

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

October 1, 1996 through September 30, 1998

EXECUTIVE DIGEST

MICHIGAN DEPARTMENT OF TRANSPORTATION

INTRODUCTION

This report contains the results of our financial audit*, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) for the period October 1, 1996 through September 30, 1998.

AUDIT PURPOSE

This financial audit of MDOT was conducted as part of the constitutional responsibility of the Office of the Auditor General and is required on a biennial basis by Act 251, P.A. 1986, to satisfy the requirements of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

BACKGROUND

MDOT's mission* is to provide the people of Michigan with the highest quality transportation services for economic benefit and improved quality of life. The Bureau of Finance and Administration is responsible for MDOT's accounting and financial reporting. The responsibilities for federal grant management are shared by the bureaus that carry out the grant activities.

MDOT's major sources of funding are tax revenues dedicated for transportation purposes and federal funds. During fiscal year 1997-98, MDOT's revenue totaled

* See glossary at end of report for definition.

approximately \$2.65 billion and expenditures totaled \$2.60 billion. As of September 30, 1998, MDOT had 3,200 employees.

AUDIT OBJECTIVES
AND CONCLUSIONS

Audit Objective: To audit MDOT's financial statements, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

Conclusion: We expressed an unqualified opinion on MDOT's financial statements. In addition, we expressed an unqualified opinion on MDOT's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial statements taken as a whole.

Audit Objective: To assess and report on MDOT's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control* over financial reporting, based on our audit of the financial statements.

Conclusion: Our assessment of compliance disclosed an instance of noncompliance related to requests for additional spending authority that could have a direct and material effect on the financial statements (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses*. We did identify reportable conditions* related to accounting practices, requests for additional spending authority, operating transfers, annual physical inventories, payroll controls, and procurement cards* (Findings 1 through 6).

* See glossary at end of report for definition.

In addition, our assessment indicated that MDOT was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

Audit Objective: To assess and report on MDOT's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with OMB Circular A-133.

Conclusion: Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. However, we identified a reportable condition related to payroll controls (Finding 7).

AUDIT SCOPE

Our audit scope was to examine the financial and other records of the Michigan Department of Transportation for the period October 1, 1996 through September 30, 1998. Our audit was conducted in accordance with generally accepted auditing standards; 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*, and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

**AGENCY RESPONSES
AND PRIOR AUDIT
FOLLOW-UP**

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

As disclosed in MDOT's summary schedule of prior audit findings, MDOT complied with 4 of 5 prior Single Audit* recommendations related to the 4 prior audit findings. The remaining prior recommendation is repeated in this report.

* See glossary at end of report for definition.

August 9, 2000

Mr. Barton W. LaBelle, Chairperson
State Transportation Commission
and
Mr. James R. DeSana, Director
Michigan Department of Transportation
Transportation Building
Lansing, Michigan

Dear Mr. LaBelle and Mr. DeSana:

This is our report on the financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation for the period October 1, 1996 through September 30, 1998.

This report contains our executive digest; description of agency; audit objectives and conclusions, audit scope, and agency responses and prior audit follow-up; schedule of findings and questioned costs; and independent auditor's reports on the financial statements, 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. This report also contains the Michigan Department of Transportation's financial statements and notes to the financial statements, supplemental financial statements and schedules, other required schedules, and a glossary of acronyms and terms.

Our findings and recommendations are organized by audit objective. 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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Description of Agency

The Michigan Department of Transportation (MDOT) was organized under Sections 16.450 - 16.458 of the *Michigan Compiled Laws* (Sections 350 - 358, Act 380, P.A. 1965). The State Transportation Commission, made up of six members who are appointed by the Governor with the advice and consent of the Senate, is responsible for establishing MDOT policies. MDOT is managed by a director, appointed by the Governor, who is responsible for administering MDOT and implementing the policies established by the Commission. MDOT's mission is to provide the people of Michigan with the highest quality transportation services for economic benefit and improved quality of life.

MDOT's financial and administrative operations are primarily concentrated in the Bureau of Finance and Administration. The Bureau is organized into four divisions: Financial Operations Division, Financial Services Division, Technological Services Division, and Organizational Training and Development Division. The Bureau provides management with financial data obtained by ensuring the recording and reporting of all financial transactions. Also, the Bureau prequalifies construction contractors and processes payments for all commodities, services, and contracts. In addition, the Bureau provides management with short-range and long-range revenue estimates and cash flow forecasts for budgeting purposes. The responsibilities for federal grant management are shared by the bureaus that carry out the grant activities.

Funding for MDOT is provided from vehicle gas, weight, and value taxes plus sales taxes on vehicles, parts, and accessories. This funding is distributed to transportation programs in accordance with Sections 247.651 - 247.674 of the *Michigan Compiled Laws* (Act 51, P.A. 1951). Funding is also provided by the U.S. Department of Transportation from federal fuel and excise taxes on certain commodities.

During fiscal year 1997-98, MDOT's revenue totaled approximately \$2.65 billion and expenditures totaled \$2.60 billion. As of September 30, 1998, MDOT had approximately 3,200 employees.

**Audit Objectives and Conclusions, Audit Scope,
and Agency Responses and Prior Audit Follow-Up**

Audit Objectives and Conclusions

Our financial audit, including the provisions of the Single Audit Act, of the Michigan Department of Transportation (MDOT) had the following objectives:

1. To audit MDOT's financial statements, including the schedule of expenditures of federal awards, for the fiscal years ended September 30, 1998 and September 30, 1997.

We expressed an unqualified opinion on MDOT's financial statements. In addition, we expressed an unqualified opinion on MDOT's schedule of expenditures of federal awards, and its other supplemental financial schedules, in relation to the financial statements taken as a whole.

2. To assess and report on MDOT's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the financial statements, and on its internal control over financial reporting, based on our audit of the financial statements.

Our assessment of compliance disclosed an instance of noncompliance related to requests for additional spending authority that could have a direct and material effect on the financial statements (Finding 2). However, our assessment of internal control over financial reporting did not disclose any material weaknesses. We did identify reportable conditions related to accounting practices, requests for additional spending authority, operating transfers, annual physical inventories, payroll controls, and procurement cards (Findings 1 through 6).

In addition, our assessment indicated that MDOT was in substantial compliance with the requirements set forth in Sections 18.1483 - 18.1488 of the *Michigan Compiled Laws* pertaining to its systems of internal accounting and administrative control.

The findings related to our assessment of compliance and internal control over financial reporting are contained in Section II of the schedule of findings and questioned costs.

3. To assess and report on MDOT's compliance with requirements applicable to each major federal program and on its internal control over compliance in accordance with U.S. Office of Management and Budget (OMB) Circular A-133.

Our assessment of compliance applicable to each major federal program did not disclose any instances of noncompliance that are required to be reported in accordance with OMB Circular A-133. Also, our assessment of internal control over compliance applicable to each major federal program did not disclose any material weaknesses. However, we identified a reportable condition related to payroll controls (Finding 7).

The finding related to our assessment of compliance and internal control over compliance applicable to each major federal program is contained in Section III of the schedule of findings and questioned costs.

Audit Scope

Our audit scope was to examine the financial and other records of the Michigan Department of Transportation for the period October 1, 1996 through September 30, 1998.

Our audit was conducted in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

We considered MDOT's internal control over compliance applicable to each major federal program and assessed MDOT's compliance with federal laws and regulations in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, in addition to generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. In addition, we followed up on MDOT's summary schedule of prior audit

findings. MDOT's major federal programs are identified in Section I of the schedule of findings and questioned costs* .

Agency Responses and Prior Audit Follow-Up

Our audit report contains 7 findings and 7 corresponding recommendations. MDOT's corrective action plan indicates that it agrees with the recommendations and plans to implement them.

MDOT's corrective action plan, which is included in this report, was prepared by MDOT as required by OMB Circular A-133. Section 18.1462 of the *Michigan Compiled Laws* and Department of Management and Budget Administrative Guide procedure 1280.02 require MDOT to develop a formal response to our audit findings and recommendations within 60 days after release of the audit report.

As disclosed in MDOT's summary schedule of prior audit findings, MDOT complied with 4 of 5 of the prior Single Audit recommendations related to the 4 prior audit findings. The remaining prior recommendation is repeated in this report.

* See glossary at end of report for definition.

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 condition identified that is not considered to be a material weakness?	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

Identification of major programs:

<i>CFDA</i> Numbers	Name of Federal Program
20.205	Highway Planning and Construction
20.500	Federal Transit Capital Improvement Grants
20.509	Public Transportation for Nonurbanized Areas

Dollar threshold used to distinguish between type A and type B programs: \$4,113,471

Auditee qualified as a low-risk auditee* ? No

Section II: Findings Related to the Financial Statements

FINDING (599901)

1. Accounting Practices

The Michigan Department of Transportation (MDOT) needs to strengthen its internal control to ensure appropriate, complete, and accurate recording and reporting of financial transactions. The Department has not periodically reviewed and updated existing policies and procedures or formalized other processes in writing.

Internal control is a process designed to provide reasonable assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with laws and regulations. Departments are required by Act 431, P.A. 1984, to establish a plan of organization that provides separation of duties and responsibilities among employees; a system of authorization and recordkeeping procedures to control assets, liabilities, revenues, and expenditures; effective and efficient internal control techniques; and a system to ensure compliance with laws and regulations.

While MDOT has established controls, we have identified exceptions during this Single Audit, as well as during our audit of MDOT's year-end process, which indicate that MDOT needs to strengthen its internal control. Included in this report are findings related to MDOT's noncompliance with laws and regulations (Finding 2) and other weaknesses in general aspects of internal control (Findings 4 through 6).

We also noted exceptions related to the accounting and reporting of accounting events in accordance with Generally Accepted Accounting Principles (GAAP).

* See glossary at end of report for definition.

These exceptions were in areas such as accounting for bond proceeds, interfund transactions, reclassification entries, and reporting exceptions in MDOT's unaudited financial statements and schedule of expenditures of federal awards. These exceptions were corrected when brought to MDOT's attention.

MDOT is a very large and complex organization. Accordingly, MDOT needs to periodically review and update current policies and procedures and formalize all processes in writing to ensure the appropriate, complete, and accurate recording and reporting of accounting events.

RECOMMENDATION

We recommend that MDOT strengthen its internal control to ensure appropriate, complete, and accurate recording and reporting of financial transactions.

FINDING (599902)

2. Requests for Additional Spending Authority

MDOT's internal control was not effective in ensuring that support for Act 51, P.A. 1951 requests for additional spending authority was based on accurate accounting information.

To ensure that all revenue collected during a fiscal year is distributed on a timely basis, Section 10 (1) of Act 51, P.A. 1951, as amended, provides for the appropriation of revenue received in excess of estimated revenue contained in the appropriations act. MDOT is required to request a budget adjustment, based on the increased revenue, from the Office of the Budget, Department of Management and Budget (DMB).

However, in our audit of fiscal years 1996-97 and 1997-98, we noted that MDOT requested and received budget adjustments based on a shortage in spending authority and not on an increase in revenue. The shortage in spending authority was a result of inaccurate accounting entries to liquidate prior year accruals. Consequently, MDOT had available spending authority of \$49 million in fiscal year 1997-98 and \$103 million in fiscal year 1996-97 in excess of revenue received. MDOT did not expend any of the excess spending authority and processed the correcting entries when this was brought to its attention.

Effective controls would have prevented the recording of spending authority in excess of the authorized level.

RECOMMENDATION

We recommend that MDOT improve its internal control to ensure that support for requests for spending authority is based on accurate accounting information.

FINDING (599903)

3. Operating Transfers

MDOT did not record a nonrecurring operating transfer in accordance with GAAP.

Act 117, P.A. 1997, appropriated \$25,000,000 of the Comprehensive Transportation Fund revenue to the State Trunkline Fund (\$9,775,000) to finance road and bridge construction expenditures and to the Michigan Transportation Fund (\$15,225,000) for distribution to the local units. MDOT recorded the road and bridge construction expenditures and the distributions to the local units directly in the Comprehensive Transportation Fund rather than in the funds responsible for the expenditures.

Section 1800.106 of the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standards Board, requires legally authorized transfers from a fund receiving the revenue to a fund through which the resources are to be expended to be recorded as operating transfers between the funds involved. As a result, the Comprehensive Transportation Fund expenditures were overstated and operating transfers out were understated by \$25,000,000. In addition, the State Trunkline Fund and Michigan Transportation Fund expenditures and operating transfers in were understated by \$9,775,000 and \$15,225,000, respectively.

RECOMMENDATION

We recommend that MDOT record nonrecurring operating transfers in accordance with GAAP.

FINDING (599904)

4. Annual Physical Inventories

MDOT's internal control did not ensure that MDOT conducted required annual physical inventories of its microcomputers. As of September 30, 1998, MDOT valued its microcomputers at \$25 million. During our audit period, MDOT spent \$4.2 million to purchase approximately 1,400 microcomputers at an average cost of \$3,000 per computer.

MDOT is required by DMB Administrative Guide procedure 1270.05 and the DMB Year-end Closing Guide to record in MDOT's equipment records those items with an initial cost of over \$5,000 and those items with a high likelihood of theft (e.g., microcomputers). Also, MDOT is required to conduct an annual inventory of the equipment. However, MDOT had not taken a physical inventory of its microcomputer equipment during our audit period.

An annual physical inventory would help ensure the correct reporting of the equipment value in the financial statements and provide for control over and accountability for equipment items.

RECOMMENDATION

We recommend that MDOT improve its internal control to ensure that MDOT conducts annual physical inventories of its microcomputers.

FINDING (599905)

5. Payroll Controls

MDOT did not implement proper control activities* for certain Personnel-Payroll Information System for Michigan* (PPRISM) functions.

Control activities help ensure documentation of employee time and attendance information, supervisory approval of the information, and limitations on access to the payroll systems. Payroll costs for MDOT were approximately \$205.9 million and

* See glossary at end of report for definition.

\$176.1 million for an average of 3,303 and 2,943 employees for fiscal years 1997-98 and 1996-97, respectively.

In our review of control activities over payroll transactions, we noted:

- a. MDOT's controls did not ensure that employee signatures were obtained for the employees' time and attendance information and that supervisory approval was obtained for the time reported. Both MDOT and the federal government require employee signatures on time and attendance information and supervisory approval for time reported.

During our audit period, MDOT implemented the Data Collection and Distribution System* (DCDS). DCDS is a data entry module for PPRISM that can be set up to operate in two ways, either through direct entry by employees (individual entries) or through a grouping of employee time reporting through a timekeeping unit. MDOT set up the system both ways. In the direct entry mode, the employees' passwords into the system are considered to be the employees' signatures. Accordingly, in the direct entry mode, the employees need to submit their own time information in order for the time and attendance information to be considered signed.

We reviewed 11 of the 51 timekeeping units that used the direct entry method and noted 9 (41%) of 22 instances where someone other than the employees submitted the employees' time information. Eight of the 9 employees identified were charged to codes that indicated they worked on federal highway projects. MDOT obtained the required signatures when we brought these items to its attention.

In addition, our review of the 11 timekeeping units showed that supervisors did not approve 4 (18%) of 22 transactions. Three of the 4 employees were charged to codes that indicated they worked on federal highway projects. MDOT obtained the required signatures when we brought these items to its attention.

* See glossary at end of report for definition.

- b. MDOT's internal control did not limit employees with PPRISM data entry capabilities from entering time and attendance transactions for themselves.

While DCDS allows the employee to enter the initial payroll information into the payroll process, the employee-entered information is not released into PPRISM until it is authorized. Section 14.4 of Michigan Administrative Information Network* (MAIN) Human Resources System* (HRS) Manual states that all time and attendance entries must be entered by an employee who has had no involvement in preparation and/or processing of the biweekly time and attendance summary.

We noted that five employees with PPRISM data entry capabilities entered 25 transactions for themselves in fiscal year 1997-98 and four employees entered 38 transactions for themselves in fiscal year 1996-97. Our review of these transactions disclosed no exceptions regarding the information that was entered (e.g., changes to tax exemptions, insurance providers, or timekeeping units).

- c. Employees with PPRISM data entry capabilities were inappropriately allowed to reconcile the daily control log.

The reconciliation of the daily control log helps ensure that transactions are appropriately and accurately entered into PPRISM. PPRISM Procedures Manual section 2.3 requires that only persons without capability to process PPRISM transactions are authorized to reconcile control logs.

We noted that two employees entered PPRISM transactions while being responsible for reconciling the daily control log in fiscal year 1997-98. Two other employees with the capability to process PPRISM transactions entered transactions while being responsible for reconciling the daily control log in fiscal year 1996-97. Our review of these transactions disclosed no exceptions (e.g., changes to insurance providers and timekeeping units).

* See glossary at end of report for definition.

We noted the same condition in our prior audit. MDOT stated that it would implement additional procedures by March 1, 1998 to provide for compensating controls when staff shortages precluded the separation of duties. However, the procedures were not implemented.

RECOMMENDATIONS

We recommend that MDOT implement proper control activities:

- (a) To ensure that employee signatures are obtained for employees' time and attendance information and that supervisory approval is obtained for the time reported.
- (b) To limit employees with PPRISM data entry capabilities from entering time and attendance transactions for themselves.

WE AGAIN RECOMMEND THAT MDOT IMPLEMENT PROPER CONTROL ACTIVITIES TO PRECLUDE EMPLOYEES WITH PPRISM DATA ENTRY CAPABILITIES FROM RECONCILING THE DAILY CONTROL LOG.

FINDING (599906)

6. Procurement Cards

MDOT's internal control did not ensure the proper use of procurement cards. We noted issues concerning immediate superiors' review of transactions, splitting of charges to avoid purchase limits, and follow-up of invoices that differ from credit card company transaction reports.

MDOT began implementing the use of procurement cards in June 1995 as part of the Statewide DMB Procurement Card Program. The Program was intended to simplify purchasing processes and reduce costs associated with purchases of certain goods and services.

MDOT's internal control over procurement card use is based on DMB requirements. MDOT developed its own Procurement Card Manual, which contains specific procedures on the proper use of procurement cards. These procedures limit individual transaction amounts, prohibit use of the card for

personal purposes, and prohibit the splitting of purchases to avoid the individual purchasing limits. MDOT processes the transaction information through designated card program coordinators who reconcile receipts and code transactions. Division administrators or district engineers are required to attest to the appropriateness of the expenditures.

MDOT used procurement cards 16,375 times to make purchases of \$3.1 million in fiscal year 1997-98 and 7,493 times to make purchases of \$1.3 million in fiscal year 1996-97. In our review of 40 transactions that occurred during our audit period, we noted:

- a. MDOT's Manual does not ensure that procurement card transactions are approved by someone familiar with the transaction and who can attest to the transaction's propriety, such as an immediate superior.

Currently, the manual places responsibility of attestation to the appropriateness of the transactions with the administrator or district engineer.

The manual does not require the division administrator or district engineer to develop and document their process to ensure that the transactions they are approving are appropriate. Such a process might require immediate superiors of the purchasers to review transactions to help minimize the risk of improper use of the procurement cards for personal items.

We determined that immediate supervisors reviewed only 23 of 40 transactions. Items purchased in our test of 40 included a television, video cassette recorder, chain saw, sander, lumber supplies, plumbing supplies, and a camcorder. Through discussions with applicable procurement card coordinators and reviews of invoices, our limited review indicated that these purchases were for State purposes.

- b. MDOT's Manual prohibits splitting charges to avoid transaction limits but does not require the card program coordinators to review documents for split transactions or specify the action to be taken if a split transaction occurs.

- c. MDOT's Manual does not require the documentation of the follow-up of invoices from vendors that do not agree with the vendors identified on the credit card company transaction report. In our review of the 40 transactions, we identified 3 transactions in which the vendors on the submitted receipts differed from the vendors listed in the credit card company transaction report.

RECOMMENDATION

We recommend that MDOT revise its Procurement Card Manual to improve its internal control to help ensure the proper use of procurement cards.

The status of findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Section III: Findings and Questioned Costs Related to Federal Awards

FINDING (599907)

7. Payroll Controls

U.S. Department of Transportation	CFDA: 20.205 Highway Planning and Construction 1998 Annual Apportionment
	Questioned Costs: \$0

This finding is included in Section II of the schedule of findings and questioned costs (599905).

The status of the findings reported in the prior Single Audit is disclosed in the summary schedule of prior audit findings.

Independent Auditor's Report on
the Financial Statements

September 27, 1999

Mr. Barton W. LaBelle, Chairperson
State Transportation Commission
and
Mr. James R. DeSana, Director
Michigan Department of Transportation
Transportation Building
Lansing, Michigan

Dear Mr. LaBelle and Mr. DeSana:

We have audited the accompanying combined financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 1998 and September 30, 1997 as listed in the table of contents. These financial statements are the responsibility of the Michigan Department of Transportation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards 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 1a, the accompanying financial statements present only the Michigan Department of Transportation and are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue, debt service, expendable trust, or agency funds.

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, 1998 and September 30, 1997 and the results of its operations for the fiscal years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 1999 on our tests of the Michigan Department of Transportation's compliance with certain provisions of laws, regulations, contracts, and grants and on our consideration of its internal control over financial reporting.

The accompanying 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 listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the 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

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

September 27, 1999

Mr. Barton W. LaBelle, Chairperson
State Transportation Commission
and
Mr. James R. DeSana, Director
Michigan Department of Transportation
Transportation Building
Lansing, Michigan

Dear Mr. LaBelle and Mr. DeSana:

We have audited the financial statements of the Michigan Department of Transportation as of and for the fiscal years ended September 30, 1998 and September 30, 1997 and have issued our report thereon dated September 27, 1999. We conducted our audit in accordance with generally accepted auditing standards 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2.

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 the internal control over financial reporting. However, we noted certain matters involving the 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 the 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 schedules. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Findings 1 through 6.

A material weakness is a 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 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 the internal control over financial reporting would not necessarily disclose all matters in the 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 described 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

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

September 27, 1999

Mr. Barton W. LaBelle, Chairperson
State Transportation Commission
and
Mr. James R. DeSana, Director
Michigan Department of Transportation
Transportation Building
Lansing, Michigan

Dear Mr. LaBelle and Mr. DeSana:

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 fiscal years ended September 30, 1998 and September 30, 1997. 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 generally accepted auditing standards; 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 fiscal years ended September 30, 1998 and September 30, 1997.

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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the 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 the 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. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Finding 7.

A material weakness is a 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 the internal control over compliance would not necessarily disclose all matters in the 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 described 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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MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combined Balance Sheet
 All Fund Types and Account Groups
 As of September 30
 (In Thousands)

	Governmental Fund Types				Fiduciary Fund Types			
	Special Revenue		Debt Service		Trust Funds		Agency Funds	
	1998	1997	1998	1997	1998	1997	1998	1997
ASSETS								
Current Assets:								
Cash and cash equivalents	\$ 30	\$ 42	\$	\$	\$	\$ 16	\$	\$
Equity in Common Cash	633,426	674,616	13				1,388	74
Receivables (Note 3):								
Taxes, interest, and penalties (at net)	93,952	98,413						
Federal aid	200,965	153,266			25,627	19,781	77	597
Local units	30,820	25,300			7,052	4,541		
Other funds and component units	60,141	59,335						
Miscellaneous	10,426	7,547			1			
Inventories	9,800	6,883						
Total Current Assets	<u>\$ 1,039,560</u>	<u>\$ 1,025,404</u>	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 32,680</u>	<u>\$ 24,339</u>	<u>\$ 1,465</u>	<u>\$ 672</u>
Noncurrent Assets:								
Receivables:								
Taxes	\$ 449	\$ 265	\$	\$	\$	\$	\$	\$
Federal aid (Note 3)	107	40,245						
Local units	29,486	38,545						
Advances to other funds	35,142	45,142						
Land contracts	3,300	1,584						
Miscellaneous	1,542	2,028						
Property, plant and equipment (Note 7)								
Amount to be provided for bond retirement (Note 4)								
Amount provided for other long-term obligations								
Total Noncurrent Assets	<u>\$ 70,026</u>	<u>\$ 127,808</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Assets	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</u>	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 32,680</u>	<u>\$ 24,339</u>	<u>\$ 1,465</u>	<u>\$ 672</u>
LIABILITIES AND FUND BALANCES								
Current Liabilities:								
Warrants outstanding	\$ 26,119	\$ 59,439	\$ 3	\$	\$ 5,155	\$ 2,703	\$ 28	\$ 48
Accounts payable	371,178	358,563	10		16,751	11,964	1,437	623
Contract reserve payable	10,037	7,885			3,332	2,278		
Due to other funds and component units	60,864	61,158			7,442	7,394		
Deposits, permits, and other liabilities	5,264	9,543						
Deferred revenue	5,454	5,132						
Total Current Liabilities	<u>\$ 478,915</u>	<u>\$ 501,720</u>	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 32,680</u>	<u>\$ 24,339</u>	<u>\$ 1,465</u>	<u>\$ 672</u>
Long-Term Liabilities:								
Deferred revenue	12,994	3,930						
Advances from other funds	35,142	45,142						
Bonds and notes payable (Note 4)								
Other long-term liabilities								
Total Liabilities	<u>\$ 527,050</u>	<u>\$ 550,792</u>	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 32,680</u>	<u>\$ 24,339</u>	<u>\$ 1,465</u>	<u>\$ 672</u>

The schedule continued on next page.

Account Groups					
General Fixed Assets		General Long-Term Obligations		Totals (Memorandum Only)	
1998	1997	1998	1997	1998	1997
\$	\$	\$	\$	\$ 30	\$ 59
				634,827	674,691
				93,952	98,413
				226,669	173,644
				37,873	29,842
				60,141	59,335
				10,427	7,547
				9,800	6,883
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,073,718</u>	<u>\$ 1,050,415</u>
				\$ 449	\$ 265
				107	40,245
				29,486	38,545
				35,142	45,142
				3,300	1,584
				1,542	2,028
203,384	195,766			203,384	195,766
		894,010	911,884	894,010	911,884
		44,167	48,174	44,167	48,174
<u>\$ 203,384</u>	<u>\$ 195,766</u>	<u>\$ 938,177</u>	<u>\$ 960,058</u>	<u>\$ 1,211,588</u>	<u>\$ 1,283,633</u>
<u>\$ 203,384</u>	<u>\$ 195,766</u>	<u>\$ 938,177</u>	<u>\$ 960,058</u>	<u>\$ 2,285,306</u>	<u>\$ 2,334,047</u>
				\$ 31,305	\$ 62,190
				389,377	371,150
				13,369	10,163
				68,305	68,552
				5,264	9,543
				5,454	5,132
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 513,073</u>	<u>\$ 526,731</u>
				12,994	3,930
				35,142	45,142
		894,010	911,884	894,010	911,884
		44,167	48,174	44,167	48,174
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 938,177</u>	<u>\$ 960,058</u>	<u>\$ 1,499,386</u>	<u>\$ 1,535,861</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combined Balance Sheet
 All Fund Types and Account Groups
As of September 30
 (In Thousands)
Continued

	<u>Governmental Fund Types</u>				<u>Fiduciary Fund Types</u>			
	<u>Special Revenue</u>		<u>Debt Service</u>		<u>Trust Funds</u>		<u>Agency Funds</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
Fund Balances:								
Investment in general fixed assets (Note 7)	\$	\$	\$	\$	\$	\$	\$	\$
Reserved for encumbrances	51,313	43,141						
Reserved for unencumbered restricted revenue balances	185,943	158,293						
Reserved for unencumbered capital outlay and work projects	216,254	162,339						
Reserved for revolving loans	9,014	1,010						
Reserved for noncurrent assets	<u>29,594</u>	<u>78,736</u>						
Total Reserved	\$ 492,118	\$ 443,519	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Unreserved	<u>90,417</u>	<u>158,900</u>						
Total Fund Balances	<u>\$ 582,536</u>	<u>\$ 602,420</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Liabilities and Fund Balances	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</u>	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 32,680</u>	<u>\$ 24,339</u>	<u>\$ 1,465</u>	<u>\$ 672</u>

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

<u>Account Groups</u>					
<u>General Fixed Assets</u>		<u>General Long-Term Obligations</u>		<u>Totals (Memorandum Only)</u>	
<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
\$203,384	\$ 195,766	\$	\$	\$ 203,384	\$ 195,766
				51,313	43,141
				185,943	158,293
				216,254	162,339
				9,014	1,010
				<u>29,594</u>	<u>78,736</u>
<u>\$203,384</u>	<u>\$ 195,766</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 695,503</u>	<u>\$ 639,286</u>
				<u>90,417</u>	<u>158,900</u>
<u>\$203,384</u>	<u>\$ 195,766</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 785,920</u>	<u>\$ 798,186</u>
<u>\$203,384</u>	<u>\$ 195,766</u>	<u>\$938,177</u>	<u>\$ 960,058</u>	<u>\$ 2,285,306</u>	<u>\$ 2,334,047</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Funds
Fiscal Years Ended September 30
 (In Thousands)

	Governmental Fund Types			
	Special Revenue		Debt Service	
	1998	1997	1998	1997
REVENUES				
Taxes	\$ 1,754,700	\$ 1,483,016	\$	\$
Licenses and permits	79,607	68,923		
Federal aid	576,546	578,700		
Local participation	44,213	53,771		
Interest earnings	32,602	29,314		
Nonoperating revenue - bridges	2,094	2,043		
Miscellaneous revenue	<u>35,853</u>	<u>26,483</u>	<u>1</u>	<u>2</u>
Total Revenues	<u>\$ 2,525,615</u>	<u>\$ 2,242,251</u>	<u>\$ 1</u>	<u>\$ 2</u>
EXPENDITURES				
Administration and Operations:				
Administration and maintenance	\$ 296,443	\$ 336,049	\$	\$
Bus operating assistance grants	169,206	117,187		
Other grants	1,021,851	929,691		
Airport development	65,489	74,734		
Nonoperating expenditures - bridges	2,094	2,043		
Trust fund construction activity				
Capital lease payments	279	228		
Bond principal retirement			38,570	35,921
Bond interest and fiscal charges			<u>45,832</u>	<u>46,314</u>
Total Administration and Operations	<u>\$ 1,555,362</u>	<u>\$ 1,459,932</u>	<u>\$ 84,402</u>	<u>\$ 82,234</u>
Capital Outlay:				
Roads and bridges	\$ 813,340	\$ 621,842	\$	\$
Other capital outlay	<u>15,324</u>	<u>44,645</u>		
Total Capital Outlay	<u>\$ 828,665</u>	<u>\$ 666,488</u>	<u>\$ 0</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 2,384,027</u>	<u>\$ 2,126,420</u>	<u>\$ 84,402</u>	<u>\$ 82,234</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 141,588</u>	<u>\$ 115,831</u>	<u>\$ (84,402)</u>	<u>\$ (82,233)</u>
OTHER FINANCING SOURCES				
Michigan Transportation Fund distribution	\$ 767,587	\$ 628,208	\$	\$
Grants and transfers from other funds and component units	91,425	149,593	82,653	82,234
Proceeds from bond and refunding bond issues	0	54,021	421,227	22,437
Capital lease acquisitions	<u>251</u>	<u>175</u>		
Total Other Financing Sources	<u>\$ 859,263</u>	<u>\$ 831,997</u>	<u>\$ 503,881</u>	<u>\$ 104,672</u>

This schedule continued on next page.

Fiduciary Fund Types		Totals	
Trust Funds		(Memorandum Only)	
1998	1997	1998	1997
\$	\$	\$ 1,754,700	\$ 1,483,016
		79,607	68,923
96,043	104,493	672,589	683,194
30,044	24,950	74,257	78,721
		32,602	29,314
		2,094	2,043
<u>23</u>	<u>2</u>	<u>35,877</u>	<u>26,487</u>
<u>\$ 126,111</u>	<u>\$ 129,445</u>	<u>\$ 2,651,727</u>	<u>\$ 2,371,697</u>
\$	\$	\$ 296,443	\$ 336,049
		169,206	117,187
		1,021,851	929,691
		65,489	74,734
		2,094	2,043
132,650	130,941	132,650	130,941
		279	228
		38,570	35,921
		<u>45,832</u>	<u>46,314</u>
<u>\$ 132,650</u>	<u>\$ 130,941</u>	<u>\$ 1,772,414</u>	<u>\$ 1,673,108</u>
\$	\$	\$ 813,340	\$ 621,842
		15,324	44,645
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 828,665</u>	<u>\$ 666,488</u>
<u>\$ 132,650</u>	<u>\$ 130,941</u>	<u>\$ 2,601,079</u>	<u>\$ 2,339,596</u>
<u>\$ (6,539)</u>	<u>\$ (1,496)</u>	<u>\$ 50,647</u>	<u>\$ 32,102</u>
\$	\$	\$ 767,587	\$ 628,208
6,543	1,496	180,622	233,324
		421,227	76,459
		<u>251</u>	<u>175</u>
<u>\$ 6,543</u>	<u>\$ 1,496</u>	<u>\$ 1,369,687</u>	<u>\$ 938,165</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combined Statement of Revenues, Expenditures, and Changes in Fund Balances
 All Governmental Fund Types and Expendable Trust Funds
Fiscal Years Ended September 30
 (In Thousands)
Continued

	<u>Governmental Fund Types</u>			
	<u>Special Revenue</u>		<u>Debt Service</u>	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
OTHER FINANCING USES				
Michigan Transportation Fund distribution	\$ 727,303	\$ 591,448	\$	\$
Grants and transfers to other funds and component units	210,779	224,900	1	2
Debt service	82,653	82,234		
Payment to refunded bond escrow agent			<u>419,478</u>	<u>22,437</u>
Total Other Financing Uses	<u>\$ 1,020,735</u>	<u>\$ 898,582</u>	<u>\$ 419,479</u>	<u>\$ 22,439</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (161,472)</u>	<u>\$ (66,585)</u>	<u>\$ 84,402</u>	<u>\$ 82,223</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (19,884)	\$ 49,246	\$ 0	\$ 0
Fund balances - Beginning of fiscal year	<u>602,420</u>	<u>553,174</u>		
Fund balances - End of fiscal year	<u>\$ 582,536</u>	<u>\$ 602,420</u>	<u>\$ 0</u>	<u>\$ 0</u>

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

<u>Fiduciary Fund Types</u>		<u>Totals</u>	
<u>Trust Funds</u>		<u>(Memorandum Only)</u>	
<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
\$	\$	\$ 727,303	\$ 591,448
4		210,783	224,901
		82,653	82,234
		<u>419,478</u>	<u>22,437</u>
<u>\$ 4</u>	<u>\$ 0</u>	<u>\$ 1,440,278</u>	<u>\$ 921,021</u>
<u>\$ 6,539</u>	<u>\$ 1,496</u>	<u>\$ (70,531)</u>	<u>\$ 17,144</u>
\$ 0	\$ 0	\$ (19,884)	\$ 49,246
		<u>602,420</u>	<u>553,174</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 582,536</u>	<u>\$ 602,420</u>

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

(Statutory/Budgetary Basis)	1998		Variance Favorable (Unfavorable)
	Budget	Actual	
REVENUES			
Taxes	\$ 1,754,700	\$ 1,754,700	\$ 0
Licenses and permits	80,570	79,607	(964)
Federal aid	519,612	519,612	0
Local participation	42,735	42,827	92
Interest earnings	29,493	29,493	0
Nonoperating revenue - bridges	2,094	2,094	0
Miscellaneous revenue	<u>34,776</u>	<u>35,648</u>	<u>872</u>
Total Revenues	<u>\$ 2,463,981</u>	<u>\$ 2,463,981</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES			
Administration and maintenance	\$ 340,233	\$ 313,247	\$ 26,987
Bus operating assistance grants	169,240	169,213	27
Other grants	1,058,576	1,050,047	8,529
Airport development	67,086	67,086	0
Nonoperating expenditures - bridges	<u>2,094</u>	<u>2,094</u>	<u>0</u>
Total Administration and Operations	<u>\$ 1,637,230</u>	<u>\$ 1,601,688</u>	<u>\$ 35,542</u>
Roads and bridges	\$ 718,127	\$ 718,122	\$ 5
Other capital outlay	<u>17,541</u>	<u>15,925</u>	<u>1,616</u>
Total Capital Outlay	<u>\$ 735,668</u>	<u>\$ 734,047</u>	<u>\$ 1,621</u>
Total Expenditures and Encumbrances	<u>\$ 2,372,898</u>	<u>\$ 2,335,735</u>	<u>\$ 37,163</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 91,084</u>	<u>\$ 128,247</u>	<u>\$ 37,163</u>
OTHER FINANCING SOURCES			
Michigan Transportation Fund distribution	\$ 768,411	\$ 767,587	\$ (824)
Grants and transfers from other funds and component units	<u>90,476</u>	<u>91,300</u>	<u>824</u>
Total Other Financing Sources	<u>\$ 858,887</u>	<u>\$ 858,887</u>	<u>\$ 0</u>
OTHER FINANCING USES			
Michigan Transportation Fund distribution	\$ 727,303	\$ 727,303	\$ 0
Grants and transfers to other funds and component units	222,864	209,232	13,632
Debt service	<u>83,289</u>	<u>82,653</u>	<u>636</u>
Total Other Financing Uses	<u>\$ 1,033,457</u>	<u>\$ 1,019,189</u>	<u>\$ 14,268</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (174,570)</u>	<u>\$ (160,302)</u>	<u>\$ 14,268</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses (Note 2)	<u>\$ (83,486)</u>	<u>\$ (32,055)</u>	<u>\$ 51,431</u>

The schedule continued on next page.

1997		
Budget	Actual	Variance Favorable (Unfavorable)
\$ 1,483,016	\$ 1,483,016	\$ 0
118,412	68,923	(49,489)
468,868	461,069	(7,799)
41,979	50,042	8,062
19,006	24,667	5,661
2,043	2,043	0
29,371	26,138	(3,233)
<u>\$ 2,162,696</u>	<u>\$ 2,115,898</u>	<u>\$ (46,797)</u>
\$ 376,096	\$ 349,844	\$ 26,252
117,195	117,187	8
956,449	952,342	4,108
74,997	74,734	262
2,043	2,043	0
<u>\$ 1,526,780</u>	<u>\$ 1,496,151</u>	<u>\$ 30,630</u>
\$ 445,393	\$ 445,393	\$ 0
<u>44,726</u>	<u>44,645</u>	<u>81</u>
<u>\$ 490,120</u>	<u>\$ 490,039</u>	<u>\$ 81</u>
<u>\$ 2,016,899</u>	<u>\$ 1,986,190</u>	<u>\$ 30,709</u>
<u>\$ 145,797</u>	<u>\$ 129,709</u>	<u>\$ (16,088)</u>
\$ 619,043	\$ 628,208	\$ 9,165
<u>28,710</u>	<u>132,745</u>	<u>104,035</u>
<u>\$ 647,753</u>	<u>\$ 760,953</u>	<u>\$ 113,200</u>
\$ 591,523	\$ 591,447	\$ 76
233,370	224,712	8,658
<u>82,900</u>	<u>82,234</u>	<u>666</u>
<u>\$ 907,791</u>	<u>\$ 898,393</u>	<u>\$ 9,399</u>
<u>\$ (260,039)</u>	<u>\$ (137,440)</u>	<u>\$ 122,599</u>
<u>\$ (114,241)</u>	<u>\$ (7,730)</u>	<u>\$ 106,511</u>

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

	1998		
(Statutory/Budgetary Basis)	Budget	Actual	Variance Favorable (Unfavorable)
RECONCILING ITEMS			
Encumbrances at September 30		\$ 51,313	
Funds not annually budgeted		(39,142)	
Net Reconciling Items		\$ 12,171	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ (19,884)	
FUND BALANCES (GAAP BASIS)			
Beginning balances		\$ 602,420	
Ending balances		\$ 582,536	

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

<u>1997</u>		
<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	\$ 43,141	
	<u>13,835</u>	
	<u>\$ 56,976</u>	
	<u>\$ 49,246</u>	
	<u>\$ 553,174</u>	
	<u><u>\$ 602,420</u></u>	

Notes to the Financial Statements

Note 1 Significant Accounting Policies

a. Reporting Entity

These financial statements report the financial activity of transportation related funds administered by the Michigan Department of Transportation (MDOT). Accordingly, these financial statements are not intended to present fairly the financial position and results of operations of the State of Michigan or its special revenue, debt service, expendable trust, or agency funds. MDOT-administered funds by classification are:

Special Revenue Funds

State Aeronautics Fund

State Trunkline Fund

Michigan Transportation Fund

Comprehensive Transportation Fund

Combined State Trunkline Fund Bond Proceeds Fund

Combined Comprehensive Transportation Bond Proceeds Fund

Debt Service Funds

Combined State Trunkline Bond and Interest Redemption Fund

Combined Comprehensive Transportation Bond and Interest Redemption Fund

Expendable Trust Fund

Transportation Related Trust Fund

Agency Fund

Metropolitan Planning Fund

These funds are a part of the State of Michigan reporting entity and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*. The SOMCAFR provides general disclosures regarding Summary of Significant Accounting Policies, Treasurer's

Common Cash, Pension Benefits and Other Postemployment Benefits, Compensated Absences (annual leave and sick leave accumulations), General Long-Term Obligations, Interfund Receivables and Payables, and Contingencies and Commitments.

MDOT is also party to a joint venture entered into with the Canadian government for the operation of the International Bridge at Sault Ste. Marie, Michigan. The International Bridge Authority is governed by a commission of five members, three from the State (appointed by the Governor with the consent of the Senate) and two from the Canadian government (appointed by the St. Mary's River Bridge Company, which is controlled by the Province of Ontario). Summary financial information for the International Bridge Authority as of its fiscal year ended August 31, 1998, with comparative information for the fiscal year ended August 31, 1997, follows (in thousands):

	As of August 31	
	1998	1997
Assets*	\$ 4,921	\$ 7,186
Liabilities*	\$ 1,031	\$ 434
Total Equity	\$ 3,890	\$ 6,752
Total Revenues and Other Sources	\$ 9,319	\$ 10,308
Total Expenditures and Other Uses	\$ 12,180	\$ 10,073
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (2,861)	\$ 235
Fixed Assets (cost)	\$ 4,289	\$ 4,157
Long-Term Debt (Bonds Payable)	\$ 3,380	\$ 4,950

*The summary information was changed to report total assets and liabilities. Previous statements disclosed current assets and current liabilities. As a result, amounts previously reported for the fiscal year ended August 31, 1997 have changed.

The Mackinac Bridge Authority, a component unit of the State of Michigan, is reported in the *SOMCAFR* and is not reported in these 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 9 of this report.

b. Basis of Presentation

The financial transactions of MDOT are recorded in individual funds in the State's central accounting system. The various transportation funds are combined in the *SOMCAFR* into 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.

Fiduciary Fund Types

Trust and Agency Funds: This fund group includes assets held by MDOT in a trustee or agency capacity. MDOT uses two types: (a) expendable trust funds, which are accounted for similar to governmental funds; and (b) agency funds, which are purely custodial in nature and for which asset and liability balances, but not operating results, are included within these statements.

Account Groups

General Fixed Assets Group: This account group is used to account for fixed assets (i.e., land, buildings, and equipment) owned by MDOT. Infrastructure ("public domain") fixed assets, such as undeveloped State-owned lands, roads, and bridges, are not capitalized.

General Long-Term Obligations Group: This account group accounts for all of the long-term obligations of MDOT, except for those accounted for directly in a fund.

Totals (Memorandum Only)

Amounts in the "Totals (Memorandum Only)" columns represent summations of the fund types and account groups 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.

c. Basis of Accounting

The financial statements contained in this report are prepared on the modified accrual basis of accounting. The modified accrual basis of accounting, fiscal year-ends, and accounting practices are explained in more detail in the *SOMCAFR*.

d. Reserved Fund Balance

A comparative analysis of the State Trunkline Fund reserved fund balance at September 30, 1998 and September 30, 1997 follows (in thousands):

	As of September 30	
	1998	1997
Reserves:		
Capital Outlay:		
Facilities	\$ 32,829	\$ 30,414
Institutional roads	2,210	2,404
Rail grade crossing	10,904	14,455
Critical bridge	1,263	2,261
Road and bridge	148,289	99,624
Total Capital Outlay Reserves	\$ 195,495	\$ 149,158
Encumbrances	\$ 17,800	\$ 12,782
Restricted revenue	\$ 177,500	\$ 120,434
Work projects	\$ 1,000	\$ 873
Revolving Loan Program	\$ 1,933	\$ 0
Noncurrent Assets:		
Capital equipment loans	\$ 15,108	\$ 14,233
Maintenance advances	10,044	9,797
Local unit loans	3,433	13,475
Due from federal agency		40,000
Total Noncurrent Assets	\$ 28,584	\$ 77,504
Total Reserved Fund Balance	\$ 422,312	\$ 360,752

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.

a. Michigan Transportation Fund

The budget and variance amounts are \$49 million and \$103 million less than those shown in the *SOMCAFR* for the Michigan Transportation Fund for fiscal years 1997-98 and 1996-97, respectively. MDOT requested an increase in authority when prior appropriation year authority already existed. This caused the budget and variance amounts to be overstated. MDOT received written approval from the Office of Financial Management, Department of Management and Budget, to record the corrected budget and variance amounts in this financial report.

b. Blue Water Bridge Fund

In 1998, 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. A \$5 million repayment of the loan was made in fiscal year 1997-98. The repayment was recorded as a reduction in amounts due to other funds and not as an expenditure. As a result, the appropriation authority for the repayment lapsed.

c. Transportation Related Funds

Section 402, Act 117, P.A. 1997, required MDOT to allocate between 23% and 27% of federal aid to highways for federal programs administered by MDOT for local jurisdictions for the fiscal year ended September 30, 1998. Trust fund federal aid to highways was approximately \$487.6 million. MDOT allocated approximately \$121.9 million (25%) to local jurisdictions.

For each of the fiscal years 1997-98 and 1996-97, \$105 million was appropriated to the transportation related trust funds. For fiscal year 1997-98, revenues and expenditures associated with the appropriation were \$113.0 million. For fiscal year 1996-97, revenues and expenditures

associated with the appropriation were \$103.7 million. For each year, other revenues and expenditures of the funds were not appropriated.

Note 3 Current Receivables

a. Contested and Delinquent Receivables

Current receivables recorded in the financial statements represent amounts due to MDOT as of September 30, 1998 and 1997 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 (in thousands).

The following provides information regarding contested and delinquent receivables as of September 30, 1998 and 1997 (in thousands):

	Contested Receivables As of September 30		Delinquent Receivables As of September 30		Fund Total As of September 30	
	1998	1997	1998	1997	1998	1997
	State Aeronautics Fund	\$ 2,281	\$ 1,313	\$	\$	\$ 2,281
State Trunkline Fund	641	595	1,577	1,446	2,218	2,041
Comprehensive Transportation Fund	3,000	3,000	741	714	3,741	3,714
State Trunkline Bond Proceeds Fund				70		70
Transportation Related Trust Fund			5	2	5	2
Total Allowance for Doubtful Accounts	<u>\$ 5,922</u>	<u>\$ 4,908</u>	<u>\$ 2,324</u>	<u>\$ 2,233</u>	<u>\$ 8,246</u>	<u>\$7,141</u>

b. Taxes Receivable

In the Michigan Transportation Fund, the net amount of receivables, \$168.0 million and \$182.9 million, and allowances for uncollectible receivables, \$71.8 million and \$82.4 million, were recorded for motor fuel taxes due to the fund as of September 30, 1998 and 1997, 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, State Trunkline Fund Bond Proceeds Fund, Transportation Related Trust Fund, and the Metropolitan Planning Fund totaling \$213.3 million and \$154.9 million for the fiscal years ended September 30, 1998 and 1997, respectively. Of those amounts, \$142.5 million and \$87.9 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 represent 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 year ended September 30, 1998. In the fiscal year ended September 30, 1997, a \$40 million long-term federal aid receivable was recorded in the State Trunkline Fund.

d. Advanced Construction

Under an arrangement with FHWA, MDOT has, over a period of years, qualified a number of construction projects 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 so that the states could 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. At the end of fiscal year 1997-98, MDOT had \$72,441,084 of State Trunkline Fund expenditures on projects not under reimbursement agreement. During fiscal year 1997-98, \$9,211,762 of prior year expenditures were placed under the reimbursement agreement. During fiscal year 1997-98, MDOT obligated all of its federal aid.

Note 4 General Long-Term Obligations

a. Bonded Debt

Revenue Dedicated 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 Michigan Comprehensive Transportation Series 1985, State Trunkline Series 1989-A, and the State Trunkline Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$4.2 million, \$35.7 million, and \$97.7 million, respectively. These bonds are recorded in the amounts of \$3.9 million, \$20.3 million, and \$50.7 million, respectively, which are the accreted values at September 30, 1998. These bonds mature in the years 1995 to 2000, 2004 to 2009, and 2005 to 2012, respectively.

Revenue dedicated bonds issued and outstanding (excluding defeased bonds) at September 30, 1998 and 1997 (in thousands) are as follows:

Revenue Dedicated Debt (in thousands)						
	Amounts Issued	Outstanding at September 30		Maturities		Average Interest Rate %
		1998	1997	First Year	Last Year	
<u>Comprehensive Transportation Fund Bonds:</u>						
1985 (Series B Refunding)	\$ 57,831	\$ 3,853	\$ 5,733	1985	2000	8.53%
1988 (Series I Refunding)	73,155	4,275	46,728	1991	2011	7.30%
1992 (Series A and B)	164,965	153,230	155,995	1996	2022	5.96%
1996 (Series A Refunding)	22,650	22,580	22,650	1997	2014	5.42%
1998 (Series A Refunding)	38,640	38,640		2004	2010	4.59%
<u>State Trunkline Fund Bonds:</u>						
1989 (Series A)	135,779	24,000	47,167	1994	2019	6.97%
1992 (Series A and B)	353,210	181,322	366,256	1999	2021	6.16%
1994 (Series A and B)	240,990	75,580	212,855	1995	2025	5.53%
1996 (Series A)	54,500	12,640	54,500	1997	2026	5.71%
1998 (Series A Refunding)	377,890	377,890		2005	2026	5.06%
Total Revenue Dedicated Debt	<u>\$1,519,611</u>	<u>\$ 894,010</u>	<u>\$ 911,884</u>			

Advance Refunding and Defeasance: MDOT has issued refunding bond issues to refinance 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 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, as 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, 1998 and 1997:

Summary of Refunding Transactions
(in millions)

	Amount Refunded	Balance With Trustee At September 30	
		1998	1997
<u>Comprehensive Transportation Fund Bonds:</u>			
1984	\$ 59.0	\$	\$ 53.6
1985 (Capital Appreciation Bonds)	27.2	6.1	6.1
1986 (Series I and II-Refunding Partial)	64.6		16.4
1988 (Series I-Partial)	60.9		60.9
1992 (Series A)	5.3	5.1	5.1
<u>State Trunkline Fund Bonds:</u>			
1989 (Series A-Partial)	111.3	103.1	82.6
1992 (Series A-Partial)	134.7	131.2	
1992 (Series B-Partial)	56.8	56.8	
1994 (Series A-Partial)	112.8	112.8	
1996 (Series A-Partial)	41.2	41.2	
Total	<u>\$ 673.8</u>	<u>\$ 456.3</u>	<u>\$ 224.7</u>

b. Other General Long-Term Obligations

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

Compensated Absences: Compensated absences liabilities are detailed in Note 6.

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 MDOT 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 years ended September 30, 1998 and 1997 are summarized as follows (in thousands):

	Revenue Dedicated Debt - Oversight Entity As of September 30		Capital Lease Obligations As of September 30	
	1998	1997	1998	1997
	<u>Bonds and Capital Lease Obligations:</u>			
Balance - Beginning	\$911,884	\$887,294	\$1,199	\$1,082
New bond issues/capital lease additions and adjustments	416,530	77,150	196	117
Accretion on capital appreciation bonds	4,839	6,615		
Bond principal retirements/ capital lease payments and deletions	(439,243)	(59,175)		
Balance - Ending	<u>\$894,010</u>	<u>\$911,884</u>	<u>\$1,395</u>	<u>\$1,199</u>
			Compensated Absences Liabilities	
			As of September 30	
			1998	1997
<u>Other Obligations:</u>				
Balance - Beginning	\$ 11,840	\$ 16,912	\$ 35,135	\$ 36,002
Net increase (decrease) in estimated liabilities	(1,536)	(5,073)	(2,666)	(867)
Balance - Ending	<u>\$ 10,304</u>	<u>\$ 11,840</u>	<u>\$ 32,469</u>	<u>\$ 35,135</u>

Note 5 Leases

MDOT leases land, office facilities, office and computer equipment, and other assets 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 \$995,623 and \$1,299,751 during fiscal years 1997-98 and 1996-97, respectively.

Summaries of the noncancelable operating and capital leasing commitments to maturity for fiscal years 1997-98 and 1996-97 follow (in thousands):

Noncancelable Lease Commitments
Fiscal Year 1997-98

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
1999	\$ 678	\$ 74	\$ 243	\$ 47	\$ 365
2000	502	98	220	47	365
2001	131	119	187	47	353
2002	86	108	156	40	304
2003	6	71	139	25	235
2004 - 2011		925	561	126	1,612
Total	<u>\$ 1,403</u>	<u>\$ 1,395</u>	<u>\$ 1,506</u>	<u>\$ 332</u>	<u>\$3,233</u>

Noncancelable Lease Commitments
Fiscal Year 1996-97

Fiscal Year Ended September 30	Operating Leases	Capital Leases			
		Principal	Interest	Executory Costs	Total
1999	\$ 789	\$ 49	\$ 217	\$ 22	\$ 288
2000	656	64	202	22	288
2001	454	86	180	22	288
2002	45	105	149	20	274
2003		91	121	11	223
2004 - 2011		804	583		1,386
Total	<u>\$ 1,944</u>	<u>\$ 1,199</u>	<u>\$ 1,452</u>	<u>\$ 97</u>	<u>\$2,748</u>

All of the preceding capital leases are related to governmental fund operations and the total of capital lease principal is recorded as part of the general long-term obligations account group.

The historical cost of assets acquired under capital leases included in the general fixed assets account group at September 30, 1998 and 1997 follows (in thousands):

	As of September 30	
	1998	1997
Buildings	<u>\$1,578</u>	<u>\$1,425</u>

Note 6 Employee Benefits - Retirement and Compensated Absences

a. Retirement Contributions

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

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

	Fiscal Year	
	1997-98	1996-97
State Trunkline Fund	\$ 13,067	\$ 21,700
Comprehensive Transportation Fund	489	780
State Aeronautics Fund	308	458
Total MDOT Contributions	<u>\$ 13,864</u>	<u>\$ 22,938</u>

b. Compensated Absences

MDOT has accrued liabilities for compensated absences as required by the Governmental Accounting Standards Board. Liabilities related to governmental fund types are recorded in the general long-term obligations account group in the *SOMCAFR*, unless the liability is "due and payable" (i.e., liabilities are recognized in the year that the employee leaves the

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, 1998 and 1997 (in thousands):

	Sick Leave		Annual Leave		Total	
	As of September 30		As of September 30		As of September 30	
	1998	1997	1998	1997	1998	1997
State Trunkline Fund	\$18,185	\$20,918	\$12,107	\$11,991	\$30,292	\$32,909
Comprehensive Transportation Fund	753	879	468	497	1,221	1,376
State Aeronautics Fund	497	547	309	301	806	848
Blue Water Bridge Fund	78	2	72		150	2
Total	\$19,513	\$22,346	\$12,956	\$12,789	\$32,469	\$35,135

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

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

Note 7 General Fixed Assets

Classification: The following tables summarize, by major class of asset, the fiscal year 1997-98 and 1996-97 changes in recorded costs for the general fixed assets account group (in millions):

Changes in General Fixed Assets					
Fiscal Year 1997-98					
	Balance				Balance
	October 1,				September 30,
	1997	Additions	Deletions	Adjustments	1998
Land	\$ 9.4	\$	\$	\$	\$ 9.4
Buildings	88.3	.4	.6		88.1
Equipment	90.4	11.8	8.1	6.6	100.7
Construction in progress	.2			(.2)	
Equity interest in joint ventures	7.5			(2.3)	5.2
Total General Fixed Assets	\$ 195.8	\$ 12.2	\$ 8.7	\$ 4.1	\$ 203.4

Changes in General Fixed Assets					
Fiscal Year 1996-97					
	Balance				Balance
	October 1,				September 30,
	1996	Additions	Deletions	Adjustments	1997
Land	\$ 9.0	\$.1	\$	\$.3	\$ 9.4
Buildings	86.3	1.9	.1	.1	88.3
Equipment	114.5	11.1	35.6	.1	90.4
Construction in progress	.2				.2
Equity interest in joint ventures	7.4			.1	7.5
Total General Fixed Assets	\$ 217.6	\$ 13.3	\$ 35.7	\$.6	\$ 195.8

Funding Source: Following is a summary of funding sources for investments in general fixed assets as of September 30, 1998 and 1997 (in millions):

	Investment	
	As of September 30	
	1998	1997
State Trunkline Fund	\$181.9	\$173.6
Comprehensive Transportation Fund	9.3	11.0
State Aeronautics Fund	12.3	11.2
Total Investment in General Fixed Assets	<u>\$203.4</u>	<u>\$195.8</u>

Construction in Progress: Following is summary information regarding projects included in construction in progress as of September 30, 1998 and 1997 (in millions):

	Estimated Cost	As of September 30, 1998	
		Authorized	Expended
Various Projects	\$ 11.0	\$ 5.9	\$
Totals	<u>\$ 11.0</u>	<u>\$ 5.9</u>	<u>\$ 0</u>

	Estimated Cost	As of September 30, 1997	
		Authorized	Expended
Various Projects	\$ 9.5	\$ 4.5	\$
Totals	<u>\$ 9.5</u>	<u>\$ 4.5</u>	<u>\$ 0</u>

In addition to the preceding projects, MDOT has planned other construction projects that were unfunded as of September 30, 1998 and 1997.

The costs of these projects, as well as the unfunded portion of projects currently in progress, will be funded from future years' resources.

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.

In fiscal year 1996-97, overexpenditures of \$1,195,000 occurred in the State Trunkline Fund. This occurred because of the receipt of subsequent information increasing the amount of the liability for court awards and judgments. The deadline for a budgetary transfer to cover this liability had passed, resulting in an overexpenditure.

In fiscal year 1997-98, MDOT incurred no overexpenditures.

Note 9 Interfund Commitments

The Mackinac Bridge Authority, which is reported as a governmental component unit in the *SOMCAFR*, has over the years received \$75.3 million of subsidies 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 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 \$7.5 million in fiscal year 1992-93, \$1.0 million in fiscal year 1994-95, and \$250,000 in fiscal year 1997-98 to the Michigan Transportation Fund. At September 30, 1998, a balance of \$54.3 million was owed to the Michigan Transportation Fund and a balance of \$12.3 million was owed to the State Trunkline Fund.

For the fiscal year ended September 30, 1998, *SOMCAFR* reported transactions with component units, including the Mackinac Bridge Authority, separately from other funds. A receivable for \$584,000 and \$330,000 for fiscal years 1997-98 and 1996-97, respectively, related to the Mackinac Bridge Authority's payroll transactions is recorded in the State Trunkline Fund's balance sheet as amounts due from component units. The amount due from the Mackinac Bridge Authority and other transactions between MDOT and

component units and other funds of the State of Michigan are shown in the following table (in thousands):

	State Trunkline Fund As of and for the Fiscal Year Ended September 30		Michigan Transportation Fund As of and for the Fiscal Year Ended September 30	
	1998	1997	1998	1997
Current Assets:				
Amounts due from other funds	\$ 42,573	\$ 45,948	\$	\$
Amounts due from component units	622	330		
Total	<u>\$ 43,195</u>	<u>\$ 46,278</u>	<u>\$ 0</u>	<u>\$ 0</u>
Noncurrent Assets:				
Advances to other funds	\$	\$	\$	\$
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Current Liabilities:				
Due to other funds	\$ 1,263	\$ 2,043	\$ 54,519	\$ 59,006
Total	<u>\$ 1,263</u>	<u>\$ 2,043</u>	<u>\$ 54,519</u>	<u>\$ 59,006</u>
Long-Term Liabilities:				
Advances from other funds	\$	\$	\$	\$
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Other Financing Sources:				
Transfers from other funds	\$ 712,639	\$ 574,336	\$ 149	\$ 42,187
Capital lease acquisitions	251	175		
Total Other Financing Sources	<u>\$ 712,890</u>	<u>\$ 574,511</u>	<u>\$ 149</u>	<u>\$ 42,187</u>
Other Financing Uses:				
Transfers to other funds	\$ 12,274	\$ 30,980	\$ 923,466	\$ 783,048
Debt Service	57,211	59,737		
Total Other Financing Uses	<u>\$ 69,485</u>	<u>\$ 90,717</u>	<u>\$ 923,466</u>	<u>\$ 783,048</u>

Note 10 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 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 liability (see Note 4 for more information).

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, 1998 and 1997, MDOT estimates disallowances of recognized revenues will not be material to the financial statements.

c. Construction Projects

MDOT has entered into construction contracts for transportation related special revenue funds and trust funds. As of September 30, 1998 and 1997, the balances remaining on these contracts equaled \$518.8 million and \$514.2 million, respectively. As of September 30, 1998 and 1997, the balances remaining on these contracts, less the trust fund, equaled \$413.3 million and \$453.0 million, respectively. As of September 30, 1998 and 1997, the balances remaining on these contracts in the State Trunkline Fund equaled \$359.6 million and \$320.4 million, respectively.

SUPPLEMENTAL FINANCIAL STATEMENTS AND SCHEDULES

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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, some of the Fund revenue is 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 Recreation Improvement Fund (a subfund within the General Fund at the Department of Natural Resources) in accordance with statutory formulae. Expenditures consist of grants to counties, cities, and villages for highway purposes in accordance with statutory formulae and pursuant to Section 91, Act 5, P.A. 1967 (Extra Session).

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. In accordance with statutory provisions, any unencumbered balance at fiscal year-end is transferred to the road and bridge construction account.

The Fund also is used to record loans made to local units of government for reconstructing and resurfacing roadways. Funds for such loans are made available by transfer from the 1983 State Trunkline Fund Bond Proceeds Fund and the 1984 State Trunkline Fund Bond Proceeds Fund. Loan repayments, which are received directly by the State Trunkline Fund, are not pledged to the payment of the bonds related to the loans.

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 also included as a supplemental schedule in this report.

The Blue Water Bridge Fund 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 the Blue Water Bridge Fund 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 Blue Water Bridge Fund activity is also included as a supplemental schedule in this report.

COMPREHENSIVE TRANSPORTATION FUND

This Fund was created for the purpose of planning and developing 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. 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.

In addition to providing direct expenditures for public transportation purposes, the Fund is used to provide financing for entities that provide bus and rail services. Such financing is provided primarily by purchasing and leasing back rail- and bus-related assets.

Fund revenues consist primarily of federal and local revenues, vehicle-related sales tax, and transfers from the Michigan Transportation Fund.

STATE AERONAUTICS FUND

This Fund, established by Act 327, P.A. 1945, is administered by the Michigan Department of Transportation for 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. At fiscal year-end, in accordance with statutory provisions, any unencumbered balance lapses and reverts to the Fund for appropriation in the following fiscal year.

COMBINED STATE TRUNKLINE FUND BOND PROCEEDS FUND

This Fund was established pursuant to Section 18(b), 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. The bonds were also used to finance loans to local units of government for reconstructing and resurfacing roadways. These loans are recorded as assets in the State Trunkline Fund, which receives the loan repayments. Residual balances from specific bond issues are transferred to the State Trunkline Fund by equity transfer.

COMBINED COMPREHENSIVE TRANSPORTATION BOND PROCEEDS FUND

This Fund was established pursuant to Section 18(b), 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.

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	
	1998	1997	1998	1997	1998	1997
ASSETS						
Current Assets:						
Cash and cash equivalents	\$	\$	\$ 30	\$ 42	\$	\$
Equity in Common Cash	185,251	204,999	312,236	244,709	64,987	111,891
Receivables:						
Taxes, interest, and penalties (at net)	93,066	97,795				
Federal aid			160,292	99,969	8,925	10,624
Local units			25,403	20,951	63	64
Other funds and components units			48,212	46,278	11,928	13,057
Miscellaneous	3,066	2,714	6,231	3,516	1,077	1,057
Inventories			9,800	6,883		
Total Current Assets	<u>\$ 281,383</u>	<u>\$ 305,509</u>	<u>\$ 562,205</u>	<u>\$ 422,349</u>	<u>\$ 86,981</u>	<u>\$ 136,693</u>
Noncurrent Assets:						
Receivables:						
Taxes	\$ 449	\$ 265	\$	\$	\$	\$
Federal aid				40,000		
Local units			28,584	37,504		54
Advances to other funds			35,142	45,142		
Land contracts			3,300	1,584		
Miscellaneous					1,542	2,027
Total Noncurrent Assets	<u>\$ 449</u>	<u>\$ 265</u>	<u>\$ 67,026</u>	<u>\$ 124,230</u>	<u>\$ 1,542</u>	<u>\$ 2,082</u>
Total Assets	<u>\$ 281,832</u>	<u>\$ 305,773</u>	<u>\$ 629,231</u>	<u>\$ 546,579</u>	<u>\$ 88,523</u>	<u>\$ 138,774</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Warrants outstanding	\$ 907	\$ 31,404	\$ 22,496	\$ 19,340	\$ 324	\$ 4,470
Accounts payable	225,957	215,099	122,204	108,949	12,123	13,970
Contract reserve payable			7,396	4,867	112	5
Due to other funds and components units	54,519	59,006	6,280	2,043	40	68
Deposits, permits, and other liabilities			917	2,402	4,347	7,141
Deferred revenue			1,480	1,501		
Total Current Liabilities	<u>\$ 281,383</u>	<u>\$ 305,509</u>	<u>\$ 160,773</u>	<u>\$ 139,101</u>	<u>\$ 16,946</u>	<u>\$ 25,653</u>
Long-Term Liabilities:						
Deferred revenue	449	265	11,003	1,584	1,542	2,082
Advances from other funds			35,142	45,142		
Total Liabilities	<u>\$ 281,832</u>	<u>\$ 305,773</u>	<u>\$ 206,918</u>	<u>\$ 185,827</u>	<u>\$ 18,487</u>	<u>\$ 27,735</u>
Fund Balances:						
Reserved for encumbrances	\$	\$	\$ 17,800	\$ 12,782	\$ 31,812	\$ 29,424
Reserved for unencumbered restricted revenue balances			177,500	120,434	3,444	30,226
Reserved for unencumbered capital outlay and work projects			196,495	150,031	4,477	1,390
Reserved for revolving loans			1,933		6,000	
Reserved for noncurrent assets			28,584	77,504		
Total Reserved	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 422,313</u>	<u>\$ 360,752</u>	<u>\$ 45,733</u>	<u>\$ 61,040</u>
Unreserved					24302	50000
Total Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 422,313</u>	<u>\$ 360,752</u>	<u>\$ 70,035</u>	<u>\$ 111,040</u>
Total Liabilities and Fund Balances	<u>\$ 281,832</u>	<u>\$ 305,773</u>	<u>\$ 629,231</u>	<u>\$ 546,579</u>	<u>\$ 88,523</u>	<u>\$ 138,774</u>

State Aeronautics Fund		Combined State Trunkline Fund Bond Proceeds Fund		Combined Comprehensive Transportation Bond Proceeds Fund		Totals	
1998	1997	1998	1997	1998	1997	1998	1997
\$ 23,648	\$ 25,803	\$ 32,102	\$ 70,432	\$ 15,202	\$ 16,783	\$ 633,426	\$ 674,616
886	618					93,952	98,413
4,423	8,123	27,325	34,550			200,965	153,266
5,153	3,719	201	567			30,820	25,300
						60,141	59,335
44	42	7	217			10,426	7,547
						9,800	6,883
<u>\$ 34,154</u>	<u>\$ 38,305</u>	<u>\$ 59,635</u>	<u>\$ 105,765</u>	<u>\$ 15,202</u>	<u>\$ 16,783</u>	<u>\$ 1,039,560</u>	<u>\$ 1,025,404</u>
\$ 107	\$ 245	\$	\$	\$	\$	\$ 449	\$ 265
902	986					107	40,245
						29,486	38,545
						35,142	45,142
						3,300	1,584
1	1					1,542	2,028
<u>\$ 1,010</u>	<u>\$ 1,232</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 70,026</u>	<u>\$ 127,808</u>
<u>\$ 35,164</u>	<u>\$ 39,537</u>	<u>\$ 59,635</u>	<u>\$ 105,765</u>	<u>\$ 15,202</u>	<u>\$ 16,783</u>	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</u>
\$ 920	\$ 980	\$ 1,471	\$ 3,097	\$	\$ 148	\$ 26,119	\$ 59,439
4,679	7,323	3,404	11,623	2,812	1,600	371,178	358,563
704	1,531	1,822	1,480	3	3	10,037	7,885
24	41					60,864	61,158
						5,264	9,543
3,829	3,355	145	276			5,454	5,132
<u>\$ 10,156</u>	<u>\$ 13,230</u>	<u>\$ 6,842</u>	<u>\$ 16,476</u>	<u>\$ 2,815</u>	<u>\$ 1,751</u>	<u>\$ 478,915</u>	<u>\$ 501,720</u>
\$	\$	\$	\$	\$	\$	12,994	3,930
						35,142	45,142
<u>\$ 10,156</u>	<u>\$ 13,230</u>	<u>\$ 6,842</u>	<u>\$ 16,476</u>	<u>\$ 2,815</u>	<u>\$ 1,751</u>	<u>\$ 527,050</u>	<u>\$ 550,792</u>
\$ 1,701	\$ 936	\$	\$	\$	\$	\$ 51,313	\$ 43,141
5,000	7,633					185,943	158,293
15,282	10,918					216,254	162,339
1,081	1,010					9,014	1,010
1,010	1,232					29,594	78,736
<u>\$ 24,073</u>	<u>\$ 21,728</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 492,118</u>	<u>\$ 443,519</u>
935	4578	52793	89290	12387	15032	90417	158900
<u>\$ 25,008</u>	<u>\$ 26,307</u>	<u>\$ 52,793</u>	<u>\$ 89,290</u>	<u>\$ 12,387</u>	<u>\$ 15,032</u>	<u>\$ 582,536</u>	<u>\$ 602,420</u>
<u>\$ 35,164</u>	<u>\$ 39,537</u>	<u>\$ 59,635</u>	<u>\$ 105,765</u>	<u>\$ 15,202</u>	<u>\$ 16,783</u>	<u>\$ 1,109,586</u>	<u>\$ 1,153,211</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	
	1998	1997	1998	1997	1998	1997
REVENUES						
Taxes	\$ 1,687,523	\$ 1,417,492	\$	\$	\$ 60,310	\$ 58,826
Licenses and permits	59,050	54,344	20,259	14,154	212	241
Federal aid			458,841	379,576	13,190	30,096
Local participation			28,668	30,020	92	19
Interest earnings	12,473	9,809	12,143	9,733	3,435	3,907
Nonoperating revenue - bridges			2,094	2,043		
Miscellaneous revenue	1,261	7,727	30,999	15,660	2,818	978
Total Revenues	<u>\$ 1,760,307</u>	<u>\$ 1,489,371</u>	<u>\$ 553,003</u>	<u>\$ 451,188</u>	<u>\$ 80,056</u>	<u>\$ 94,067</u>
EXPENDITURES						
Administration and Operations:						
Administration and maintenance	\$ 20	\$ 35	\$ 280,004	\$ 316,656	\$ 10,213	\$ 10,792
Bus operating assistance grants					169,206	117,187
Other grants	836,970	748,476	127,044	103,636	54,296	71,074
Airport development						
Nonoperating expenditures - bridges			2,094	2,043		
Capital lease payments			279	228		
Total Administration and Operations	<u>\$ 836,990</u>	<u>\$ 748,510</u>	<u>\$ 409,421</u>	<u>\$ 422,563</u>	<u>\$ 233,715</u>	<u>\$ 199,053</u>
Capital Outlay:						
Roads and bridges	\$	\$	\$ 707,752	\$ 445,393	\$ 9,775	\$
Other capital outlay			15,304	44,641		
Total Capital Outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 723,056</u>	<u>\$ 490,034</u>	<u>\$ 9,775</u>	<u>\$ 0</u>
Total Expenditures	<u>\$ 836,990</u>	<u>\$ 748,510</u>	<u>\$ 1,132,478</u>	<u>\$ 912,597</u>	<u>\$ 243,490</u>	<u>\$ 199,053</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 923,317</u>	<u>\$ 740,861</u>	<u>\$ (579,475)</u>	<u>\$ (461,409)</u>	<u>\$ (163,434)</u>	<u>\$ (104,986)</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$ 622,312	\$ 496,020	\$ 145,275	\$ 132,187
Grants and transfers from other funds and component units	149	42,187	90,327	78,316	824	2,243
Proceeds from bond issues						
Capital lease acquisitions			251	175		
Total Other Financing Sources	<u>\$ 149</u>	<u>\$ 42,187</u>	<u>\$ 712,890</u>	<u>\$ 574,511</u>	<u>\$ 146,099</u>	<u>\$ 134,430</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 727,303	\$ 591,448	\$	\$	\$	\$
Grants and transfers to other funds and component units	196,163	191,600	12,277	30,980	593	1,951
Debt service			59,577	59,737	23,076	22,497
Total Other Financing Uses	<u>\$ 923,466</u>	<u>\$ 783,048</u>	<u>\$ 71,854</u>	<u>\$ 90,717</u>	<u>\$ 23,669</u>	<u>\$ 24,448</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (923,317)</u>	<u>\$ (740,861)</u>	<u>\$ 641,036</u>	<u>\$ 483,794</u>	<u>\$ 122,430</u>	<u>\$ 109,982</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 61,561	\$ 22,384	\$ (41,004)	\$ 4,997
Fund balances - Beginning of fiscal year			360,752	338,367	111,040	106,043
Fund balances - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 422,313</u>	<u>\$ 360,752</u>	<u>\$ 70,035</u>	<u>\$ 111,040</u>

State Aeronautics Fund		Combined State Trunkline Fund Bond Proceeds		Combined Comprehensive Transportation Bond Proceeds		Totals	
1998	1997	1998	1997	1998	1997	1998	1997
\$ 6,868	\$ 6,699	\$	\$	\$	\$	\$ 1,754,700	\$ 1,483,016
86	184					79,607	68,923
47,582	51,397	56,934	117,631			576,546	578,700
14,067	20,002	1,386	3,729			44,213	53,771
1,442	1,218	2,209	3,589	900	1,057	32,602	29,314
						2,094	2,043
570	1,772	205	339		7	35,853	26,483
<u>\$ 70,615</u>	<u>\$ 81,272</u>	<u>\$ 60,734</u>	<u>\$ 125,289</u>	<u>\$ 900</u>	<u>\$ 1,064</u>	<u>\$ 2,525,615</u>	<u>\$ 2,242,251</u>
\$ 6,206	\$ 8,323	\$	\$ 184	\$	\$ 59	\$ 296,443	\$ 336,049
						169,206	117,187
				3,541	6,505	1,021,851	929,691
65,489	74,734					65,489	74,734
						2,094	2,043
						279	228
<u>\$ 71,695</u>	<u>\$ 83,058</u>	<u>\$ 0</u>	<u>\$ 184</u>	<u>\$ 3,541</u>	<u>\$ 6,565</u>	<u>\$ 1,555,362</u>	<u>\$ 1,459,932</u>
\$	\$	\$ 95,813	\$ 176,449	\$	\$	\$ 813,340	\$ 621,842
20	5					15,324	44,645
<u>\$ 20</u>	<u>\$ 5</u>	<u>\$ 95,813</u>	<u>\$ 176,449</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 828,665</u>	<u>\$ 666,488</u>
<u>\$ 71,715</u>	<u>\$ 83,063</u>	<u>\$ 95,813</u>	<u>\$ 176,633</u>	<u>\$ 3,541</u>	<u>\$ 6,565</u>	<u>\$ 2,384,027</u>	<u>\$ 2,126,420</u>
<u>\$ (1,100)</u>	<u>\$ (1,790)</u>	<u>\$ (35,079)</u>	<u>\$ (51,344)</u>	<u>\$ (2,641)</u>	<u>\$ (5,501)</u>	<u>\$ 141,588</u>	<u>\$ 115,831</u>
\$	\$	\$	\$	\$	\$	\$ 767,587	\$ 628,208
	10,000	125	16,848			91,425	149,593
			54,021				54,021
						251	175
<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 125</u>	<u>\$ 70,869</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 859,263</u>	<u>\$ 831,997</u>
\$	\$	\$	\$	\$	\$	\$ 727,303	\$ 591,448
199	180	1,542	184	5	5	210,779	224,900
						82,653	82,234
<u>\$ 199</u>	<u>\$ 180</u>	<u>\$ 1,542</u>	<u>\$ 184</u>	<u>\$ 5</u>	<u>\$ 5</u>	<u>\$ 1,020,735</u>	<u>\$ 898,582</u>
<u>\$ (199)</u>	<u>\$ 9,820</u>	<u>\$ (1,417)</u>	<u>\$ 70,685</u>	<u>\$ (5)</u>	<u>\$ (5)</u>	<u>\$ (161,472)</u>	<u>\$ (66,585)</u>
\$ (1,299)	\$ 8,030	\$ (36,496)	\$ 19,341	\$ (2,645)	\$ (5,506)	\$ (19,884)	\$ 49,246
	26,307	89,290	69,948	15,032	20,538	602,420	553,174
<u>\$ 25,008</u>	<u>\$ 26,307</u>	<u>\$ 52,793</u>	<u>\$ 89,290</u>	<u>\$ 12,387</u>	<u>\$ 15,032</u>	<u>\$ 582,536</u>	<u>\$ 602,420</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 Special Revenue Funds
Fiscal Year Ended September 30, 1998
 (In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 1,687,523	\$ 1,687,523	\$ 0	\$	\$	\$ 0
Licenses and permits	60,311	59,050	(1,261)	20,259	20,259	0
Federal aid			0	458,841	458,841	0
Local participation			0	28,668	28,668	0
Interest earnings	12,473	12,473	0	12,143	12,143	0
Nonoperating revenue - bridges			0	2,094	2,094	0
Miscellaneous revenue		1,261	1,261	30,999	30,999	0
Total Revenues	\$ 1,760,307	\$ 1,760,307	\$ 0	\$ 553,003	\$ 553,003	\$ 0
EXPENDITURES AND ENCUMBRANCES						
Administration and maintenance	\$ 20	\$ 20	\$ 0	\$ 321,827	\$ 296,620	\$ 25,207
Bus operating assistance grants			0			0
Other grants	836,970	836,970	0	127,224	127,060	163
Airport development			0			0
Nonoperating expenditures - bridges			0	2,094	2,094	0
Total Administration and Operations	\$ 836,990	\$ 836,990	\$ 0	\$ 451,145	\$ 425,775	\$ 25,370
Roads and bridges	\$	\$	\$ 0	\$ 708,352	\$ 708,347	\$ 5
Other capital outlay			0	17,521	15,905	1,616
Total Capital Outlay	\$ 0	\$ 0	\$ 0	\$ 725,873	\$ 724,252	\$ 1,621
Total Expenditures and Encumbrances	\$ 836,990	\$ 836,990	\$ 0	\$ 1,177,018	\$ 1,150,027	\$ 26,991
Excess of Revenues Over (Under) Expenditures and Encumbrances	\$ 923,317	\$ 923,317	\$ 0	\$ (624,015)	\$ (597,024)	\$ 26,991
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$ 0	\$ 622,312	\$ 622,312	\$ 0
Grants and transfers from other funds and component units	149	149	0	90,327	90,327	0
Total Other Financing Sources	\$ 149	\$ 149	\$ 0	\$ 712,639	\$ 712,639	\$ 0
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 727,303	\$ 727,303	\$ 0	\$	\$	\$ 0
Grants and transfers to other funds and component units	207,003	196,163	10,840	15,292	12,277	3,015
Debt service			0	60,160	59,577	582
Total Other Financing Uses	\$ 934,307	\$ 923,466	\$ 10,840	\$ 75,452	\$ 71,854	\$ 3,598
Excess of Other Financing Sources Over (Under) Other Financing Uses	\$ (934,157)	\$ (923,317)	\$ 10,840	\$ 637,187	\$ 640,785	\$ 3,598
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	\$ (10,840)	\$ 0	\$ 10,840	\$ 13,172	\$ 43,761	\$ 30,588
RECONCILING ITEMS						
Encumbrances at September 30		\$			\$ 17,800	
Funds not annually budgeted						
Net Reconciling Items		\$ 0			\$ 17,800	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 61,561	
FUND BALANCES (GAAP BASIS)						
Beginning of fiscal year		0			360,752	
End of fiscal year		0			422,312	

This schedule continued on next page.

Comprehensive Transportation Fund			State Aeronautics Fund			Combined Trunkline Fund Bond Proceeds Fund	Combined Comprehensive Transportation Bond Proceeds Fund
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual
\$ 60,310	\$ 60,310	\$ 0	\$ 6,868	\$ 6,868	\$ 0	\$	\$
	212	212		86	86		
13,190	13,190	0	47,582	47,582	0		
	92	92	14,067	14,067	0		
3,435	3,435	0	1,442	1,442	0		
		0			0		
3,122	2,818	(303)	656	570	(86)		
<u>\$ 80,056</u>	<u>\$ 80,056</u>	<u>\$ 0</u>	<u>\$ 70,615</u>	<u>\$ 70,615</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 11,393	\$ 10,298	\$ 1,096	\$ 6,993	\$ 6,309	\$ 684	\$	\$
169,240	169,213	27			0		
94,382	86,017	8,365			0		
			67,086	67,086	0		
					0		
<u>\$ 275,015</u>	<u>\$ 265,527</u>	<u>\$ 9,488</u>	<u>\$ 74,080</u>	<u>\$ 73,395</u>	<u>\$ 684</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 9,775	\$ 9,775	\$ 0	\$	\$	\$ 0	\$	\$
		0	20	20	0		
<u>\$ 9,775</u>	<u>\$ 9,775</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 284,790</u>	<u>\$ 275,302</u>	<u>\$ 9,488</u>	<u>\$ 74,100</u>	<u>\$ 73,415</u>	<u>\$ 684</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ (204,734)</u>	<u>\$ (195,246)</u>	<u>\$ 9,488</u>	<u>\$ (3,485)</u>	<u>\$ (2,801)</u>	<u>\$ 684</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 146,099	\$ 145,275	\$ (824)	\$	\$	\$ 0	\$	\$
	824	824					
<u>\$ 146,099</u>	<u>\$ 146,099</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$ 0	\$	\$	\$ 0	\$	\$
305	593	(289)	265	199	66		
23,129	23,076	54			0		
<u>\$ 23,434</u>	<u>\$ 23,669</u>	<u>\$ (235)</u>	<u>\$ 265</u>	<u>\$ 199</u>	<u>\$ 66</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 122,665</u>	<u>\$ 122,430</u>	<u>\$ (235)</u>	<u>\$ (265)</u>	<u>\$ (199)</u>	<u>\$ 66</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>(82,069)</u>	<u>\$ (72,816)</u>	<u>\$ 9,253</u>	<u>\$ (3,749)</u>	<u>\$ (2,999)</u>	<u>\$ 750</u>	<u>\$ 0</u>	<u>\$ 0</u>
	\$ 31,812			\$ 1,701		\$	\$
						(36,496)	(2,645)
	<u>\$ 31,812</u>			<u>\$ 1,701</u>		<u>\$ (36,496)</u>	<u>\$ (2,645)</u>
	\$ (41,004)			\$ (1,299)		(36,496)	(2,645)
	111,040			26,307		89,290	15,032
	<u>\$ 70,035</u>			<u>\$ 25,008</u>		<u>\$ 52,793</u>	<u>\$ 12,387</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 1998
(In Thousands)
Continued

(Statutory/Budgetary Basis)	Totals		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 1,754,700	\$ 1,754,700	\$ 0
Licenses and permits	80,570	79,607	(964)
Federal aid	519,612	519,612	0
Local participation	42,735	42,827	92
Interest earnings	29,493	29,493	0
Nonoperating revenue - bridges	2,094	2,094	0
Miscellaneous revenue	34,776	35,648	872
Total Revenues	<u>\$ 2,463,981</u>	<u>\$ 2,463,981</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES			
Administration and maintenance	\$ 340,233	\$ 313,247	\$ 26,987
Bus operating assistance grants	169,240	169,213	27
Other grants	1,058,576	1,050,047	8,529
Airport development	67,086	67,086	0
Nonoperating expenditures - bridges	2,094	2,094	0
Total Administration and Operations	<u>\$ 1,637,230</u>	<u>\$ 1,601,688</u>	<u>\$ 35,542</u>
Roads and bridges	\$ 718,127	\$ 718,122	\$ 5
Other capital outlay	17,541	15,925	1,616
Total Capital Outlay	<u>\$ 735,668</u>	<u>\$ 734,047</u>	<u>\$ 1,621</u>
Total Expenditures and Encumbrances	<u>\$ 2,372,898</u>	<u>\$ 2,335,735</u>	<u>\$ 37,163</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 91,084</u>	<u>\$ 128,247</u>	<u>\$ 37,163</u>
OTHER FINANCING SOURCES			
Michigan Transportation Fund distribution	\$ 768,411	\$ 767,587	\$ (824)
Grants and transfers from other funds and component units	90,476	91,300	824
Total Other Financing Sources	<u>\$ 858,887</u>	<u>\$ 858,887</u>	<u>\$ 0</u>
OTHER FINANCING USES			
Michigan Transportation Fund distribution	\$ 727,303	\$ 727,303	\$ 0
Grants and transfers to other funds and component units	222,864	209,232	13,632
Debt service	83,289	82,653	636
Total Other Financing Uses	<u>\$ 1,033,457</u>	<u>\$ 1,019,189</u>	<u>\$ 14,268</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (174,570)</u>	<u>\$ (160,302)</u>	<u>\$ 14,268</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (83,486)</u>	<u>\$ (32,055)</u>	<u>\$ 51,431</u>
RECONCILING ITEMS			
Encumbrances at September 30		\$ 51,313	
Funds not annually budgeted		<u>(39,142)</u>	
Net Reconciling Items		<u>\$ 12,171</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		(19,884)	
FUND BALANCES (GAAP BASIS)			
Beginning of fiscal year		<u>602,420</u>	
End of fiscal year		<u>\$ 582,536</u>	

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MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 1997
(In Thousands)

(Statutory/Budgetary Basis)	Michigan Transportation Fund			State Trunkline Fund		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES						
Taxes	\$ 1,417,492	\$ 1,417,492	\$ 0	\$	\$	\$ 0
Licenses and permits	104,258	54,344	(49,914)	14,154	14,154	0
Federal aid			0	379,576	379,576	0
Local participation			0	30,020	30,020	0
Interest earnings	9,809	9,809	0	9,197	9,733	536
Nonoperating revenue - bridges			0	2,043	2,043	0
Miscellaneous revenue		<u>7,727</u>	<u>7,727</u>	<u>16,196</u>	<u>15,660</u>	<u>(536)</u>
Total Revenues	<u>\$ 1,531,558</u>	<u>\$ 1,489,371</u>	<u>\$ (42,187)</u>	<u>\$ 451,188</u>	<u>\$ 451,188</u>	<u>\$ 0</u>
EXPENDITURES AND ENCUMBRANCES						
Administration and maintenance	\$ 35	\$ 35	\$ 0	\$ 353,671	\$ 329,491	\$ 24,180
Bus operating assistance grants			0			0
Other grants	748,627	748,476	151	103,636	103,636	0
Airport development			0			0
Nonoperating expenditures - bridges			0	<u>2,043</u>	<u>2,043</u>	<u>0</u>
Total Administration and Operations	<u>\$ 748,662</u>	<u>\$ 748,511</u>	<u>\$ 151</u>	<u>\$ 459,350</u>	<u>\$ 435,170</u>	<u>\$ 24,180</u>
Roads and bridges	\$	\$	\$ 0	\$ 445,393	\$ 445,393	\$ 0
Other capital outlay			0	<u>44,726</u>	<u>44,641</u>	<u>86</u>
Total Capital Outlay	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 490,120</u>	<u>\$ 490,034</u>	<u>\$ 86</u>
Total Expenditures and Encumbrances	<u>\$ 748,662</u>	<u>\$ 748,511</u>	<u>\$ 151</u>	<u>\$ 949,470</u>	<u>\$ 925,204</u>	<u>\$ 24,266</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 782,897</u>	<u>\$ 740,861</u>	<u>\$ (42,036)</u>	<u>\$ (498,282)</u>	<u>\$ (474,016)</u>	<u>\$ 24,266</u>
OTHER FINANCING SOURCES						
Michigan Transportation Fund distribution	\$	\$	\$ 0	\$ 496,020	\$ 496,020	\$ 0
Grants and transfers from other funds and component units		<u>42,187</u>	<u>42,187</u>	<u>28,710</u>	<u>78,316</u>	<u>49,606</u>
Total Other Financing Sources	<u>\$ 0</u>	<u>\$ 42,187</u>	<u>\$ 42,187</u>	<u>\$ 524,731</u>	<u>\$ 574,336</u>	<u>\$ 49,606</u>
OTHER FINANCING USES						
Michigan Transportation Fund distribution	\$ 591,523	\$ 591,447	\$ 76	\$	\$	\$ 0
Grants and transfers to other funds and component units	198,526	191,601	6,925	32,848	30,980	1,868
Debt service			0	<u>59,770</u>	<u>59,737</u>	<u>33</u>
Total Other Financing Uses	<u>\$ 790,048</u>	<u>\$ 783,048</u>	<u>\$ 7,000</u>	<u>\$ 92,617</u>	<u>\$ 90,717</u>	<u>\$ 1,900</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (790,048)</u>	<u>\$ (740,861)</u>	<u>\$ 49,187</u>	<u>\$ 432,113</u>	<u>\$ 483,619</u>	<u>\$ 51,506</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (7,151)</u>	<u>\$ 0</u>	<u>\$ 7,151</u>	<u>\$ (66,169)</u>	<u>\$ 9,603</u>	<u>\$ 75,772</u>
RECONCILING ITEMS						
Encumbrances at September 30		\$			\$ 12,782	
Funds not annually budgeted						
Net Reconciling Items		<u>\$ 0</u>			<u>\$ 12,782</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 0			\$ 22,384	
FUND BALANCES (GAAP BASIS)						
Beginning of fiscal year		<u>0</u>			<u>338,367</u>	
End of fiscal year		<u>\$ 0</u>			<u>\$ 360,752</u>	

This schedule continued on next page.

Comprehensive Transportation Fund			State Aeronautics Fund			Combined Trunkline Fund Bond Proceeds	Combined Comprehensive Transportation Bond Proceeds
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Actual	Actual
\$ 58,826	\$ 58,826	\$ 0	\$ 6,699	\$ 6,699	\$ 0	\$	\$
	241	241		184	184		
30,096	30,096	0	59,196	51,397	(7,799)		
	19	19	11,959	20,002	8,043		
	3,907	3,907		1,218	1,218		
		0			0		
	978	978	13,175	1,772	(11,402)		
<u>\$ 88,922</u>	<u>\$ 94,067</u>	<u>\$ 5,145</u>	<u>\$ 91,028</u>	<u>\$ 81,272</u>	<u>\$ (9,755)</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 11,866	\$ 11,059	\$ 807	\$ 10,523	\$ 9,259	\$ 1,264	\$	\$
117,195	117,187	8			0		
104,186	100,230	3,956			0		
		0	74,997	74,734	262		
		0			0		
<u>\$ 233,247</u>	<u>\$ 228,477</u>	<u>\$ 4,770</u>	<u>\$ 85,520</u>	<u>\$ 83,994</u>	<u>\$ 1,527</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$ 0	\$	\$	\$ 0	\$	\$
		0		5	(5)		
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5</u>	<u>\$ (5)</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 233,247</u>	<u>\$ 228,477</u>	<u>\$ 4,770</u>	<u>\$ 85,520</u>	<u>\$ 83,999</u>	<u>\$ 1,522</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ (144,325)</u>	<u>\$ (134,409)</u>	<u>\$ 9,916</u>	<u>\$ 5,507</u>	<u>\$ (2,726)</u>	<u>\$ (8,234)</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$ 123,023	\$ 132,187	\$ 9,165	\$	\$	\$ 0	\$	\$
	2,243	2,243		10,000	10,000		
<u>\$ 123,023</u>	<u>\$ 134,430</u>	<u>\$ 11,408</u>	<u>\$ 0</u>	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 0</u>	<u>\$ 0</u>
\$	\$	\$ 0	\$	\$	\$ 0	\$	\$
1,996	1,951	45		180	(180)		
23,130	22,497	633			0		
<u>\$ 25,126</u>	<u>\$ 24,448</u>	<u>\$ 678</u>	<u>\$ 0</u>	<u>\$ 180</u>	<u>\$ (180)</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ 97,897</u>	<u>\$ 109,982</u>	<u>\$ 12,085</u>	<u>\$ 0</u>	<u>\$ 9,820</u>	<u>\$ 9,820</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>\$ (46,429)</u>	<u>\$ (24,427)</u>	<u>\$ 22,002</u>	<u>\$ 5,507</u>	<u>\$ 7,094</u>	<u>\$ 1,587</u>	<u>\$ 0</u>	<u>\$ 0</u>
	\$ 29,424			\$ 936		\$ 19,341	\$ (5,506)
	<u>\$ 29,424</u>			<u>\$ 936</u>		<u>\$ 19,341</u>	<u>\$ (5,506)</u>
	\$ 4,997			\$ 8,030		\$ 19,341	\$ (5,506)
	<u>106,043</u>			<u>18,277</u>		<u>69,948</u>	<u>20,538</u>
	<u>\$ 111,040</u>			<u>\$ 26,307</u>		<u>\$ 89,290</u>	<u>\$ 15,032</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Special Revenue Funds
Fiscal Year Ended September 30, 1997
(In Thousands)
Continued

(Statutory/Budgetary Basis)	Totals		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 1,483,016	\$ 1,483,016	\$ 0
Licenses and permits	118,412	68,923	(49,489)
Federal aid	468,868	461,069	(7,799)
Local participation	41,979	50,042	8,062
Interest earnings	19,006	24,667	5,661
Nonoperating revenue - bridges	2,043	2,043	0
Miscellaneous revenue	29,371	26,138	(3,233)
Total Revenues	<u>\$ 2,162,696</u>	<u>\$ 2,115,898</u>	<u>\$ (46,797)</u>
EXPENDITURES AND ENCUMBRANCES			
Administration and maintenance	\$ 376,096	\$ 349,844	\$ 26,252
Bus operating assistance grants	117,195	117,187	8
Other grants	956,449	952,342	4,108
Airport development	74,997	74,734	262
Nonoperating expenditures - bridges	2,043	2,043	0
Total Administration and Operations	<u>\$ 1,526,780</u>	<u>\$ 1,496,151</u>	<u>\$ 30,630</u>
Roads and bridges	\$ 445,393	\$ 445,393	\$ 0
Other capital outlay	44,726	44,645	81
Total Capital Outlay	<u>\$ 490,120</u>	<u>\$ 490,039</u>	<u>\$ 81</u>
Total Expenditures and Encumbrances	<u>\$ 2,016,899</u>	<u>\$ 1,986,190</u>	<u>\$ 30,709</u>
Excess of Revenues Over (Under) Expenditures and Encumbrances	<u>\$ 145,797</u>	<u>\$ 129,709</u>	<u>\$ (16,088)</u>
OTHER FINANCING SOURCES			
Michigan Transportation Fund distribution	\$ 619,043	\$ 628,208	\$ 9,165
Grants and transfers from other funds and component units	28,710	132,745	104,035
Total Other Financing Sources	<u>\$ 647,753</u>	<u>\$ 760,953</u>	<u>\$ 113,200</u>
OTHER FINANCING USES			
Michigan Transportation Fund distribution	\$ 591,523	\$ 591,447	\$ 76
Grants and transfers to other funds and component units	233,370	224,712	8,658
Debt service	82,900	82,234	666
Total Other Financing Uses	<u>\$ 907,791</u>	<u>\$ 898,393</u>	<u>\$ 9,399</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ (260,039)</u>	<u>\$ (137,440)</u>	<u>\$ 122,599</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures, Encumbrances, and Other Financing Uses	<u>\$ (114,241)</u>	<u>\$ (7,730)</u>	<u>\$ 106,511</u>
RECONCILING ITEMS			
Encumbrances at September 30		\$ 43,141	
Funds not annually budgeted		<u>13,835</u>	
Net Reconciling Items		<u>\$ 56,976</u>	
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses (GAAP Basis)		\$ 49,246	
FUND BALANCES (GAAP BASIS)			
Beginning of fiscal year		<u>553,174</u>	
End of fiscal year		<u>\$ 602,420</u>	

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. All subsequent State Trunkline Fund related bond issues are accounted for in this 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.

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 Section 9 of Article IX 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. All subsequent Comprehensive Transportation Fund related bond issues are accounted for in this Fund. The merged funds include the Comprehensive Transportation Bond and Interest Redemption Fund and the 1986 Comprehensive Transportation Refunding Bond and Interest Redemption 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 Section 9 of Article IX 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	
	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>	<u>1998</u>	<u>1997</u>
ASSETS						
Current Assets:						
Equity in Common Cash	\$ 13	\$	\$	\$	\$ 13	\$ 0
Amounts due from other funds					0	0
Miscellaneous					0	0
Total Assets	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13</u>	<u>\$ 0</u>
LIABILITIES AND FUND BALANCES						
Current Liabilities:						
Warrants outstanding	\$ 3	\$	\$	\$	\$ 3	\$ 0
Accounts payable	10				10	0
Amounts due to other funds					0	0
Total Liabilities	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13</u>	<u>\$ 0</u>
Fund Balances	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 13</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 13</u>	<u>\$ 0</u>

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		Totals	
	1998	1997	1998	1997	1998	1997
	REVENUES					
Interest earnings	\$ 1	\$ 1	\$	\$ 1	\$ 1	\$ 2
Total Revenues	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 0</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 2</u>
EXPENDITURES						
Bond principal retirement	\$ 28,580	\$ 26,630	\$ 9,990	\$ 9,291	\$ 38,570	\$ 35,921
Bond interest and fiscal charges	<u>32,747</u>	<u>33,107</u>	<u>13,086</u>	<u>13,206</u>	<u>45,832</u>	<u>46,314</u>
Total Expenditures	<u>\$ 61,327</u>	<u>\$ 59,737</u>	<u>\$ 23,076</u>	<u>\$ 22,497</u>	<u>\$ 84,402</u>	<u>\$ 82,234</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (61,326)</u>	<u>\$ (59,736)</u>	<u>\$ (23,076)</u>	<u>\$ (22,496)</u>	<u>\$ (84,402)</u>	<u>\$ (82,233)</u>
OTHER FINANCING SOURCES						
Transfer from State Trunkline Fund	\$ 59,577	\$ 59,737	\$	\$	\$ 59,577	\$ 59,737
Transfer from Comprehensive Transportation Fund			23,076	22,497	23,076	22,497
Proceeds from refunding bond issues	<u>381,586</u>		<u>39,641</u>	<u>22,437</u>	<u>421,227</u>	<u>22,437</u>
Total Other Financing Sources	<u>\$ 441,164</u>	<u>\$ 59,737</u>	<u>\$ 62,717</u>	<u>\$ 44,935</u>	<u>\$ 503,881</u>	<u>\$ 104,672</u>
OTHER FINANCING USES						
Transfer to Department of Treasury for operations	\$ 1	\$ 1	\$	\$ 1	\$ 1	\$ 2
Payment to refunded bond escrow agent	<u>379,837</u>		<u>39,641</u>	<u>22,437</u>	<u>419,478</u>	<u>22,437</u>
Total Other Financing Uses	<u>\$ 379,838</u>	<u>\$ 1</u>	<u>\$ 39,641</u>	<u>\$ 22,438</u>	<u>\$ 419,479</u>	<u>\$ 22,439</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ 61,326</u>	<u>\$ 59,736</u>	<u>\$ 23,076</u>	<u>\$ 22,496</u>	<u>\$ 84,402</u>	<u>\$ 82,233</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund balances - Beginning of fiscal year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund balances - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Description of Expendable Trust Fund

TRANSPORTATION RELATED TRUST FUND

To achieve administrative efficiencies, effective October 1, 1990, the Special Federal Bridge Replacement Trust Fund, the Federal County Road Trust Fund, the Federal Urban Transportation System Trust Fund, and the 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. The following subfunds are included:

SPECIAL FEDERAL BRIDGE REPLACEMENT TRUST 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-owned and locally owned bridges.

FEDERAL COUNTY ROAD TRUST 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 TRUST 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 TRUST FUND

This Fund was authorized 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.

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combining Balance Sheet - Expendable Trust Fund
 Transportation Related Trust Fund
As of September 30
 (In Thousands)

	1998	1997
ASSETS		
Current Assets:		
Cash and cash equivalents	\$	\$ 16
Receivables:		
Federal aid	25,627	19,781
Local units	7,052	4,541
Miscellaneous	1	
Total Assets	\$ 32,680	\$ 24,339
 LIABILITIES AND FUND BALANCES		
Current Liabilities:		
Warrants outstanding	\$ 5,155	\$ 2,703
Accounts payable	16,751	11,964
Contract reserve payable	3,332	2,278
Due to other funds	7,442	7,394
Total Liabilities	\$ 32,680	\$ 24,339
Fund Balances	0	0
Total Liabilities and Fund Balances	\$ 32,680	\$ 24,339

MICHIGAN DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Expendable Trust Fund

Transportation Related Trust Fund

Fiscal Years Ended September 30

(In Thousands)

	<u>Total</u>	
	<u>1998</u>	<u>1997</u>
REVENUES		
Federal aid	\$ 96,043	\$ 104,493
Local participation	30,044	24,950
Miscellaneous	<u>23</u>	<u>2</u>
Total Revenues	<u>\$ 126,111</u>	<u>\$ 129,445</u>
EXPENDITURES		
Payments to contractors and miscellaneous project costs	\$ 117,759	\$ 106,618
Federal pass-through funds to locals	14,351	23,344
State participation costs incurred by locals	57	268
Local participation costs to third party		115
Comprehensive Transportation Fund participation costs incurred by locals	<u>483</u>	<u>597</u>
Total Expenditures	<u>\$ 132,650</u>	<u>\$ 130,941</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ (6,539)</u>	<u>\$ (1,496)</u>
OTHER FINANCING SOURCES		
Transfer from State Trunkline Fund	\$ 6,059	\$ 900
Transfer from Comprehensive Transportation Fund	<u>484</u>	<u>597</u>
Total Other Financing Sources	<u>\$ 6,543</u>	<u>\$ 1,496</u>
OTHER FINANCING USES		
Transfer to Department of Treasury for operations	\$ 1	\$
Transfer to other funds	1	
Transfer to State Trunkline Fund	<u>1</u>	
Total Other Financing Uses	<u>\$ 4</u>	<u>\$ 0</u>
Excess of Other Financing Sources Over (Under) Other Financing Uses	<u>\$ 6,539</u>	<u>\$ 1,496</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	\$ 0	\$ 0
Fund balances - Beginning of fiscal year	_____	_____
Fund balances - End of fiscal year	<u>\$ 0</u>	<u>\$ 0</u>

Description of Agency Fund

METROPOLITAN PLANNING FUND

This Fund was established by Sections 112 and 134 of the Federal Highway Act of 1973 to account for federal "pass through" funds that reimburse local regional planning agencies for operating expenses. Local money is advanced to the Fund, approximately 80% of which is reimbursed to the local unit by the federal government. The financing accounted for in this Fund consists of federal and local money. No State funds are involved.

MICHIGAN DEPARTMENT OF TRANSPORTATION
 Combining Statement of Changes in Assets and Liabilities - Agency Fund
 Metropolitan Planning Fund
 Fiscal Years Ended September 30, 1997 and 1998
 (In Thousands)

	Balance October 1, <u>1996</u>			Balance September 30, <u>1997</u>			Balance September 30, <u>1998</u>		
	<u>Additions</u>	<u>Deductions</u>	<u>Additions</u>	<u>Deductions</u>	<u>Additions</u>	<u>Deductions</u>	<u>Additions</u>	<u>Deductions</u>	
ASSETS									
Current Assets:									
Equity in Common Cash	\$ 820	\$ 5,760	\$ 6,506	\$ 74	\$ 6,623	\$ 5,309	\$ 1,388		
Amounts due from federal agencies	858	29	289	597		521	77		
Amounts due from local agencies	<u>17</u>	<u></u>	<u>17</u>	<u>0</u>	<u></u>	<u></u>	<u>0</u>		
Total Assets	<u>\$ 1,695</u>	<u>\$ 5,789</u>	<u>\$ 6,812</u>	<u>\$ 672</u>	<u>\$ 6,623</u>	<u>\$ 5,830</u>	<u>\$ 1,465</u>		
LIABILITIES									
Current Liabilities:									
Warrants outstanding	\$ 26	\$ 23	\$	\$ 48	\$	\$ 20	\$ 28		
Accounts payable and other liabilities	<u>1,670</u>	<u>5,789</u>	<u>6,834</u>	<u>623</u>	<u>6,623</u>	<u>5,810</u>	<u>1,437</u>		
Total Liabilities	<u>\$ 1,695</u>	<u>\$ 5,811</u>	<u>\$ 6,834</u>	<u>\$ 672</u>	<u>\$ 6,623</u>	<u>\$ 5,830</u>	<u>\$ 1,465</u>		

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

	1998	1997
REVENUES AND OTHER SOURCES		
Licenses and permits	\$ 11,827	\$ 12,130
Federal aid	22,711	24,461
Local participation	20,377	22,546
Interest earnings	5,025	4,819
Michigan Transportation Fund distribution	40,290	36,760
Miscellaneous	56	0
Total Revenues and Other Sources	\$ 100,287	\$ 100,715
EXPENDITURES AND OTHER USES		
Administration	\$ 314	\$ 394
Forest roads	5,000	5,000
Target industries - State takeovers	37,316	41,634
Rural county urban system	6,403	7,283
Urban county congestion	27,400	27,740
Rural county primary	23,286	30,613
Debt service	9,625	11,467
Total Expenditures and Other Uses	\$ 109,345	\$ 124,130
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ (9,058)	\$ (23,414)
Fund Balances - October 1	72,717	96,132
Fund Balances - September 30	\$ 63,659	\$ 72,717

The Economic Development Fund (EDF) was created as a subfund of the State Trunkline Fund during fiscal year 1987-88. The amounts shown above 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>1998</u>	<u>1997</u>
REVENUES AND OTHER SOURCES		
Interest earnings	\$ 780	\$ 536
Miscellaneous revenue	<u>9,800</u>	
Total Revenues and Other Sources	<u>\$ 10,580</u>	<u>\$ 536</u>
EXPENDITURES AND OTHER USES		
Administration and maintenance	\$ 2,901	\$
Grants and transfers to other funds	3	
Debt service	<u>2,367</u>	
Total Expenditures and Other Uses	<u>\$ 5,271</u>	<u>\$ 0</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 5,309	\$ 536
Fund Balances - October 1	<u>(35,548)</u>	<u>(36,084)</u>
Fund Balances - September 30	<u>\$ (30,239)</u>	<u>\$ (35,548)</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 above 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 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, 1998
(In Thousands)

Fiscal Years Ending September 30	State Trunkline Fund			Comprehensive Transportation Fund			Combined Total		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
1999	\$ 30,110	\$ 27,641	\$ 57,751	\$ 8,040	\$ 13,885	\$ 21,925	\$ 38,150	\$ 41,526	\$ 79,676
2000	17,745	29,464	47,209	8,295	12,910	21,205	26,040	42,374	68,414
2001	18,670	28,530	47,200	10,465	11,232	21,697	29,135	39,763	68,898
2002	19,690	27,512	47,202	11,130	10,668	21,798	30,820	38,180	69,000
2003	20,780	26,422	47,202	11,545	10,057	21,602	32,325	36,479	68,804
2004	18,050	29,158	47,208	12,330	9,404	21,734	30,380	38,561	68,941
2005	18,801	28,403	47,204	13,945	8,671	22,616	32,746	37,074	69,820
2006	12,809	33,812	46,621	15,265	7,801	23,066	28,074	41,614	69,688
2007	14,279	33,886	48,165	16,135	6,935	23,070	30,414	40,821	71,235
2008	14,288	33,879	48,166	17,055	6,012	23,067	31,343	39,890	71,233
2009	14,325	33,838	48,163	18,010	5,060	23,070	32,335	38,898	71,232
2010	17,096	31,065	48,161	19,140	3,924	23,064	36,236	34,989	71,225
2011	17,453	30,712	48,165	20,190	2,876	23,066	37,643	33,588	71,231
2012	17,907	30,266	48,173	6,660	2,068	8,728	24,567	32,335	56,901
2013	18,396	29,765	48,162	6,985	1,711	8,696	25,381	31,477	56,858
2014	29,375	18,788	48,163	7,345	1,341	8,686	36,720	20,129	56,849
2015	30,975	17,190	48,165	1,780	951	2,731	32,755	18,141	50,896
2016	32,660	15,505	48,165	1,875	853	2,728	34,535	16,357	50,892
2017	34,470	13,692	48,162	1,980	750	2,730	36,450	14,441	50,891
2018	36,420	11,742	48,162	2,090	641	2,731	38,510	12,383	50,893
2019	38,480	9,683	48,163	2,200	526	2,726	40,680	10,208	50,888
2020	40,530	7,633	48,163	2,325	405	2,730	42,855	8,038	50,893
2021	42,570	5,600	48,170	2,450	277	2,727	45,020	5,877	50,897
2022	44,745	3,419	48,164	2,585	142	2,727	47,330	3,561	50,891
2023	12,170	1,975	14,145			0	12,170	1,975	14,145
2024	12,800	1,350	14,150			0	12,800	1,350	14,150
2025	13,455	694	14,149			0	13,455	694	14,149
2026	3,485	270	3,755			0	3,485	270	3,755
2027	3,665	92	3,757			0	3,665	92	3,757
Total	<u>\$ 646,199</u>	<u>\$ 561,985</u>	<u>\$ 1,208,184</u>	<u>\$ 219,819</u>	<u>\$ 119,098</u>	<u>\$ 338,917</u>	<u>\$ 866,019</u>	<u>\$ 681,083</u>	<u>\$ 1,547,102</u>

MICHIGAN DEPARTMENT OF TRANSPORTATION
Schedule of Expenditures of Federal Awards*
For the Period October 1, 1996 through September 30, 1998
(In Thousands)

For the Fiscal Year Ended September 30, 1997

	CFDA ** Number	Pass-Through Identification Number	Directly Expended	Distributed to Subrecipients	Total Expended and Distributed
U.S. Department of Transportation					
Direct Programs					
Federal Aviation Administration					
Airport Improvement Program	20.106		\$ 32,504	\$ 18,892	\$ 51,396
Total Federal Aviation Administration			<u>\$ 32,504</u>	<u>\$ 18,892</u>	<u>\$ 51,396</u>
Federal Highway Administration					
Highway Planning and Construction	20.205		\$ 581,146	\$ 24,658	\$ 605,804
Total Federal Highway Administration			<u>\$ 581,146</u>	<u>\$ 24,658</u>	<u>\$ 605,804</u>
Federal Railroad Administration					
Local Rail Freight Assistance	20.308		\$ 1,722	\$ 2,929	\$ 4,651
Total Federal Railroad Administration			<u>\$ 1,722</u>	<u>\$ 2,929</u>	<u>\$ 4,651</u>
Federal Transit Administration					
Federal Transit Capital Improvement Grants	20.500		\$ (657)	\$ 17,995	\$ 17,338
Federal Transit Technical Studies Grants	20.505		1,353	11	1,364
Public Transportation for Nonurbanized Areas	20.509		571	6,017	6,588
Total Federal Transit Administration			<u>\$ 1,267</u>	<u>\$ 24,023</u>	<u>\$ 25,290</u>
Total Direct Programs			<u>\$ 616,639</u>	<u>\$ 70,502</u>	<u>\$ 687,141</u>
Pass-Through Program					
Michigan Department of State Police					
Motor Carrier Safety Assistance Program	20.218	97-0066	\$ 65		\$ 65
Total Pass-Through Programs			<u>\$ 65</u>	<u>\$ 0</u>	<u>\$ 65</u>
Total U.S. Department of Transportation			<u>\$ 616,704</u>	<u>\$ 70,502</u>	<u>\$ 687,206</u>
Total Expenditures of Federal Awards			<u>\$ 616,704</u>	<u>\$ 70,502</u>	<u>\$ 687,206</u>

* 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 schedules.

** CFDA is defined as *Catalog of Federal Domestic Assistance*.

For the Fiscal Year Ended September 30, 1998

<u>Directly Expended</u>	<u>Distributed to Subrecipients</u>	<u>Total Expended and Distributed</u>	<u>Total Expended and Distributed for the Two-Year Period</u>
\$ 25,141	\$ 22,441	\$ 47,582	\$ 98,978
<u>\$ 25,141</u>	<u>\$ 22,441</u>	<u>\$ 47,582</u>	<u>\$ 98,978</u>
\$ 600,078	\$ 16,352	\$ 616,430	\$ 1,222,234
<u>\$ 600,078</u>	<u>\$ 16,352</u>	<u>\$ 616,430</u>	<u>\$ 1,222,234</u>
\$ 3,134	\$	\$ 3,134	\$ 7,785
<u>\$ 3,134</u>	<u>\$ 0</u>	<u>\$ 3,134</u>	<u>\$ 7,785</u>
\$ 5,302	\$ 4,533	\$ 9,835	\$ 27,173
1,606		1,606	2,970
225	5,058	5,283	11,871
<u>\$ 7,133</u>	<u>\$ 9,591</u>	<u>\$ 16,724</u>	<u>\$ 42,014</u>
<u>\$ 635,486</u>	<u>\$ 48,384</u>	<u>\$ 683,870</u>	<u>\$ 1,371,011</u>
\$ 81	\$	\$ 81	\$ 146
<u>\$ 81</u>	<u>\$ 0</u>	<u>\$ 81</u>	<u>\$ 146</u>
<u>\$ 635,567</u>	<u>\$ 48,384</u>	<u>\$ 683,951</u>	<u>\$ 1,371,157</u>
<u>\$ 635,567</u>	<u>\$ 48,384</u>	<u>\$ 683,951</u>	<u>\$ 1,371,157</u>

OTHER REQUIRED SCHEDULES

MICHIGAN DEPARTMENT OF TRANSPORTATION
Summary Schedule of Prior Audit Findings
As of September 27, 1999

PRIOR AUDIT FINDINGS RELATED TO THE FINANCIAL SCHEDULES

Audit Findings That Have Been Fully Corrected:

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 1

Finding: The Michigan Department of Transportation's (MDOT's) accounting system did not have an automated computer program to provide detail by subrecipient of the federal assistance passed through and expended by subrecipients to carry out programs for transit operations, road construction, or airport development projects.

Comments: The Financial Operations Division and the Office of Commission Audits have developed a monitoring system. The Division developed a series of reports which identify subrecipients receiving \$200,000 or more federal dollars. The reports can, however, overstate the actual amount of federal dollars received. We will develop a better reporting system with the new Project Accounting System.

Audit Period: October 1, 1994 through September 30, 1996

Finding Number: 2

Finding: The Department of Management and Budget (DMB), in conjunction with MDOT, did not ensure that all budget amounts were reported on the budget and actual statement and that adjustments to the budget amounts were appropriate and documented.

Comments: DMB and the Financial Operations Division have discussed issues within the budget and actual statement prior to its publication. If the underlying budgetary and financial transactions are correctly processed, the statement will be accurate.

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 3
Finding: MDOT did not establish comptroller general ledger accounts and procedures to ensure that current and capital outlay expenditures were properly classified.
Comments: MDOT reviewed all of its capital outlay appropriations to determine whether current expenditures were included. For all the capital outlay appropriations that had current expenditures included, MDOT fully complied with the audit recommendation and established separate appropriation numbers to separate the different types of expenditures in fiscal year 1997-98.

Audit Findings Not Corrected or Partially Corrected:

Audit Period: October 1, 1994 through September 30, 1996
Finding Number: 4
Finding: MDOT needs to improve its internal controls over employee time reporting, document approval, data entry, and the reconciliation process related to payroll. Specific issues were:
a. Timekeepers entered and certified their own time into the Personnel-Payroll Information System for Michigan (PPRISM).
b. Employees with PPRISM data entry capabilities entered transactions for themselves, approved transactions, and reconciled the biweekly transaction report.
Comments: MDOT has taken action on these issues:
a. The implementation of the Data Collection and Distribution System (DCDS) eliminated the weakness of timekeepers entering and certifying their own time. A timekeeper can still enter time and certify time without that time being approved, but the timekeeper's name goes into the Office of Human Resources (OHR) manager's pending pool in DCDS. The OHR manager must follow up all the exceptions in the pending pool.
b. OHR has implemented procedures to eliminate the control weakness regarding OHR employees with PPRISM data entry capabilities approving transactions. DCDS has control edits

which will not allow time to be entered and approved by the same social security number, thereby eliminating the problem where employees can enter and approve their time.

However, OHR has not sufficiently implemented procedures to eliminate the control weakness regarding OHR employees entering transactions and reconciling the reports.

PRIOR AUDIT FINDINGS RELATED TO FEDERAL AWARDS

We did not report any audit findings related to federal awards in our prior Single Audit.

MICHIGAN DEPARTMENT OF TRANSPORTATION

Corrective Action Plan

As of June 7, 2000

FINDINGS RELATED TO THE FINANCIAL STATEMENTS

Finding Number: 599901
Finding Title: Accounting Practices
Management Views: We concur.
Corrective Action: The Financial Operations Division is in the process of updating and documenting policies and procedures to reflect current procedures and the changes required with the implementation of the Statewide accounting system, the Michigan Administrative Information Network, in addition to the Michigan Department of Transportation's (MDOT's) organizational changes. These policies and procedures should strengthen MDOT's internal control.
Anticipated Completion Date: July 31, 2001
Responsible Individual: Edward A. Timpf, Administrator, Financial Operations Division

Finding Number: 599902
Finding Title: Requests for Additional Spending Authority
Management Views: We concur. Use of prior year's budget authority for distribution of the Michigan Transportation Fund (MTF) revenue should have occurred prior to requesting additional authority. This resulted in the budget-to-actual statement showing excess authority being lapsed.
Corrective Action: In fiscal year 1998-99, the Financial Operations Division strengthened its internal control and all requests for MTF revenue distribution spending authority are now based on actual revenue.

Anticipated Completion Date: Completed Fiscal Year 1998-99
Responsible Individual: Edward A. Timpf, Administrator, Financial Operations Division

Finding Number: 599903
Finding Title: Operating Transfers
Management Views: We concur. A two-step process for recording these nonrecurring transactions would have complied with the Governmental Accounting Standards Board (GASB) standards. A direct expenditure was recorded in accordance with the appropriation bill; however, an operating transfer and then an expenditure would have met GASB's standard.

Corrective Action: MDOT has implemented additional review steps for nonrecurring transactions which include consulting with the Office of Financial Management, Department of Management and Budget (DMB), as appropriate, to ensure compliance with GASB's standards.

Anticipated Completion Date: Completed December 1999
Responsible Individual: Edward A. Timpf, Administrator, Financial Operations Division

Finding Number: 599904
Finding Title: Annual Physical Inventories
Management Views: We concur that physical inventories of microcomputers will strengthen MDOT's internal control.

Corrective Action: In a February 2000 audit report, MDOT's Office of Commission Audits recommended that the Office of Information Management define, implement, and monitor internal control that will provide MDOT with reasonable assurance that it has accounted for all of its material microcomputer resources, prevented unauthorized alteration of those resources, and verified their physical existence. MDOT agreed with

the recommendation indicating that staff had already begun work on implementing the recommendation.

Anticipated Completion Date: August 31, 2000

Responsible Individual: C. Douglas Couto, Chief Information Officer, Office of Information Management

Finding Number: 599905

Finding Title: Payroll Controls

Management Views: We concur.

Corrective Action: MDOT implemented controls to ensure that proper signatures are obtained, employees who input data into PPRISM will not enter information related to themselves, and employees with PPRISM data entry capabilities will not reconcile the daily control log.

The Office of Human Resources (OHR) has advised, and will continue to advise, MDOT's managers and supervisors that they must approve/disapprove time and attendance submitted or reported by their subordinates.

In the event that the immediate supervisor is not or will not be available, another manager is to approve/disapprove the time.

OHR has advised its employees who input data into the Personnel-Payroll Information System for Michigan (PPRISM) that they cannot key in any information relating to themselves. This direction includes all data, even if it is of a nonmonetary nature.

The reconciliation of the control log has been assigned to an OHR employee who does not typically have security access to enter information into PPRISM. However, OHR's efforts to prepare for the implementation of the Statewide Human Resources Management Network (HRMN) necessitates that all OHR employees may have to enter data into PPRISM.

Once HRMN has been successfully implemented, this situation will cease.

Anticipated Completion Date: Completed October 1999

Responsible Individual: Jim Farrell, Administrator, Office of Human Resources

Finding Number: 599906

Finding Title: Procurement Cards

Management Views: We concur with parts b. and c. of the audit finding, but we disagree with part a. of the audit finding that requires the approval of procurement card transactions by an immediate superior.

MDOT desires management awareness and responsibility for the use of the procurement card, hence MDOT's specific requirement for division administrator or region engineer approval unless specifically delegated. The division administrators and region engineers were given the latitude to establish their own process for lower level reviews of procurement card purchases before approving. We agree that each division administrator or region engineer needs an appropriate process to ensure that all purchases were required and used for State purposes, but a division administrator or regional engineer should have the latitude of determining that process.

Corrective Action: Parts b. and c. will be addressed in the next update of the procurement card manual.

Anticipated Completion Date: Parts b. and c. will be addressed by December 31, 2000

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

FINDINGS RELATED TO FEDERAL AWARDS

Finding Number: 599907

Finding Title: Payroll Controls

See Finding 599905 with the findings related to the financial statements.

Glossary of Acronyms and Terms

BWBF	Blue Water Bridge Fund.
CFDA	<i>Catalog of Federal Domestic Assistance.</i>
control activities	A component of internal control which consists of the policies and procedures that help ensure that management directives are carried out.
Data Collection and Distribution System (DCDS)	A client/server system with the primary purpose of supporting the capture of time, attendance, and labor distribution data and providing extended labor distribution functionality.
DMB	Department of Management and Budget.
EDF	Economic Development Fund.
FHWA	Federal Highway Administration.
financial audit	An audit that is designed to provide reasonable assurance about whether the financial statements of an audited entity are fairly presented in conformity with generally accepted accounting principles.
GAAP	generally accepted accounting principles.
GASB	Governmental Accounting Standards Board.
Human Resources System (HRS)	The personnel and payroll component of MAIN. A combination of the former Personnel-Payroll Information System for Michigan and the Payroll Personnel System.

internal control	A process, effected by an entity's management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.
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, Single Audits in Michigan are conducted on a biennial basis; consequently, this auditee is not considered a low risk auditee.
material weakness	A 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 either misstatements in amounts that would be material in relation to the financial schedules being audited or noncompliance with applicable requirements of laws regulations, contract, 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.
MDOT	Michigan Department of Transportation.
Michigan Administrative Information Network (MAIN)	A fully integrated automated financial management system for the State of Michigan.
mission	The agency's main purpose or the reason the agency was established.

OMB	U.S. Office of Management and Budget.
Personnel-Payroll Information System for Michigan (PPRISM)	An online database system used for updating and inquiry of personnel and payroll records.
procurement card	A MasterCard credit card issued to State of Michigan employees to purchase certain goods and services at the request of and for the legitimate business benefit of the State of Michigan.
questioned costs	Costs tentatively identified as unallowable, undocumented, unapproved, or unreasonable.
reportable condition	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 MDOT's ability to (1) record, process, summarize, and report financial data consistent with the assertions of management in the financial statements/schedules or (2) administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants.
SOMCAFR	<i>State of Michigan Comprehensive Annual Financial Report.</i>