,670	42,475	53,244	95,719
2005	28,925	39,486	68,411	16,480	12,078	28,558	45,405	51,564	96,969
2006	29,665	38,645	68,310	17,820	11,186	29,006	47,485	49,831	97,316
2007	30,305	38,008	68,313	18,715	10,293	29,008	49,020	48,301	97,321
2008	30,990	37,328	68,318	19,780	9,275	29,055	50,770	46,603	97,373
2009	31,695	36,465	68,160	20,795	8,265	29,060	52,490	44,730	97,220
2010	32,540	35,621	68,161	21,995	7,064	29,059	54,535	42,685	97,220
2011	33,570	34,605	68,175	23,145	5,908	29,053	56,715	40,513	97,228
2012	34,645	33,535	68,180	10,625	4,981	15,606	45,270	38,516	83,786
2013	35,765	32,408	68,173	11,155	4,421	15,576	46,920	36,829	83,749
2014	37,330	30,839	68,169	11,735	3,828	15,563	49,065	34,667	83,732
2015	39,370	28,805	68,175	6,405	3,205	9,610	45,775	32,010	77,785
2016	41,510	26,660	68,170	6,745	2,862	9,607	48,255	29,522	77,777
2017	43,805	24,362	68,167	7,110	2,500	9,610	50,915	26,862	77,777
2018	46,265	21,898	68,163	7,485	2,119	9,604	53,750	24,017	77,767
2019	48,875	19,291	68,166	7,885	1,717	9,602	56,760	21,008	77,768
2020	51,505	16,668	68,173	8,305	1,300	9,605	59,810	17,968	77,778
2021	54,130	14,053	68,183	8,740	867	9,607	62,870	14,920	77,790
2022	56,905	11,276	68,181	9,195	411	9,606	66,100	11,687	77,787
2023	25,335	9,197	34,532				25,335	9,197	34,532
2024	26,645	7,897	34,542				26,645	7,897	34,542
2025	28,010	6,531	34,541				28,010	6,531	34,541
2026	18,785	5,361	24,146				18,785	5,361	24,146
2027	19,770	4,377	24,147				19,770	4,377	24,147
2028	16,970	3,417	20,387				16,970	3,417	20,387
2029	17,885	2,502	20,387				17,885	2,502	20,387
2030	18,850	1,538	20,388				18,850	1,538	20,388
2031	19,870	522	20,392				19,870	522	20,392
Total	<u>\$ 953,765</u>	<u>\$ 641,317</u>	<u>\$ 1,595,082</u>	<u>\$ 260,615</u>	<u>\$ 117,081</u>	<u>\$ 377,696</u>	<u>\$ 1,214,380</u>	<u>\$ 758,398</u>	<u>\$ 1,972,778</u>



**MICHIGAN DEPARTMENT OF TRANSPORTATION**  
Schedule of Debt Service Requirements on Outstanding Notes  
State Trunkline Fund and Comprehensive Transportation Fund  
September 30, 2002  
(In Thousands)

Fiscal Years Ending September 30	State Trunkline Fund			Comprehensive Transportation Fund			Combined Totals		
	Principal	Interest*	Total	Principal	Interest	Total	Principal	Interest	Total
2003	\$	\$ 18,000	\$ 18,000	\$	\$	\$	\$	\$ 18,000	\$ 18,000
2004		18,000	18,000					18,000	18,000
2005	20,000	24,000	44,000				20,000	24,000	44,000
2006	80,000	23,200	103,200				80,000	23,200	103,200
2007	140,000	20,000	160,000				140,000	20,000	160,000
2008	160,000	14,400	174,400				160,000	14,400	174,400
2009	200,000	8,000	208,000				200,000	8,000	208,000
Total	<u>\$ 600,000</u>	<u>\$ 125,600</u>	<u>\$ 725,600</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 600,000</u>	<u>\$ 125,600</u>	<u>\$ 725,600</u>

\* Interest payments are estimated at 3% for fiscal years 2002-03 and 2003-04 and 4% for the remaining fiscal years.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Schedule of Expenditures of Federal Awards (1)  
For the Period October 1, 2000 through September 30, 2002  
(In Thousands)

Federal Agency/Program	CFDA (2) Number	Pass-Through Identification Number	For the Fiscal Year Ended September 30, 2001		
			Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
<b><u>U.S. Department of Transportation</u></b>					
Direct Programs:					
Airport Improvement Program	20.106		\$ 60,706	\$ 25,941	\$ 86,647
Highway Planning and Construction	20.205		828,689	39,581	868,270
High Speed Ground Transportation: Next Generation High Speed Rail Program	20.312		2,782		2,782
Federal Transit: Capital Investment Grants	20.500		2,770	12,194	14,964
Federal Transit: Metropolitan Planning Grants	20.505		36	1,933	1,969
Formula Grants for Other Than Urbanized Areas	20.509		265	9,594	9,859
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513		193	3,249	3,442
State Planning and Research	20.515		71	213	284
Job Access: Reverse Commute	20.516		135	445	580
Total Direct Programs			<u>\$ 895,647</u>	<u>\$ 93,150</u>	<u>\$ 988,797</u>
Pass-Through Program:					
Michigan Department of State Police					
National Motor Carrier Safety	20.218	97-0066	92		92
<b>Total U.S. Department of Transportation</b>			<b><u>\$ 895,739</u></b>	<b><u>\$ 93,150</u></b>	<b><u>\$ 988,889</u></b>
Total Expenditures of Federal Awards			<u>\$ 895,739</u>	<u>\$ 93,150</u>	<u>\$ 988,889</u>

(1) Basis of Presentation: This schedule includes the federal grant activity of the Michigan Department of Transportation and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

(2) CFDA is defined as *Catalog of Federal Domestic Assistance*.

<u>For the Fiscal Year Ended September 30, 2002</u>			<u>Total Expended and Distributed for the Two-Year Period</u>
<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	
\$ 90,602	\$ 15,521	\$ 106,123	\$ 192,770
771,635	37,073	808,708	1,676,978
584		584	3,366
(765)	13,915	13,150	28,114
57	2,197	2,254	4,223
990	8,524	9,514	19,373
45	3,310	3,355	6,797
6	797	803	1,087
64	167	231	811
<u>\$ 863,218</u>	<u>\$ 81,504</u>	<u>\$ 944,722</u>	<u>\$ 1,933,519</u>
96		96	188
<u><b>\$ 863,314</b></u>	<u><b>\$ 81,504</b></u>	<u><b>\$ 944,818</b></u>	<u><b>\$ 1,933,707</b></u>
<u><b>\$ 863,314</b></u>	<u><b>\$ 81,504</b></u>	<u><b>\$ 944,818</b></u>	<u><b>\$ 1,933,707</b></u>



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

## Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting

May 22, 2003

Mr. Ted B. Wahby, Chairperson  
State Transportation Commission  
and  
Ms. Gloria J. Jeff, Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

We have audited the financial statements of the Michigan Department of Transportation for the fiscal years ended September 30, 2002 and September 30, 2001, as identified in the table of contents, and have issued our report thereon dated May 22, 2003. 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.

### Compliance

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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 that are required to be reported under *Government Auditing Standards*.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control over financial reporting. However, we noted certain matters involving

internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over financial reporting that, in our judgment, could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 3.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



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THOMAS H. MCTAVISH, C.P.A.  
AUDITOR GENERAL

Independent Auditor's Report on Compliance With  
Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133

May 22, 2003

Mr. Ted B. Wahby, Chairperson  
State Transportation Commission  
and  
Ms. Gloria J. Jeff, Director  
Michigan Department of Transportation  
Murray Van Wagoner Transportation Building  
Lansing, Michigan

Dear Mr. Wahby and Ms. Jeff:

Compliance

We have audited the compliance of the Michigan Department of Transportation with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each major federal program for the two-year period ended September 30, 2002. The Department's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each major federal program is the responsibility of the Department's management. Our responsibility is to express an opinion on the Department's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to in the previous paragraph that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Department's compliance with

those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Department's compliance with those requirements.

In our opinion, the Michigan Department of Transportation complied, in all material respects, with the requirements referred to in the second previous paragraph that are applicable to each major federal program for the two-year period ended September 30, 2002. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Findings 4, 5 and 7.

#### Internal Control Over Compliance

The management of the Department is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Department's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control over compliance that, in our judgment, could adversely affect the Department's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 4 through 7.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of internal control over compliance would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions identified in the previous paragraph is a material weakness.

This report is intended solely for the information and use of the State Transportation Commission, the State's management, the Legislature, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

AUDITOR GENERAL



# SCHEDULE OF FINDINGS AND QUESTIONED COSTS\*

## Section I: Summary of Auditor's Results

### Financial Statements

Type of auditor's report issued:	Unqualified*
Internal control* over financial reporting:	
Material weaknesses* identified?	No
Reportable conditions* identified that are not considered to be material weaknesses?	Yes
Noncompliance material to the financial statements?	No

### Federal Awards

Internal control over major programs:	
Material weaknesses identified?	No
Reportable conditions identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with U.S. Office of Management and Budget (OMB) Circular A-133, Section 510(a)?	Yes

\* See glossary at end of report for definition.

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
20.205	Highway Planning and Construction
20.500	Federal Transit: Capital Investment Grants
20.505	Federal Transit: Metropolitan Planning Grants
20.509	Formula Grants for Other Than Urbanized Areas
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities

Dollar threshold used to distinguish between type A and type B programs: \$5,801,121

Auditee qualified as a low-risk auditee\*? No

## **Section II: Findings Related to the Financial Statements**

### **FINDING 590301**

#### **1. Internal Control Over Accounting Practices**

The Michigan Department of Transportation (MDOT) needs to strengthen its internal control over accounting practices to ensure appropriate, complete, and accurate financial information.

For the fiscal year ended September 30, 2001, the financial statements provided to us for audit purposes by MDOT did not contain reporting or disclosures related to approximately \$15 billion of capital assets and approximately \$1.2 billion of long-term obligations, including bonds, leases, claims and judgments, and employee benefits. Also, for the fiscal years ended September 30, 2002 and September 30, 2001, MDOT controls did not ensure that the schedule of debt service requirements included the \$600 million and \$400 million, respectively, of debt

\* See glossary at end of report for definition.

service required to retire MDOT's revenue dedicated notes payable. In addition, insufficient internal control over reporting accreted bond balances resulted in understatements of approximately \$87 million and \$40 million in debt service requirements on bonds for fiscal years 2001-02 and 2000-01, respectively. Further, MDOT's internal control did not ensure accurate disclosure of capital asset funding for the fiscal year ended September 30, 2002. Capital asset funding from the State Aeronautics Fund and the State Trunkline Fund was initially understated and overstated by \$11 million, respectively. All of these conditions were eventually corrected by MDOT.

## **RECOMMENDATION**

We recommend that MDOT strengthen its internal control over accounting practices to ensure appropriate, complete, and accurate financial information.

## **FINDING 590302**

### **2. Recording of Accounts Payable**

MDOT needs to strengthen its internal control over recording accounts payable.

Internal control over recording accounts payable would include procedures that ensure that amounts recorded as accounts payable are valid, accurate, and documented. Controls to address validity would include clearly defined scopes and types of transactions covered so that underlying accounting events are recorded only once in the accounting system. Controls to address accuracy would include procedures that explain how to define and calculate amounts owed but not yet paid. Controls to address documentation would include requirements that amounts recorded in the accounting system be supported by verifiable documentation.

We tested MDOT's State Aeronautics Fund accounts payable and expenditure transactions for accuracy. We noted that internal control over recording accounts payable did not prevent the following errors:

- a. Our testing of accounts payable for 35 projects with \$48.6 million of fiscal year 2001-02 State Aeronautics Fund accounts payable disclosed that accounts payable for 18 (51%) of the 35 projects were erroneous. MDOT overstated accounts payable and expenditures of 14 projects by \$5.4 million (11%) because controls did not prevent duplicate accruals and inaccurate estimates.

In one instance, estimated accounts payable of \$490,000 and \$523,000 were recorded for the same liability because two different MDOT accountants had not verified the distinctions between the estimated accounts payable they each recorded. The remaining 4 projects had errors related to inaccurate estimates that understated accounts payable by \$445,000. In one instance, an account payable was set up for \$120,000 that MDOT should have recorded for \$251,000. MDOT could not explain why the account payable was \$131,000 (52%) understated.

Also, for 8 of the 35 projects, MDOT based its recording of fiscal year 2001-02 accounts payable on estimates from project consultants. The MDOT accrual methodology required project managers to review the estimated amounts for reasonableness. However, MDOT project managers did not document their review of the project consultants' estimates. For example, an estimate for \$1.3 million was recorded for construction work performed at the Detroit Metropolitan Wayne County Airport during fiscal year 2001-02 that had not yet been billed as of March 2003. As of more than five months after the end of fiscal year 2001-02, vendors had not billed MDOT for this \$1.3 million and another \$1.5 million of accounts payable. Therefore, MDOT may have overstated accounts payable by \$2.8 million related to these accounts payable.

- b. MDOT internal control over accounts payable did not ensure that costs incurred in preceding fiscal years and paid in subsequent fiscal years were recorded as accounts payable in the preceding fiscal years.

Expenditure cut-off testing of State Aeronautics Fund payment transactions made in the initial months of fiscal years 2002-03, 2001-02, and 2000-01 disclosed understated accounts payable for their respective preceding fiscal years.

Our review of 39 payments made in fiscal year 2002-03 disclosed 3 (8%) errors; 162 payments made in fiscal year 2001-02 disclosed 34 (21%) errors; and 107 payments made in fiscal year 2000-01 disclosed 33 (31%) errors. In one instance, MDOT inaccurately classified a payment made in fiscal year 2001-02 for \$113,000 for products received in fiscal year 2000-01 as an expenditure in fiscal year 2001-02 rather than as an expenditure and accounts payable in 2000-01.

- c. Our testing of 57 non-State Aeronautics Fund payment transactions made in fiscal years 2001-02 and 2000-01 disclosed 4 errors (7%) that overstated accounts payable by \$460,000 and \$121,000 for fiscal years 2001-02 and 2000-01, respectively. The errors were related to inaccurate estimates and, in one instance, MDOT recorded an account payable for \$385,000 in fiscal year 2001-02 for the year-to-date costs of a project, of which \$383,000 had already been paid, rather than recording an account payable for \$2,000 not yet paid.

### **RECOMMENDATION**

We recommend that MDOT strengthen its internal control over recording accounts payable.

### **FINDING 590303**

#### **3. DCDS User Access and Functions**

MDOT needs to improve its internal control over monitoring Data Collection and Distribution System\* (DCDS) user access and functions.

Section 3.1 of the DCDS Procedures Manual states that the DCDS departmental security administrator for each department is responsible for certain control functions, including establishing DCDS user identifications for department users, ensuring that users' capabilities are consistent with their duties, ensuring that individual users are not assigned incompatible functions, monitoring user access, and revoking or changing access as needed.

MDOT's DCDS departmental security administrator stated that MDOT relies on DCDS access authorization forms to monitor DCDS user access and functions. This form, signed by the employee, signifies that each employee will comply with DCDS requirements (e.g., password usage or attesting to the propriety of future transactions). The form is approved by an appropriate MDOT administrator (e.g., office manager) before it is submitted to the DCDS departmental security administrator so that access is granted to the employee.

\* See glossary at end of report for definition.

We tested whether MDOT possessed signed and approved DCDS access authorization forms for 32 employees who used DCDS. MDOT could not provide DCDS access authorization forms for 6 (19%) of the 32 employees tested. Therefore, MDOT could not document that these employees had appropriate access to, and functions within, DCDS.

**RECOMMENDATION**

We recommend that MDOT improve its internal control over monitoring DCDS user access and functions.

**The status of the findings related to the financial statements that were reported in prior Single Audits is disclosed in the summary schedule of prior audit findings.**

**Section III: Findings and Questioned Costs Related to Federal Awards**

**FINDING 590304**

**4. Documentation of Materials Testing**

U.S. Department of Transportation	CFDA: 20.205 Highway Planning and Construction
Award Number: Not Known	Award Period: 10/01/00 - 09/30/01
	Questioned Costs: \$38,794

MDOT did not have internal control to ensure that it documented compliance with federal quality assurance procedures for construction.

During our audit period, "Quality Assurance Procedures for Construction," found in Title 23, Part 637, section 205 of the *Code of Federal Regulations (CFR)*, stated:

Each SHA [state highway agency] shall develop a quality assurance program which will assure that the materials and workmanship incorporated into each Federal-aid highway construction project on the NHS [National Highway System] are in conformity with the requirements of the approved plans and specifications, including approved changes. . . . Independent assurance samples and tests or other procedures shall be performed by qualified sampling and testing personnel employed by the SHA or its designated agent. . . . The verification sampling and testing are to be performed by qualified

testing personnel employed by the SHA or its designated agent, excluding the contractor and vendor.

Also, the Federal Highway Administration (FHWA) Federal Aid Policy Guide, found in federal regulation 49 *CFR* 18.42b, requires that programmatic records and documentation be retained for three years after the final project payment.

To document compliance with the federal procedures, section A.1 of MDOT's Materials Quality Assurance Procedures Manual requires MDOT to retain all materials certifications and testing documentation.

In our compliance tests of 40 MDOT federal expenditure transactions, we identified 6 transactions that would have required MDOT to perform certain materials certification and testing and to maintain related documentation. Our subsequent test of the 6 expenditure transactions disclosed a \$38,000 FHWA-reimbursed expenditure that was part of a project for which MDOT had not retained the required documentation. In our follow-up of the exception, we determined that MDOT did not have controls to ensure that it retained the required documentation for closed projects in the Metro region\* during our audit period. As a matter of procedure, the Metro region disposed of certification and testing documentation after projects were completed and closed.

MDOT estimated that expenditures for the Metro region closed projects were \$137.4 million during our audit period and that FHWA reimbursed MDOT for its portion of the projects, which approximated \$112 million.

Based on our testing, we believe that the Metro region is the only one of seven MDOT regions for which MDOT did not retain documentation of closed projects' materials certifications, initial tests, and verification tests.

## **RECOMMENDATION**

We recommend that MDOT implement internal control to ensure that it documents compliance with federal quality assurance procedures for construction.

\* See glossary at end of report for definition.

## **FINDING 590305**

### **5. Subrecipient\* Monitoring**

U.S. Department of Transportation	CFDA: 20.205 Highway Planning and Construction
Award Number: Not Known	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA: 20.500 Federal Transit: Capital Investment Grants
Award Number: Not Known	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA: 20.509 Formula Grants for Other Than Urbanized Areas
Award Number: Not Known	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

U.S. Department of Transportation	CFDA: 20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities
Award Number: Not Known	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

MDOT needs to strengthen its procedures regarding the monitoring of its FHWA and Federal Transit Administration (FTA) subrecipients in accordance with federal requirements.

OMB Circular A-133 defines a subrecipient as a nonfederal entity that expends federal awards received from a pass-through entity (i.e., MDOT) to carry out a federal program. OMB Circular A-133 requires the schedule of expenditures of federal awards (SEFA) of the pass-through entity to differentiate between "direct expenditures" and "distributions to subrecipients." When MDOT awards funds to a

\* See glossary at end of report for definition.



subrecipient entity, MDOT, in effect, delegates its responsibility for compliance with federal program requirements to the subrecipients. MDOT, as the pass-through entity, is responsible for ensuring that the funds are being expended in accordance with program requirements. OMB Circular A-133 requires MDOT to have a monitoring process in place for its subrecipients.

Part 3, Section M of the OMB Circular A-133 Compliance Supplement states that MDOT is responsible for numerous activities related to award identification, during-the-award monitoring, complete and timely subrecipient audits and related activities, and evaluation of the impact on MDOT of subrecipient program activities. To help accomplish these responsibilities, an effective monitoring system would generally include procedures to identify distributions to subrecipients, procedures to ensure that MDOT effectively monitors its subrecipients, and procedures requiring notification to the subrecipients of the program compliance requirements they must meet.

We reviewed MDOT's FHWA and FTA subrecipient monitoring:

a. FHWA Subrecipient Monitoring

Our review of MDOT's FHWA subrecipient monitoring disclosed:

- (1) MDOT procedures did not ensure that MDOT accurately identified payments to subrecipients. As a result, for fiscal year 2000-01, MDOT overstated amounts distributed to subrecipients on its SEFA presented with its 2000-01 general purpose financial statements by approximately \$23 million. These amounts should have been classified as amounts directly expended. Also, for fiscal year 2000-01, MDOT's SEFA did not include approximately \$6 million distributed to subrecipients of FHWA awards for transportation enhancement projects\*. MDOT later corrected the SEFA for these errors.
- (2) MDOT procedures did not ensure that MDOT effectively monitored subrecipients.

Monitoring is the review process used to determine subrecipient compliance with program requirements and applicable laws and

\* See glossary at end of report for definition.

regulations. Effective monitoring of subrecipients by MDOT can be accomplished using various methods, depending on the nature and timing of the compliance requirement.

During our audit, MDOT identified subrecipients as those non-State governmental entities receiving FHWA funding for transportation enhancement projects and Transportation Related Trust Fund construction projects. These construction projects are similar in scope to projects conducted by MDOT except that the subrecipients assume the day-to-day responsibility for compliance with certain federal requirements. MDOT's monitoring of these subrecipient projects can include risk-based visits or observations during the projects (e.g., to obtain first-hand assurance of the quality of the subrecipient efforts), reviews of required program documentation (contractor estimates, time sheets, materials testing results, etc.) during the projects and after completion of the projects, and non-OMB Circular A-133 post project audits by the pass-through agency.

Although MDOT had procedures to ensure that reviews of program documentation after completion of the project were sufficient, our review of MDOT's monitoring procedures disclosed that MDOT did not have procedures to ensure that it monitored subrecipient compliance, as necessary, using risk-based site visits or observations or reviews of required program documentation during subrecipient projects.

- (3) MDOT procedures did not ensure that MDOT effectively performed oversight activities related to Single Audits\* of subrecipients.

The OMB Circular A-133 Compliance Supplement requires MDOT to provide oversight activities to ensure that subrecipient Single Audits are completed on a timely basis and, as applicable, are resolved by MDOT.

Our review of MDOT's Single Audit oversight procedures disclosed:

- (a) MDOT did not ensure that amounts reported as audited in Single Audit reports were reconciled to amounts distributed according to

\* See glossary at end of report for definition.

MDOT financial records. In our review of 4 subrecipients receiving more than \$300,000, 1 (25%) did not report any FHWA expenditures, which totaled \$3 million, in its Single Audit for fiscal year 2000-01. Therefore, MDOT's oversight of the FHWA portion of the subrecipient's Single Audit was ineffective.

- (b) MDOT did not receive 8 (44%) of 18 required subrecipient Single Audit reports for fiscal year 2000-01 for FHWA expenditures. As a result, the subrecipients were not subject to A-133 monitoring by MDOT. MDOT financial records show that MDOT distributed \$10.7 million to the 8 subrecipients in fiscal year 2000-01.
- (4) MDOT did not identify each program's *CFDA* title and number, the award name, and the name of the federal agency (i.e., FHWA) to its subrecipients.

b. FTA Subrecipient Monitoring

MDOT's FTA program staff stated that they monitored FTA subrecipients using MDOT reviews of subrecipient Single Audits, MDOT's FTA program biennial reviews of subrecipient operations, and MDOT Office of Commission Audit (OCA) program project audits.

Our review of MDOT's FTA subrecipient monitoring disclosed:

- (1) MDOT's FTA program staff did not have controls to ensure that they obtained a Single Audit or a statement attesting to a waiver of the Single Audit from each FTA subrecipient. As a result, MDOT's FTA program staff did not obtain Single Audits for 8 (29%) of 28 subrecipients that we reviewed and, therefore, could not rely on Single Audits for monitoring those 8 subrecipients.
- (2) MDOT's FTA program staff did not have controls to ensure that they made timely requests for OCA to perform program project audits.

FTA program staff informed us that when they properly code a final project payment to an FTA subrecipient, a request of OCA to perform a program project audit is automatically and immediately generated. However, we determined that 22 (96%) of 23 requests for OCA audits of

completed projects were made more than one month after the final project payment. MDOT's FTA program staff stated that the untimely requests occurred because the final payments were not appropriately coded as final. For 8 of the 22 requests, the requests for the OCA audit occurred more than one year after the final payment, and in 2 instances, the requests occurred more than two years after the final payment.

Because MDOT generally provides FTA funds to the same subrecipients each year, timely requests of OCA program project audits would help ensure the proper monitoring of subrecipients.

- (3) MDOT's FTA program staff did not have controls to ensure that they understood and documented the scope of the program project audits that OCA conducts.

MDOT's FTA program staff stated that they place significant reliance on OCA program project audits for monitoring subrecipient expenditures of federal awards for compliance with the subrecipient agreements, including federal requirements. For purposes of ensuring effective and efficient monitoring activities, MDOT's FTA program staff should understand and document the scope of OCA program project audits so that staff can, as necessary, make modifications in the scope of their own monitoring activities to ensure that all required monitoring is effectively and efficiently performed.

**RECOMMENDATION**

We recommend that MDOT strengthen its procedures regarding the monitoring of its FHWA and FTA subrecipients in accordance with federal requirements.

**FINDING 590306**

**6. Payroll Time Reporting**

U.S. Department of Transportation	CFDA: 20.205 Highway Planning and Construction
Award Number: Not Known	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

MDOT internal control over payroll time reporting did not ensure the retention of time sheets signed by the employees.

MDOT charged employee salaries and wages of \$64.6 million and \$69.7 million in fiscal years 2001-02 and 2000-01, respectively, to FHWA-funded projects. OMB Circular A-87, Attachment B, Section 11 requires that employee salaries and wages charged to federal awards be supported by time sheets signed by the employees to reflect the actual activity of the employees.

MDOT internal control over payroll time reporting did not ensure compliance with the federal time reporting requirements. MDOT procedures did not clearly address the need to maintain required time sheet signatures of MDOT employees.

We reviewed time sheets of 47 employees from a sample of 29 construction projects that had MDOT payroll costs reimbursed by FHWA. MDOT did not have required signatures for 7 (15%) of the 47 employee time sheets tested. Total payroll costs reimbursed by FHWA for these 7 employees for their applicable two-week payroll periods were \$5,770. After we brought these exceptions to the attention of MDOT, it acquired the required time sheet signatures.

## **RECOMMENDATION**

We recommend that MDOT strengthen its internal control over payroll time reporting.

## **FINDING 590307**

### **7. Cash Management**

U.S. Department of Transportation	CFDA: 20.505 Federal Transit: Metropolitan Planning Grants
Grant Numbers: MI-80-2008 MI-80-2009 MI-80-2011	Award Periods: 10/01/00 - 09/30/01 10/01/01 - 09/30/02
	Questioned Costs: \$0

MDOT did not have internal control in place to ensure that it met federal cash management requirements for the FTA Metropolitan Planning Grants.

FTA Circular 8100.1b(VIII)(3)(c)(2)(a) requires MDOT to disburse federal funds to its subrecipients within 3 days of receiving the federal funds (draws).

We reviewed 3 of 5 Metropolitan Planning (*CFDA* No. 20.505) grant awards and the related 32 draws that occurred during our audit period. Draws for the 3 grants for fiscal years 2001-02 and 2000-01 totaled \$1,270,862 and \$1,735,743, respectively.

Of the 32 draws, 19 (59%) did not meet the requirement to disburse funds to the subrecipients within 3 days. The disbursement of federal funds to the subrecipients for the 19 draws ranged from 1 day late to 12 days late and averaged 6 days late. Although Metropolitan Planning program staff maintained sufficient cash management documentation and related records, they were unaware of the federal 3-day requirement.

### **RECOMMENDATION**

We recommend that MDOT implement internal control to ensure that it meets federal cash management requirements for the FTA Metropolitan Planning Grants.

## OTHER SCHEDULES

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Summary Schedule of Prior Audit Findings  
As of September 30, 2002

**PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

Audit Findings That Have Been Fully Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 590102

**Finding Title:** Controls Over MAIN User Access

**Finding:** The Michigan Department of Transportation (MDOT) needs to strengthen controls over Michigan Administrative Information Network\* (MAIN) user access.

**Comments:** Based on procedures incorporated in October 2000, the following reports are generated to ensure that controls over MAIN user access are adhered to:

- a. A MAIN Management Information Database\* (MIDB) report that identifies all incompatible user class combinations at MDOT. The report is required every six months; however, it is generated more frequently. Incompatible user class combinations are justified to the Department of Management and Budget at the time that MAIN user access is requested.
- b. A MAIN MIDB report that identifies journal vouchers initiated by employees with user classes that also allow them to release documents. The journal vouchers are reviewed to ensure that the initiator did not release the documents.
- c. A MAIN MIDB report, generated biweekly, that identifies all employee departures, including transfers, promotions, medical leave, etc. The Department of Management and

\* See glossary at end of report for definition.



Budget also provides a report to MDOT's agency security administrator that identifies all employee departures. MDOT uses these reports to ensure that user identifications for departed employees are removed from the system and that all transfers and promotions are verified. The employees' MAIN user access is either changed to reflect the change in position or removed from the system. MAIN user access for employees on medical leave or leaves of absence is changed to "Inquiry Only" or their password is revoked by the agency security administrator until returning to work.

Audit Findings Not Corrected or Partially Corrected:

**Audit Period:** October 1, 1998 through September 30, 2000

**Finding Number:** 590101

**Finding Title:** Equipment

**Finding:** MDOT needs to improve its controls over accounting for equipment.

**Comments:** MDOT has taken steps to comply with the corresponding recommendation. MDOT has developed and implemented procedures to conduct annual inventories of aeronautics equipment, tagged equipment, computers, and loaner buses, and established a process to resolve issues related to the physical inventory of computers in March 2003. MDOT has refined procedures to ensure that inventory information on tagged equipment is accumulated on a timely basis by establishing procedures to track inventory work sheets forwarded to the various locations that maintain the equipment.

**PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS**

There were no findings related to federal awards in the prior Single Audit.

MICHIGAN DEPARTMENT OF TRANSPORTATION  
Corrective Action Plan  
As of December 19, 2003

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS**

**Finding Number:** 590301

**Finding Title:** Internal Control Over Accounting Practices

**Management Views:** The Michigan Department of Transportation (MDOT) concurs.

MDOT concluded, after discussion with the Department of Management and Budget's Office of Financial Management, that capital assets and long-term obligations should not be included in MDOT's financial report, in compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 requirements implemented by the State of Michigan in fiscal year 2000-01. Capital assets and long-term obligations are required to be reported in the statement of net assets per GASB Statement No. 34, but agencies within the governmental entity are not required to do so.

Also, MDOT's past practice did not include reporting accretion or short-term notes in the schedule of debt service.

**Corrective Action:** MDOT will footnote capital asset and long-term obligation information in its financial reports and will report accretion and short-term note information in its financial reports.

**Anticipated Completion Date:** December 31, 2003

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

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**Finding Number:** 590302  
**Finding Title:** Recording of Accounts Payable

**Management Views:** MDOT generally concurs. MDOT agrees that it should review and make improvements, where necessary, to its internal control over recording accounts payable.

The State of Michigan accelerated the year-end closing process in fiscal year 2001-02. The period to review and establish accounts payable was reduced from 7 weeks to 2 weeks. MDOT established new methods to estimate accounts payable to accommodate the accelerated process. The Office of Financial Management, Department of Management and Budget, approved the new estimation methods used by MDOT.

The amount of payables duplicated represented less than 3% of total State Aeronautics Fund expenditures; therefore, the amount of expenditures reported for the fiscal year was materially accurate and the methodology used to establish accounts payable was reasonable.

MDOT agrees that the non-State Aeronautics Fund payables were overstated, but the amount of overstatement represents less than 0.5% of total non-State Aeronautics Fund expenditures in the financial statements; therefore, the amount of expenditures reported was materially accurate and the methodology used to establish accounts payable was reasonable.

**Corrective Action:** MDOT will strengthen its process to provide additional assurance that duplicate expenditure postings are avoided. MDOT will review its current processes to provide additional assurance in recording accounts payable.

**Anticipated Completion Date:** September 30, 2003

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

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**Finding Number:** 590303

**Finding Title:** Data Collection and Distribution System (DCDS) User Access and Functions

**Management Views:** MDOT concurs.

**Corrective Action:** MDOT has taken steps to strengthen its internal control over DCDS user access and functions. On August 29, 2003, MDOT's Office of Human Resources sent a memorandum requiring that DCDS security form 989 be completed and sent to the Office when requesting or deleting roles in DCDS. All access rights since October 1, 2003 have been documented with an authorized security form. Beginning in January 2004, the data security administrator will annually audit/review employee access rights in DCDS by sampling 10% of the users and comparing the information against authorization forms, memorandum, and e-mails on file.

**Anticipated Completion Date:** January 2004

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

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**FINDINGS RELATED TO FEDERAL AWARDS**

**Finding Number:** 590304

**Finding Title:** Documentation of Materials Testing

**Management Views:** MDOT concurs. Although MDOT did not retain documentation in accordance with the Federal Aid Policy Guide, found in Title 49, Part 18, section 42b of the *Code of Federal Regulations (CFR)*, which requires that programmatic records and documentation be retained for three years after the final project payment, MDOT has in place a quality assurance program that meets the requirements for federal quality assurance procedures for construction, found in federal regulation 23 *CFR* 637.205.

**Corrective Action:** All MDOT resident engineers were notified on February 28, 2003 that disposal of project records shall cease until a review of current practices is made to ensure proper record retention in accordance with regulations and requirements. MDOT will review its retention schedules and ensure that all documentation is maintained per federal regulations.

**Anticipated Completion Date:** June 30, 2004

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

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**Finding Number:** 590305  
**Finding Title:** Subrecipient Monitoring

**Management Views:** MDOT concurs.

The Single Audit Act provides for monitoring subrecipients through site visits, limited scope audits, or other means. Because the pass-through entity is held accountable for federal awards administered by subrecipients, the pass-through entity needs to establish an appropriate subrecipient monitoring process and to decide what, if any, additional monitoring procedures may be necessary to ensure the subrecipients' compliance.

MDOT's monitoring of Circular A-133 audit reports is a two-step process. In the first step, MDOT determines whether Single Audit reports have been submitted by subrecipients. Those reports are then reviewed to ensure that the recipient met the requirements of Circular A-133. If necessary, a management decision is issued by MDOT on audit findings related to federal awards made to the subrecipient, as required by Circular A-133.

The next step in MDOT's process occurs when the individual projects are complete. After MDOT receives a final bill for a project, an audit request is sent to the Office of Commission Audits (OCA). OCA then performs a final review or audit of the project to ensure that the costs reported are in compliance with the agreement terms and are properly chargeable to the federal aid project. OCA's procedures include consideration of the Single Audit reports, and it now cites noncompliance with the Single Audit requirements, if necessary. OCA's review or audit of the federal aid projects is a cornerstone of MDOT's

process and provides assurance that reported federal aid project costs are in compliance with federal requirements.

**Corrective Action:** MDOT will review its current procedures and strengthen its controls, where necessary, to ensure that it identifies and monitors the Federal Highway Administration and Federal Transit Administration (FTA) subrecipients in accordance with federal requirements. An initial step in this review will include the development of a clear definition of funds considered to be subrecipient funds and those considered to be vendors in accordance with Circular A-133.

**Anticipated Completion Date:** August 2004

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

**Finding Number:** 590306  
**Finding Title:** Payroll Time Reporting

**Management Views:** MDOT concurs.

**Corrective Action:** MDOT will review and strengthen its internal control over payroll time reporting to ensure that MDOT procedures are in place for time reporting when employees are unavailable to electronically submit their own time reports.

**Anticipated Completion Date:** March 31, 2004

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

**Finding Number:** 590307  
**Finding Title:** Cash Management

**Management Views:** MDOT concurs.

**Corrective Action:** MDOT strengthened its controls by entering the payment voucher information in the Michigan Administrative Information Network (MAIN) the same day that the FTA draw is requested. The payment vouchers will be released in MAIN within two days of the FTA draw to ensure that MDOT meets the FTA Metropolitan Planning program federal cash management requirements.

**Anticipated Completion Date:** September 30, 2003

**Responsible Individual:** Edward A. Timpf, Administrator, Financial Operations Division

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## Glossary of Acronyms and Terms

<b>accreted values</b>	When a bond is issued at a deep discount, accreted values of bonds include the bond issuance price plus the incremental increase in the value of the bond as it approaches redemption at face value.
<b>BWBF</b>	Blue Water Bridge Fund.
<b>CFDA</b>	<i>Catalog of Federal Domestic Assistance.</i>
<b>CFR</b>	<i>Code of Federal Regulations.</i>
<b>Data Collection and Distribution System (DCDS)</b>	The State's client/server system that records, allocates, and distributes payroll costs within the accounting system for the MAIN Human Resource System.
<b>EDF</b>	Economic Development Fund.
<b>FHWA</b>	Federal Highway Administration.
<b>financial audit</b>	An audit that is designed to provide reasonable assurance about whether the financial schedules and/or financial statements of an audited entity are fairly presented in conformity with the disclosed basis of accounting.
<b>FTA</b>	Federal Transit Administration.
<b>GAAP</b>	accounting principles generally accepted in the United States of America.
<b>GASB</b>	Governmental Accounting Standards Board.
<b>IBA</b>	International Bridge Administration.
<b>internal control</b>	A process, effected by management, designed to provide reasonable assurance regarding the reliability of financial

reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

**JIBA**

Joint International Bridge Authority.

**low-risk auditee**

As provided for in OMB Circular A-133, an auditee that may qualify for reduced federal audit coverage if it receives an annual Single Audit and it meets other criteria related to prior audit results. In accordance with State statute, this Single Audit was conducted on a biennial basis; consequently, this auditee is not considered a low-risk auditee.

**MAIN Management  
Information Database  
(MIDB)**

The database component of MAIN designed to allow managers to develop ad hoc queries and reports for needed information. Data is extracted from the Relational Standard Accounting and Reporting System (R\*STARS), Advanced Purchasing and Inventory Control System (ADPICS), and MAIN Human Resource System (HRS).

**material misstatement**

A misstatement in the financial schedules and/or financial statements that causes the schedules and/or statements to not present fairly the financial position or the results of operations or cash flows in conformity with the disclosed basis of accounting.

**material noncompliance**

Violations of laws and regulations that could have a direct and material effect on major federal programs or on financial schedule and/or financial statement amounts.

**material weakness**

A reportable condition related to the design or operation of internal control that does not reduce to a relatively low level the risk that either misstatements caused by error or fraud in amounts that would be material in relation to the financial schedules and/or financial statements or noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within

a timely period by employees in the normal course of performing their assigned functions.

<b>MDOT</b>	Michigan Department of Transportation.
<b>Metro region</b>	One of seven geographic regions of the State as designated by MDOT, consisting of Macomb, Oakland, St. Clair, and Wayne Counties.
<b>Michigan Administrative Information Network (MAIN)</b>	The State's fully integrated automated administrative management system that supports the accounting, payroll, purchasing, contracting, budgeting, personnel, and revenue management activities and requirements. MAIN consists of four major components: MAIN Enterprise Information System (EIS); MAIN Financial Administration and Control System (FACS); MAIN Human Resource System (HRS); and MAIN Management Information Database (MIDB).
<b>MTF</b>	Michigan Transportation Fund.
<b>OCA</b>	Office of Commission Audits.
<b>OMB</b>	U.S. Office of Management and Budget.
<b>questioned cost</b>	A cost that is questioned by the auditor because of an audit finding: (1) which resulted from a violation or possible violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the use of federal funds, including funds used to match federal funds; (2) where the costs, at the time of the audit, are not supported by adequate documentation; or (3) where the costs incurred appear unreasonable and do not reflect the actions a prudent person would take in the circumstances.
<b>reportable condition</b>	A matter coming to the auditor's attention relating to a significant deficiency in the design or operation of internal

control that, in the auditor's judgment, could adversely affect the entity's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial schedules and/or financial statements or (2) administer a major program in accordance with the applicable requirements of laws, regulations, contracts, and grants.

**SEFA**

schedule of expenditures of federal awards.

**SHA**

state highway agency.

**Single Audit**

A financial audit, performed in accordance with the Single Audit Act Amendments of 1996, that is designed to meet the needs of all federal grantor agencies and other financial report users. In addition to performing the audit in accordance with the requirements of 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, a Single Audit requires the assessment of compliance with requirements that could have a direct and material effect on a major federal program and the consideration of internal control over compliance in accordance with OMB Circular A-133.

**SMRBC**

St. Mary's River Bridge Company.

**SOMCAFR**

*State of Michigan Comprehensive Annual Financial Report.*

**subrecipient**

A nonfederal entity that expends federal awards received from another nonfederal entity to carry out a federal program.

**transportation  
enhancement projects**

Projects that foster choices for travel via sidewalks, bike lanes, or trails that were converted from abandoned railroad corridors or projects that revitalize local and regional

economies by restoring eligible historic buildings, renovating streetscapes, or establishing transportation museums and visitor centers. Funding for these projects is made available through FHWA.

**unqualified opinion**

An auditor's opinion in which the auditor states that:

- a. The financial schedules and/or financial statements presenting the basic financial information of the audited agency are fairly presented in conformity with the disclosed basis of accounting; or
- b. The financial schedules and/or financial statements presenting supplemental financial information are fairly stated in relation to the basic financial schedules and/or financial statements. In issuing an "in relation to" opinion, the auditor has applied auditing procedures to the supplemental financial schedules to the extent necessary to form an opinion on the basic financial schedules and/or financial statements, but did not apply auditing procedures to the extent that would be necessary to express an opinion on the supplemental financial schedules taken by themselves; or
- c. The audited agency complied, in all material respects, with the cited requirements that are applicable to each major federal program.