

# **Missouri Department of Transportation**

Accountants' Reports and Financial Statements

June 30, 2005

# Missouri Department of Transportation

June 30, 2005

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**June 30, 2005**

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## Independent Accountants' Report on Financial Statements and Supplementary Information

Missouri Highway and Transportation Commission  
Missouri Department of Transportation  
Jefferson City, Missouri

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

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

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

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

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In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Missouri Department of Transportation's basic financial statements. The accompanying combining statements supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

BKD, LLP

September 9, 2005

# **Missouri Department of Transportation**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

### **Year Ended June 30, 2005**

The following Management's Discussion and Analysis of the Missouri Department of Transportation describes and analyzes the financial position of the Department, providing an overview of the Department's activities for the year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with the information presented in the Department's financial statements, which follow this section.

## **FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT**

### ***Government-wide Highlights***

For the fiscal year, the Department's program expenses exceeded its program revenues; however, general revenues, generated primarily from various taxes, exceeded the net expenses of the program. As a result, net assets increased during the 2005 fiscal year. The largest increase in program revenue from fiscal year 2004 was from federal government – capital, with an increase of approximately \$110.2 million. Other fluctuations include gain on the sale of assets totaling \$1.6 million in fiscal year 2005, versus a loss on the sale of assets totaling \$2.2 million in fiscal year 2004. Fiscal year 2004 also reflected a \$21.9 million decrease in the fair market value of investments.

**Net Assets** – The assets of the Department exceeded its liabilities at June 30, 2005, the close of the fiscal year, by \$24.6 billion (reported as “net assets”). After reducing the total amount by \$24.3 billion for net investment in capital assets and certain restricted net assets, the resulting restricted net assets available for highways and transportation uses totaled \$327.3 million. Restricted net assets are dedicated for specific uses, including workers' compensation and debt service, and are not available to fund current activities. The restricted highways and transportation net assets are available for spending at the Department's discretion for highway and transportation purposes.

**Changes in Net Assets** – The Department's total net assets, all originating from governmental activities, increased by \$156.7 million during the year ended June 30, 2005.

### ***Noncurrent Assets and Liabilities***

As of June 30, 2005, the Department's noncurrent assets totaled \$25.2 billion, of which 99.9% was related to capital assets. The Department's highway infrastructure and infrastructure in progress, including roads, bridges, interchanges, and related land, comprises \$22.5 billion (89.6 percent) of the capital assets.

The Department's noncurrent liabilities totaled \$1.0 billion, which consisted of \$.8 billion of revenue bonds, and \$.2 billion in other noncurrent liabilities.

## **Fund Highlights**

*Governmental Funds* – As of June 30, 2005, the Department’s governmental funds reported a combined ending fund balance of \$450.5 million, a decrease of \$65.4 million from the previous fiscal year. The total reserved fund balance at June 30, 2005 is \$139.4 million as compared to \$109.4 million at June 30, 2004. The increase is mostly due to \$25.7 million (18.4 percent) reserved for capital projects. Approximately \$311.1 million (69.1 percent) is available for spending at the Department’s discretion (unreserved fund balance) compared to \$406.5 million (79.0 percent) in 2004.

*Proprietary Funds* – As of June 30, 2005, the Department’s proprietary funds reported combined net assets of \$10.6 million, an increase of \$3.9 million from the previous fiscal year. The unrestricted net assets totaled \$10.5 million at year-end.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is an introduction to the Department’s basic financial statements. The basic financial statements include two sets of statements that present different views of the Department – the *government-wide financial statements* and the *fund financial statements*. These financial statements also include notes that explain some of the information in the financial statements and provide more detail. This report also contains required supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

Government-wide financial statements are designed to provide readers with a broad overview of the Department’s financial position. The statements provide both short-term and long-term information about the Department’s financial status, which assists the reader in assessing the Department’s economic condition at the end of the fiscal year. These statements are prepared using the accrual basis of accounting, which is similar to methods followed by most businesses. This takes into account all revenues and expenses connected with the fiscal year, even if the cash involved has not been received or paid. The government-wide financial statements include two statements:

- The *statement of net assets* presents all of the government’s assets and liabilities, except fiduciary funds, with the difference between the two reported as “net assets”. Over time, increases or decreases in the Department’s net assets are an indicator of whether its financial health is improving or weakening, respectively.
- The *statement of activities* presents information showing how the Department’s net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

### **Governmental Activities**

The Department’s basic services are reported as governmental activities, including administration, fleet, facilities, and information systems, system maintenance, system construction, other modal systems, and other activities. Taxes, fees, and federal grants finance most of these activities.

## ***Fund Financial Statements (Reporting the Department's Major Funds)***

Fund financial statements focus on individual parts of the Department, reporting the Department's major individual fund operations in more detail than the government-wide statements. Each fund is a grouping of related accounts that is used to maintain control over specific sources of funding and spending for a particular purpose. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal and contractual requirements. Following are general descriptions of the three kinds of fund categories. It is important to note these fund categories use different accounting approaches and should be interpreted differently.

- *Governmental Funds* – Most of the basic services provided by the Department are financed through governmental funds. Reporting of these funds focuses on how financial resources flow in and out of the funds, and amounts remaining at year-end for future spending. Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. These statements provide a detailed short-term view of the Department's finances that assists in determining whether there will be adequate financial resources available to meet the current needs of the Department.

Because the focus of governmental fund financial statements is narrower than that of government-wide financial statements, it is useful to compare these statements with the governmental activities information presented in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation, to facilitate a comparison between governmental funds and governmental activities in the government-wide statements. These reconciliations are presented on the face of or page immediately following the governmental fund financial statements. Primary differences between the government-wide and fund statements relate to noncurrent assets, such as land, buildings, and infrastructure, and noncurrent liabilities, such as bonded debt and amounts owed for compensated absences and capital lease obligations, which are reported in the government-wide statements but not in the fund-based statements.

The Department has two major governmental funds – the State Highways and Transportation Department Fund (Highway Fund) and the State Road Fund (Road Fund). The funds are special revenue funds, used to account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes. Data from the other funds are combined into a single, aggregated presentation as nonmajor governmental funds. Examples of the nonmajor funds include statutorily established funds for multimodal activities. Individual fund data for each of these nonmajor governmental funds is provided within combining statements elsewhere in this report.

The legislature appropriates an annual budget for the Department's governmental funds. The Budgetary Comparison Schedule has been provided for the Department's two major governmental funds to demonstrate compliance with this budget and is presented as required supplementary information.



- *Proprietary Funds* – These funds are used to show activities that operate more like those found in the private sector. The Department charges customers for the services it provides – whether to outside customers, other agencies or to other divisions of the Department. Proprietary funds (enterprise and internal service), like the government-wide statements, use the accrual basis of accounting. The Department reports activities that provide services for the Department’s other programs and activities as internal service funds. The Department has two internal service funds to report activities for the Missouri Highways and Transportation Commission’s Self-Insurance Plan and the Missouri Department of Transportation and State Highway Patrol Medical and Life Insurance Plan. Internal service fund activities are reported as governmental activities on the government-wide statements with eliminations made to remove the effect of the interfund activity.
- *Fiduciary Funds* – Fiduciary funds are used to account for resources held for the benefit of parties outside the Department. These funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Department’s activities. These funds account for monies held on behalf of various political subdivisions and other interested parties.

## ***Notes to the Financial Statements***

The *notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements, which discuss particular accounts in more detail, can be found immediately following the fiduciary funds statements.

## ***Required Supplementary Information***

A section of *required supplementary information* follows the notes to the basic financial statements. This section includes budgetary comparison schedules and a separate reconciliation between the fund balance for budgetary purposes and the fund balance for the major governmental funds presented in the governmental fund financial statements.

## ***Combining Financial Statements and Schedules***

The next section contains *combining statements* that provide separate financial statements for nonmajor governmental funds, proprietary (internal service) funds, and fiduciary funds. Information for these fund combinations is presented only in summary form in the basic financial statements.

## ***Government-wide Financial Analysis***

### **Net Assets**

As noted earlier, net assets may serve over time as a useful indicator of a governmental entity’s financial position. As presented in Table 1, total assets of the Department on June 30, 2005 were \$25.9 billion, while total liabilities were \$1.3 billion, resulting in net assets of \$24.6 billion. The largest component of the Department’s total net assets, \$24.2 billion, or approximately 98.4 percent, reflects its investment in capital assets (i.e., land, buildings, equipment, infrastructure, and other), less any related debt outstanding that was needed to acquire or construct the assets. The Department uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Department’s investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, because the capital assets themselves cannot be used to liquidate the liabilities.

Another \$59.7 million of the Department's net assets represent resources that are subject to restrictions, such as resources pledged to debt service. The balance of the restricted net assets, \$327.3 million of governmental activities may be used to meet the Department's ongoing obligations to citizens and creditors.

Table 1 presents condensed financial information derived from the Statement of Net Assets for the Department.

**Table 1**

**Net Assets**

June 30, 2005

(amounts in millions)

	2005	2004
<b>Assets</b>		
Current and other assets	\$ 693	\$ 728
Capital assets, net	<u>25,191</u>	<u>24,967</u>
<b>Total assets</b>	<u><b>25,884</b></u>	<u><b>25,695</b></u>
<b>Liabilities</b>		
Noncurrent liabilities	986	962
Other liabilities	<u>277</u>	<u>269</u>
<b>Total liabilities</b>	<u><b>1,263</b></u>	<u><b>1,231</b></u>
<b>Net Assets</b>		
Investment in capital assets net of related debt	24,234	23,953
Restricted (workers' compensation, debt service, capital projects)	60	76
Restricted (highway and transportation uses)	<u>327</u>	<u>435</u>
<b>Total net assets</b>	<u><b>\$ 24,621</b></u>	<u><b>\$ 24,464</b></u>

**Changes in Net Assets**

The expenses of the Department totaled \$1.7 billion for the year ended June 30, 2005. Of the total expenses, \$1.2 billion (70.6 percent) was funded with program revenues (charges for services or program-specific grants and contributions), leaving \$.5 billion to be funded with general revenues (mainly taxes). General revenues totaled \$.7 billion, so total net assets increased by \$.2 billion during the year.

Table 2 presents condensed financial information derived from the Statement of Activities.

**Table 2**

**Changes in Net Assets**

Year ended June 30, 2005

(amounts in millions)

	2005	2004
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 350	\$ 367
Operating grants and contributions – federal government	57	43
Capital grants and contributions – federal government	771	660
General revenues		
Taxes	700	695
Investment earnings	5	(12)
Miscellaneous	14	9
<b>Total revenues</b>	<b>1,897</b>	<b>1,762</b>
<b>Expenses</b>		
Program expenses		
Administration	30	29
Fleet, facilities and information systems	56	44
Maintenance	375	315
Construction	210	198
Multimodal operations	53	47
Distributions to other state agencies	179	166
Self insurance (workers' compensation and liability)	22	16
Medical and life insurance	82	68
Interest on debt	43	39
Depreciation on assets	690	772
<b>Total expenses</b>	<b>1,740</b>	<b>1,694</b>
<b>Change in net assets</b>	<b>157</b>	<b>68</b>
Net assets, July 1, 2004	24,464	24,396
<b>Net assets, June 30, 2005</b>	<b>\$ 24,621</b>	<b>\$ 24,464</b>

**Governmental Activities**

For the year ended June 30, 2005, the largest change in revenues was from the federal government, \$828 million in fiscal year 2005 compared to \$703 million in fiscal year 2004. The increase was due to reauthorization of the Federal Transportation Equity Act for the 21st Century (TEA-21) that expired on September 30, 2003. Congress has extended TEA-21 through continuing resolutions since October 1, 2003. The Department's federal reimbursement receipts are impacted by the timing and length of these extensions. Federal Highway released a larger portion of funding to the Department in fiscal year 2005 than in fiscal year 2004. Additionally, a \$21.9 million decrease in the fair market value of investments was recognized in fiscal year 2004. In fiscal year 2005 the market had stabilized and a significant adjustment was not recognized.

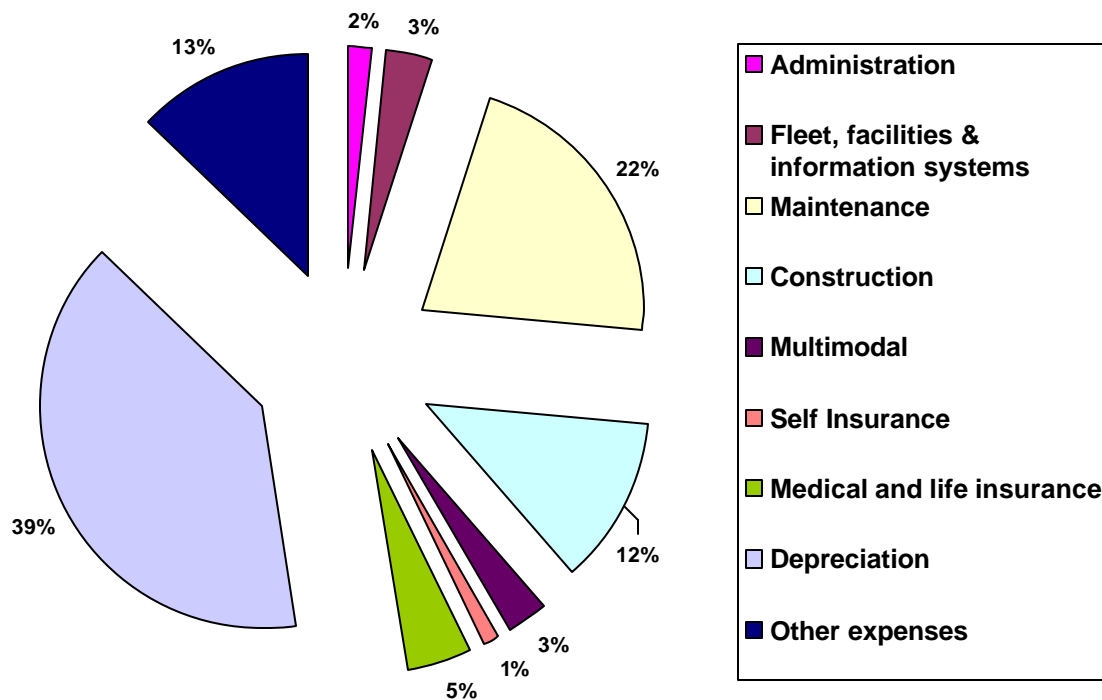
Minor increases for governmental activities were recognized in all categories. The total increase was only \$46.0 million (2.7 percent). The increase in maintenance and construction expenditures was related to the Department's Smoother, Safer, Sooner Construction Initiative. The Department accelerated spending in anticipation of bond proceeds as a result of Amendment 3 approval by voters. In November 2004, constitutional Amendment 3 was approved by 79 percent of voters. The Department began a program in January 2005 to improve the condition of 2,200 miles of the State's most heavily traveled roads by December 2007. These roads carry 60 percent of all traffic on the state highway system. Eighty-six percent of Missouri's population lives within a ten-mile radius of these roads. Infrastructure construction in fiscal year 2005 totaled \$789 million compared to \$926 million in fiscal year 2004. The Department had no proceeds from long-term bond debt in fiscal year 2005 compared to \$256 million in fiscal year 2004.

The percentage of total expenses for governmental activities and the percentage of total revenues by source are presented in Charts 1 and 2.

## Chart 1

### Expenses – Governmental Activities

Year ended June 30, 2005  
(as a percent)

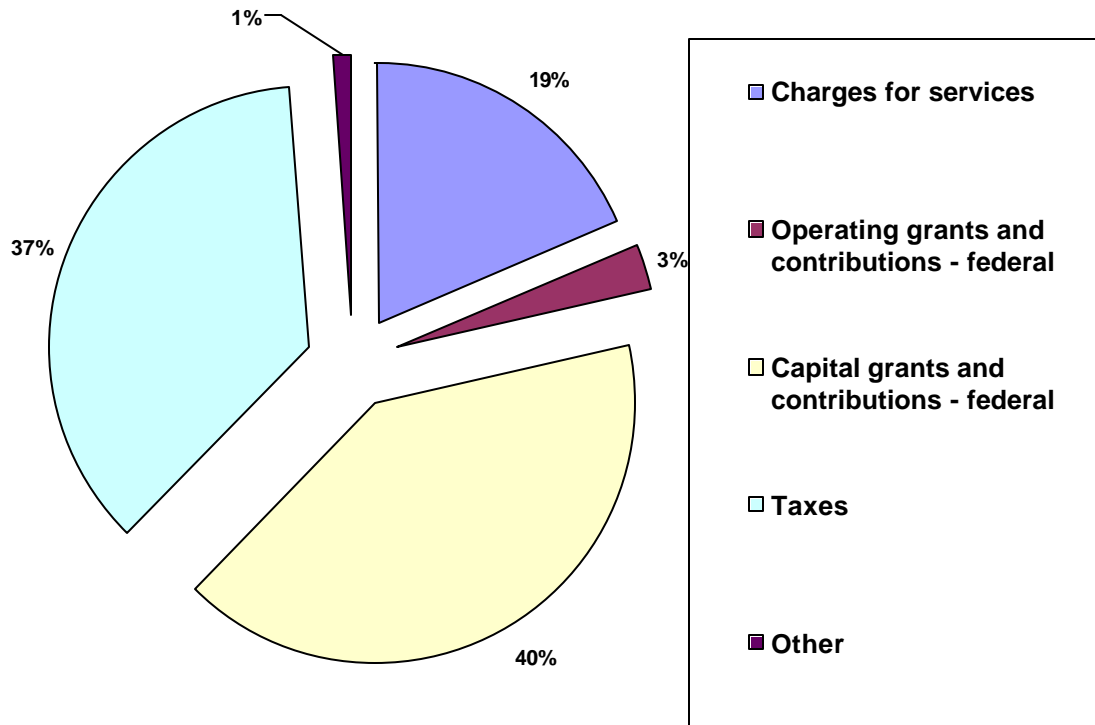


## Chart 2

### Revenues by Source – Governmental Activities

Year ended June 30, 2005

(as a percent)



### ***Fund Financial Analysis***

The financial position of the Department's governmental funds declined during the year. While the Department's spending related to maintenance and construction, including capital outlay type expenditures, was approximately \$49.0 million less than fiscal year 2004, the Department received proceeds from long-term bond debt of \$256.0 million in fiscal year 2004.

### ***Governmental Funds***

The Balance Sheet of the governmental funds reported \$616.0 million in assets, \$165.5 million in liabilities, and \$450.5 million in fund balance as of June 30, 2005. The largest changes were a decrease of \$46.0 million in cash and an increase of \$32.0 million in accounts payable. Within the total fund balance, \$139.0 million has been set-aside in reserve. The reserved amounts are not available for new spending, because they have been committed for capital asset acquisitions (\$26.0 million), debt service (\$76.0 million), noncurrent loans receivable (\$2.0 million), and inventory (\$35.0 million). The balance of unreserved governmental funds is \$311.0 million, which was available for the general spending of the Department.

The Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds shows \$1.9 billion in revenues, \$2.0 billion in expenditures, and a net \$79.0 million in receipts from other financing sources (uses). The ending fund balance of the governmental funds for the year ended June 30, 2005, was \$451.0 million, which was a \$65.0 million decrease from the previous year's fund balance of \$516.0 million. Spending from existing fund balances was the result of accelerated spending in anticipation of Amendment 3 bonding and spending remaining proceeds from fiscal year 2004 bonds.

The Department's major governmental funds, the Highway Fund and Road Fund, ended the fiscal year with fund balances of \$126.3 and \$303.2 million, respectively. The nonmajor governmental funds ended the year with a total fund balance of \$21.0 million.

*State Highways and Transportation Fund (Highway Fund):* This fund is established by statute to receive revenues derived from the use of state highways. The fund pays the costs incurred to collect revenue received, to administer the Highways and Transportation Commission and the Missouri Department of Transportation. As shown on the Balance Sheet, the fund ended the fiscal year with assets of \$135.3 million, liabilities of \$9.0 million, and fund balance of \$126.3 million. Of the fund balance, \$126.2 million was unreserved. The significant decrease in accounts payable, \$14.0 million, is the result of a statutory change in funding legislative appropriations in fiscal year 2006. Amendment 3 included not only a change in revenue allocation, but also changed the Department's expenditure funding. Previously, certain expenditures related to the administration of the Missouri Department of Transportation were from the Highway Fund. As a result of Amendment 3, the Department's expenditures, with the exception of limited items including Motor Carrier Services refunds, are from the Road Fund.

As shown on the Statement of Revenues, Expenditures, and Changes in Fund Balances of the governmental funds, the Highway Fund had \$734.0 million in revenues, \$583.0 million in expenditures, and a net decrease of \$136.5 million for other financing sources (uses) including transfers to the Road Fund, for the year ended June 30, 2005. The largest source of Highway Fund revenue was \$730.0 million in taxes, primarily fuel taxes (\$518.5 million) and licenses, fees, and permits (\$170.0 million). Fuel taxes increased \$3.9 million and licenses, fees, and permits increased \$7.0 million. The increase can be attributed to general growth.

Highway Fund expenditures increased by \$25.0 million, to \$583.0 million. Increases of \$13.9 million, to \$194.6 million, were distributions to other state agencies. Increases in maintenance expenditures of \$15.0 million, including maintenance expenditures of a capital outlay nature, were offset by a decrease in construction expenditures, including construction expenditures of a capital outlay nature, of \$3.1 million. Maintenance and construction expenditures, excluding capital outlay, were \$211.2 million and \$76.0 million, respectively, for fiscal year 2005. Capital outlay expenditures were \$.8 million and \$29.0 million for maintenance and construction activities, respectively, for fiscal year 2005. The Highway Fund's ending fund balance, including reserves, was \$126.3 million, an increase of \$14.8 million over the previous year's ending fund balance.

The amount transferred from the Highway Fund to the State Road Fund was \$136.5 million. This was a decrease of \$29.7 million from the previous year. In 1967 the Highway Commission, State Treasurer, and State Auditor agreed to a procedure to transfer funds from the Highway Fund to the Road Fund for maintenance and construction purposes as required by State statute. The procedure provides a means to maintain balances in the Highway Fund necessary to meet business requirements.

*State Road Fund:* The State Road Fund was constitutionally established to receive monies from the motor vehicle sales tax, the federal government, and other revenues not required to be in another fund. The fund pays to construct, improve and maintain the state highway system. The fund ended the fiscal year with assets of \$447.4 million, liabilities of \$144.2 million and fund balance of \$303.2 million. Of the fund balance, \$136.7 million was reserved for capital projects (\$25.7 million), debt service (\$76.0 million) and inventory (\$35.0 million), with the remaining \$166.5 million available for spending for the general purposes of the fund. As a measure of the Road Fund's liquidity, it may be useful to compare both the unreserved fund balance and the total fund balance to the total fund expenditures. Unreserved fund balance represents 12.3 percent of total Road Fund expenditures, while total fund balance represents 22.4 percent of the same amount.

Expenditures of the Road Fund decreased by \$23.8 million, to \$1.353 billion. Increases in fleet, facilities, and information systems expenditures of \$17.2 million, maintenance expenditures of \$49.7 million, including fleet, facilities, and information systems and maintenance expenditures of a capital outlay nature, and debt service of \$27.6 million were offset by a decrease in construction expenditures of \$119.4 million. Fleet, facilities, and information, maintenance, construction, and debt service expenditures, excluding capital outlay, were \$46.4 million, \$174.3 million, \$152.9 million, and \$101.2 million, respectively, for fiscal year 2005. Capital outlay expenditures were \$51.5 million, \$14.1 million, and \$810.9 million for fleet, facilities, and information, maintenance and construction activities, respectively, for fiscal year 2005.

### ***Proprietary Funds***

*Internal Service Funds:* The Department's internal service funds consist of the Self-Insurance Fund (workers' compensation, fleet liability, and general liability) and the Highway Employees' and Highway Patrol Insurance Fund (medical and life insurance fund). The funds establish premiums paid to the Self-Insurance Fund by the Department for fleet and general liability claims and by the Department and the Missouri State Highway Patrol for workers' compensation claims. The Department, the Missouri State Highway Patrol, and employees of both agencies pay premiums to the medical and life insurance fund.

As shown on the Statement of Net Assets of the proprietary funds, total assets of the funds were \$73.7 million. Of this, current assets totaled \$36.4 million and noncurrent totaled \$37.3 million. The most significant change is an increase in cash of \$10.0 million, to \$23.8 million. The total liabilities of the proprietary funds are \$63.0 million, an increase of \$6.9 million. Pending self-insurance claims increased \$3.5 million, to \$30.0 million, while incurred but not reported claims increased \$3.3 million, to \$25.1 million.

Total net assets of the internal service funds were \$10.7 million as of June 30, 2005. Total net assets consisted of \$10.5 million unrestricted and \$.2 million restricted.

As shown on the Statement of Revenues, Expenses, and Changes in Fund Net Assets of the proprietary funds, the internal service funds ended the year with operating revenues of \$106.5 million, operating expenses of \$104.5 million, and revenues from investments of \$1.9 million. The largest source of operating revenues is from premiums assessed to the Department of Transportation and Missouri State Highway Patrol. Revenues derived from the State totaled \$79.7 million (74.8 percent).

While the largest operating expenses, medical and prescription drug benefits, totaled \$74.0 million (70.8 percent), the largest fluctuation from fiscal year 2004 was in self-insurance fund expenditures. Workers' compensation expenditures increased \$2.1 million to \$11.9 million (21.1 percent) and general liability expenditures increased \$3.9 million to \$7.6 million (108.3 percent). The increase in workers' compensation expenditures is the result of increased payments and increased reserves for work related injuries and fatalities in fiscal year 2005. General liability expenditures increased in fiscal year 2005 as a result of two separate events. The first is increased payments and increased reserves for litigated claims. The second is the result of increased reserves due to the increased number of claims filed by individuals prior to House Bill 393, Tort Reform, being signed into law on August 28, 2005. House Bill 393 reallocates the doctrine of joint and several liability and may limit the defendant's liability.

Even with the significant increases in self-insurance fund expenditures, the ending net assets of the internal service funds increased \$3.9 million from the preceding year to \$10.7 million. This increase was the result of the Commission approving increased funding (premiums) to offset the fund deficit accumulated prior to fiscal year 2004 and to accumulate funds to limit future premium increases to members.

### ***Fiduciary Funds***

The Department has one type of fiduciary funds – agency funds. The agency funds are used to account for monies held on behalf of various political subdivisions and other interested parties. These funds act as clearing accounts and thus do not have net assets.

## **SIGNIFICANT EVENTS FOR THE YEAR ENDED JUNE 30, 2005**

As previously mentioned, in November 2004, 79 percent of the voters passed Amendment 3, a constitutional amendment providing the Department with additional resources. The amendment provides the following changes for the Department, effective with fiscal year 2006:

- Redirects 1.5% of the 4.225% motor vehicle sales tax rate from general revenue funds to a newly created State Road Bond Fund. The new State Road Bond Fund must be used for principal and interest payments on bonds through January 1, 2009. After this date, any excess funds over principal and interest can be appropriated to the State Road Fund for expenditures at the Department's discretion for highway and transportation purposes. The redirected revenues are anticipated to provide approximately \$140 million annually when fully implemented. The phasing is over a four-year period: 25% in 2006, 50% in 2007, 75% in 2008, and 100% in 2009.
- Amendment 3 also capped Department of Revenue expenditures to 3 percent of collections. Previously the Department of Revenue was appropriated Highway Fund monies totaling \$50 to \$60 million. Capped expenditures under Amendment 3 are estimated to be \$15 to \$20 million.
- Amendment 3 changes the Department's expenditure funding. Previously, expenditures related to the administration of the Department were from the Highway Fund. As a result of Amendment 3, the Department's expenditures, with the exception of limited items including Motor Carrier Services refunds, will be from the Road Fund.
- The Department's transportation revenues are no longer included in the calculation of "total state revenues" as defined by the Hancock amendment, which limits taxes imposed by the General Assembly from exceeding a specified revenue limit.



## CAPITAL ASSETS AND DEBT ADMINISTRATION

### ***Capital Assets***

At the close of fiscal year 2005, the Department had \$43.8 billion invested in capital assets, with accumulated depreciation of \$18.6 billion and a net value of \$25.2 billion. This represents an increase of \$.2 billion from fiscal year 2004. Depreciation charges totaled \$689.7 million in fiscal year 2005. The details of these assets are presented in Table 3 below. Additional information about the Department's capital assets is presented in the notes to the financial statements.

**Table 3**

### **Capital Assets, Net of Depreciation**

June 30, 2005

(amounts in millions)

	2005	2004
Land	\$ 1,998	\$ 1,976
Land improvements	6	6
Buildings	137	135
Equipment	114	110
Vehicles	68	63
Infrastructure	19,797	19,651
Construction in progress	3,071	3,026
<b>Total</b>	<b>\$ 25,191</b>	<b>\$ 24,967</b>

As provided by generally accepted accounting principles, the Department records its infrastructure assets at actual or estimated historical cost. Included in infrastructure are approximately 72,000 lane miles and 76.9 million square feet of bridge deck area that the Department is responsible for maintaining.

The Statewide Transportation Improvement Program (STIP), updated annually, sets forth the specific construction projects the Department will undertake in the next five years. It covers highways and bridges, transit, aviation, rail, waterways, enhancements and other projects. Adjustments are made during the life of the STIP based on needs.

### ***Debt Administration***

The Department's total long-term obligations, excluding pending self-insurance claims and incurred but unreported claims, at June 30, 2005 totaled \$1.03 billion, a decrease of \$13.0 million from the previous fiscal year. The current portion of these long-term liabilities is \$81.0 million, with \$952.0 million due in more than one year. Table 4 presents a summary of the Department's long-term obligations from governmental activities.

**Table 4****Long-term Obligations**

June 30, 2005

(amounts in millions)

Transportation revenue bonds	\$	829
Premium on bonds		20
Advances from other government agencies and State of Missouri component units		81
Capital leases obligations		53
Compensated absences		31
Other noncurrent liabilities		<u>19</u>
<b>Total long-term obligations</b>		<b>1,033</b>
Current portion of long-term obligations		<u>81</u>
<b>Total noncurrent liabilities</b>	<b>\$</b>	<b><u>952</u></b>

Revenue bonds have been sold in four separate issues between 2000 and 2003. Bonds outstanding as of June 30, 2005, are scheduled to mature on various dates, but not later than fiscal year 2023. The bonds are obligations of the State Road Fund and are not obligations of the State of Missouri.

The bonds were issued to finance projects in conformity with priorities established in the 1992 plan developed by the Department and to accelerate projects in the Department's STIP and are secured by revenues collected under Article IV, Section 30(a) & (b) of the Missouri Constitution. These revenues are state highway users fees including: fuel taxes, sales and use taxes, and licenses and fees. House Bill 1742, passed May 2000, authorizes the Department to issue bonds of \$2 billion, with no more than \$500 million issued in any one year between 2001 and 2006.

The advances from other government agencies and component units are all related to construction projects accelerated to meet the needs of the users. With the exception of the advance from the Missouri Transportation Finance Corporation, all advances are interest free. Principal payments are due on various dates through 2023.

The Department has entered into various capital lease obligations. The lease-purchase agreements provide a means of financing office and heavy equipment. In addition to equipment lease-purchase agreements, the Department entered into an agreement for an office facility to accommodate the consolidation of motor carrier services in fiscal year 2005. Capital lease payments mature on various dates through 2020.

## **RECENT EVENTS AND FUTURE BUDGETS**

### ***Recent Events***

On June 10, 2005, the Commission authorized the issuance of up to \$300 million in fixed-rate bonds and \$100 million of variable-rate bonds, with proceeds from the issuance of the bonds used to finance construction and reconstruction costs of the state highway system. In July 2005, the Department issued \$278.66 million and \$72 million, respectively, of the authorized bonds. The Department plans to continue the practice of issuing fixed and variable rate bonds. This practice can be beneficial because, historically, variable-rate bonds are issued at rates below those of fixed-rate bonds. Also, when market rates fall, interest rates decrease. However, when market rates rise, so do interest payments on outstanding variable-rate principal balances. With variable rate bonds, the Department has the flexibility to repay bonds as funds become available. The variable-rate bonds are secured by a seven-year stand by irrevocable direct-pay Letter of Credit.

The Department's fixed-rate bonds, referred to as the First Lien, were issued with ratings of Aa1 from Moody's Investors Services, AA+ from Standard and Poor's Corporation, and AA from Fitch. The senior lien bonds issued between 2000 and 2003 had ratings of Aa2 from Moody's, AA from Standard and Poor's Corporation, and AA from Fitch. This series of bonds has been closed and additional bonds will not be issued in this series, accordingly, the original ratings have been upgraded to Aaa, AAA, and AA+ by Moody's, Standard and Poor's, and Fitch respectively.

The Department's Smoother, Safer, Sooner Construction Initiative encompasses three steps. Part one regarding improvements to the state system has previously been introduced. Part two includes accelerating existing projects in the five-year STIP. The third part included stakeholders identifying new high priority projects in May 2005 with Commission approval in July 2005. The estimate for new projects is \$1.3 to \$1.5 billion.

In August 2005, the Federal Highway Act entitled Safe Accountable Flexible Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) was passed and signed into law by the President. This act provides federal funding through September 30, 2009.

### ***Future Budgets***

The Department's fiscal year 2006 budget for all funds was approved by the Legislature in May 2005 and signed into law by the Governor in June 2005. The fund level is the legal level of control for the Road Fund, with approval of the Road Fund budget by the Missouri Highway and Transportation Commission (Commission). The Commission approved the budget for all funds in July 2005.

The total spending plan adopted for the Department was \$2.2 billion. As previously commented, beginning in fiscal year 2006, the Department's primary funding stream changed to the Road Fund as a result of Amendment 3. Budgets for fiscal year 2006 include \$400 million maintenance and \$1.4 billion construction expenditures, including expenditures of a capital outlay nature, compared to actual spending of \$421 million and \$1.1 billion, respectively, in fiscal year 2005. Additionally, budgeted fiscal year 2006 debt service expenditures for bond indebtedness total \$119 million, an increase of \$43 million from fiscal year 2005 total bond indebtedness expenditures of \$76 million.

## **CONTACTING THE DEPARTMENT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the Missouri Department of Transportation's interested parties, including citizens, taxpayers, customers, investors and creditors, with a general overview of the Department's finances and to demonstrate the Department's accountability for the money it receives. Questions about this report or requests for additional financial information should be addressed to the Missouri Department of Transportation, Controller's Division, P.O. Box 270, Jefferson City, MO 65102. This report is also included in the Report to the Joint Committee on Transportation Oversight and is available on the Department's web site at [www.modot.mo.gov](http://www.modot.mo.gov).

**Missouri Department of Transportation**  
**Statement of Net Assets**  
**June 30, 2005**

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and investments	\$ 359,845,670
Taxes receivable – due from state funds	123,261,538
Miscellaneous receivables, net	27,143,417
Due from federal government	39,838,634
Inventories	35,118,576
Restricted cash and investments	101,902,831
Loans receivable	2,543,093
Bond issue costs, net	3,016,858
Capital assets:	
Assets not being depreciated	5,069,679,691
Assets being depreciated, net	<u>20,121,695,647</u>
Total assets	<u>25,884,045,955</u>
<b>Liabilities</b>	
Accounts payable	139,780,624
Accrued interest payable	18,181,255
Unearned revenue	16,900,305
Pending self-insurance claims	
Due within one year	9,025,000
Due in more than one year	20,967,437
Incurred but not reported claims	
Due within one year	12,800,000
Due in more than one year	12,254,000
Long-term liabilities:	
Due within one year	80,734,205
Due in more than one year	<u>952,338,647</u>
Total liabilities	<u>1,262,981,473</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	24,234,052,651
Restricted for:	
Workers' compensation	198,420
Capital projects	356,775
Debt service	59,179,919
Highways and transportation	<u>327,276,717</u>
Total net assets	<u>\$ 24,621,064,482</u>

**Missouri Department of Transportation**  
**Statement of Activities**  
**Year Ended June 30, 2005**

	<b>Governmental Activities</b>
<b>Program Expenses</b>	
Administration	\$ 29,702,500
Fleet, facilities, and information systems	55,976,093
Maintenance	375,323,426
Construction	210,298,047
Multimodal operations	52,978,033
Interest	43,465,145
Other state agencies	178,506,363
Self-insurance	21,997,958
Medical and life insurance	82,473,553
Depreciation	<u>689,699,231</u>
Total program expenses	<u>1,740,420,349</u>
<b>Program Revenue</b>	
Charges for services:	
Licenses, fees, and permits	282,057,644
Intergovernmental/cost reimbursements/miscellaneous	41,749,695
Interest	88,777
Employee insurance premiums	<u>26,024,330</u>
Total charges for services	349,920,446
Federal government – operating	57,496,516
Federal government – capital	<u>770,567,941</u>
Total program revenue	<u>1,177,984,903</u>
Net expense of program	<u>562,435,446</u>
<b>General Revenues</b>	
Fuel tax	518,989,876
Sales and use tax	181,462,281
Unrestricted investment earnings	5,352,914
State appropriations	11,768,028
Gain on sale of capital assets	<u>1,566,665</u>
Total general revenues	<u>719,139,764</u>
Change in net assets	156,704,318
<b>Net Assets, Beginning of Year</b>	<u>24,464,360,164</u>
<b>Net Assets, End of Year</b>	<u>\$ 24,621,064,482</u>

**Missouri Department of Transportation**  
**Balance Sheet – Governmental Funds**  
**June 30, 2005**

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and investments	\$ 26,418,960	\$ 240,586,981	\$ 19,877,168	\$ 286,883,109
Taxes receivable – due from state funds	108,250,264	14,374,936	636,338	123,261,538
Miscellaneous receivables, net	218,491	26,328,089	80,422	26,627,002
Due from federal government	405,849	29,294,006	10,138,779	39,838,634
Due from other funds	—	49,752	—	49,752
Loans receivable	—	—	2,543,093	2,543,093
Inventories	89,018	35,029,558	—	35,118,576
Restricted cash and investments	<u>—</u>	<u>101,704,411</u>	<u>—</u>	<u>101,704,411</u>
Total assets	<u>\$ 135,382,582</u>	<u>\$ 447,367,733</u>	<u>\$ 33,275,800</u>	<u>\$ 616,026,115</u>
<b>Liabilities and Fund Balances</b>				
<b>Liabilities</b>				
Accounts payable	\$ 9,064,494	\$ 117,783,460	\$ 11,667,376	\$ 138,515,330
Deferred revenue	—	26,383,021	579,446	26,962,467
Due to other funds	<u>—</u>	<u>—</u>	<u>49,752</u>	<u>49,752</u>
Total liabilities	<u>9,064,494</u>	<u>144,166,481</u>	<u>12,296,574</u>	<u>165,527,549</u>
<b>Fund balances:</b>				
Reserved for				
Capital asset acquisitions	—	25,727,380	—	25,727,380
Debt service	—	75,977,031	—	75,977,031
Loans receivable	—	—	2,543,093	2,543,093
Inventories	89,018	35,029,558	—	35,118,576
Unreserved, special revenue funds	<u>126,229,070</u>	<u>166,467,283</u>	<u>18,436,133</u>	<u>311,132,486</u>
Total fund balances	<u>126,318,088</u>	<u>303,201,252</u>	<u>20,979,226</u>	<u>450,498,566</u>
Total liabilities and fund balances	<u>\$ 135,382,582</u>	<u>\$ 447,367,733</u>	<u>\$ 33,275,800</u>	<u>\$ 616,026,115</u>
<b>Total Fund Balances From Fund Statement Above</b>				\$ 450,498,566
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets, net of accumulated depreciation of \$18,567,426,461 used in governmental activities are not financial resources and, therefore, are not reported in the funds.				25,191,375,338
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.				16,770,155
Internal service funds are used by management to charge the costs of certain activities, such as insurance, to individual funds. The assets and liabilities of the internal service funds are included in the statement of net assets.				10,657,675
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.				<u>(1,048,237,252)</u>
<b>Total Net Assets – Governmental Activities</b>				<u>\$ 24,621,064,482</u>

**Missouri Department of Transportation**  
**Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances – Governmental Funds**  
**Year Ended June 30, 2005**

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor Funds	Total
<b>Revenues</b>				
Fuel tax	\$ 518,551,199	\$ 100,954	\$ 337,723	\$ 518,989,876
Sales and use tax	41,892,868	129,146,958	10,422,455	181,462,281
Licenses, fees and permits	169,890,942	110,167,753	1,998,949	282,057,644
Intergovernmental/cost reimbursements/miscellaneous	949,315	50,813,684	1,490,906	53,253,905
Investment earnings	997,990	1,688,367	544,294	3,230,651
Federal government	<u>2,008,825</u>	<u>768,559,116</u>	<u>57,496,516</u>	<u>828,064,457</u>
Total revenues	<u>734,291,139</u>	<u>1,060,476,832</u>	<u>72,290,843</u>	<u>1,867,058,814</u>
<b>Expenditures</b>				
Current				
Administration	39,632,198	1,455,306	—	41,087,504
Fleet, facilities, and information systems	21,361,620	46,429,478	—	67,791,098
Maintenance	211,194,480	174,258,550	20,732,361	406,185,391
Construction	76,033,972	152,951,188	—	228,985,160
Multimodal operations	194,464	13,498	52,883,904	53,091,866
Capital outlay	39,980,628	876,453,945	2,297,989	918,732,562
Debt service	—	101,189,628	—	101,189,628
Other state agencies	<u>194,578,383</u>	<u>—</u>	<u>103,223</u>	<u>194,681,606</u>
Total expenditures	<u>582,975,745</u>	<u>1,352,751,593</u>	<u>76,017,477</u>	<u>2,011,744,815</u>
Excess of revenues over (under) expenditures	<u>151,315,394</u>	<u>(292,274,761)</u>	<u>(3,726,634)</u>	<u>(144,686,001)</u>
<b>Other Financing Sources (Uses)</b>				
Long-term debt issued	—	17,122,016	—	17,122,016
Proceeds from capital leases	(5,478)	44,472,943	—	44,467,465
Proceeds from the sale of capital assets	13,801	5,919,985	8,250	5,942,036
Transfers in (out)	(136,487,084)	136,487,084	—	—
Transfers related to state appropriations	<u>—</u>	<u>—</u>	<u>11,768,028</u>	<u>11,768,028</u>
Total other financing sources (uses)	<u>(136,478,761)</u>	<u>204,002,028</u>	<u>11,776,278</u>	<u>79,299,545</u>
<b>Net Change in Fund Balances</b>	14,836,633	(88,272,733)	8,049,644	(65,386,456)
<b>Fund Balances, Beginning of Year</b>	<u>111,481,455</u>	<u>391,473,985</u>	<u>12,929,582</u>	<u>515,885,022</u>
<b>Fund Balances, End of Year</b>	<u>\$ 126,318,088</u>	<u>\$ 303,201,252</u>	<u>\$ 20,979,226</u>	<u>\$ 450,498,566</u>



**Missouri Department of Transportation**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2005**

**Net change in fund balances – total governmental funds** \$ (65,386,456)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$918,732,562) exceeded depreciation (\$689,699,231) in the current period. 229,033,331

In the statement of activities, only the gain on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the assets sold. (4,375,371)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (11,941,662)

Proceeds from the issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the net effect of the differences in the treatment of long-term debt obligations and related items. 2,679,342

Some expenses reported in the statement of activities do not require the use of current financial resources and; therefore, are not reported as expenditures in the governmental funds. 2,826,455

Internal service funds are used by management for the medical and life insurance and self-insurance plans. The net revenue (expense) of internal service funds is reported with governmental activities. 3,868,679

**Change in net assets of governmental activities** \$ 156,704,318

**Missouri Department of Transportation**  
**Statement of Net Assets**  
**Proprietary Funds**  
**June 30, 2005**

	<u>Internal Service Funds</u>
<b>Assets</b>	
<b>Current Assets</b>	
Cash and cash equivalents	\$ 23,800,231
Investments	12,068,280
Miscellaneous receivables	<u>516,415</u>
Total current assets	<u>36,384,926</u>
<b>Noncurrent Assets</b>	
Restricted investments	198,420
Investments	<u>37,094,050</u>
Total noncurrent assets	<u>37,292,470</u>
Total assets	<u>73,677,396</u>
<b>Liabilities</b>	
<b>Current Liabilities</b>	
Accounts payable	1,265,291
Deferred revenue	6,707,993
Pending self-insurance claims	9,025,000
Incurred but not reported claims	<u>12,800,000</u>
Total current liabilities	<u>29,798,284</u>
<b>Noncurrent Liabilities</b>	
Pending self-insurance claims	20,967,437
Incurred but not reported claims	<u>12,254,000</u>
Total noncurrent liabilities	<u>33,221,437</u>
Total liabilities	<u>63,019,721</u>
<b>Net Assets</b>	
Restricted net assets	198,420
Unrestricted net assets	<u>10,459,255</u>
Total net assets	<u>\$ 10,657,675</u>

**Missouri Department of Transportation**  
**Statement of Revenues, Expenses, and Changes in**  
**Fund Net Assets – Proprietary Funds**  
**Year Ended June 30, 2005**

	<u><b>Internal Service Funds</b></u>
<b>Operating Revenues</b>	
Self insurance premiums:	
Highway workers' compensation	\$ 10,021,882
Highway patrol workers' compensation	1,185,000
Highway fleet vehicle liability	1,974,942
Highway general liability	5,337,372
Medical insurance premiums:	
Department and patrol	61,148,170
Member	26,024,330
Other	<u>763,076</u>
Total operating revenues	<u>106,454,772</u>
<b>Operating Expenses</b>	
Self-insurance programs:	
Highway workers' compensation	8,953,500
Highway patrol workers' compensation	2,929,810
Highway fleet vehicle liability	919,818
Highway general liability	7,574,859
Other	1,619,971
Medical and life insurance program:	
Insurance premiums	5,500,523
Medical benefits	59,323,892
Prescription drug benefits	14,674,735
Professional fees	543,996
Administrative services	2,302,961
Other	<u>127,446</u>
Total operating expenses	<u>104,471,511</u>
Operating income	<u>1,983,261</u>
<b>Nonoperating Revenues</b>	
Interest income	1,780,728
Net increase in fair value of investments	<u>104,690</u>
Total nonoperating revenues	<u>1,885,418</u>
<b>Change In Net Assets</b>	3,868,679
<b>Net Assets, Beginning of Year</b>	<u>6,788,996</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 10,657,675</u></u>

See Accompanying Notes to Basic Financial Statements

**Missouri Department of Transportation**  
**Statement of Cash Flows – Internal Service Funds**  
**Proprietary Funds**  
**Year Ended June 30, 2005**

	<b>Internal Service Funds</b>
<b>Cash Flows From Operations</b>	
Receipts from interfund services provided	\$ 106,248,361
Payments for interfund services provided	(92,544,499)
Payments to suppliers	<u>(5,014,706)</u>
Net cash provided by operating activities	<u>8,689,156</u>
<b>Cash Flows From Investing Activities</b>	
Proceeds from sale and maturities of investments	11,448,750
Purchase of investments	(11,916,640)
Interest received	<u>1,708,723</u>
Net cash provided by investing activities	<u>1,240,833</u>
Net increase in cash and cash equivalents	9,929,989
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>13,870,242</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 23,800,231</u></u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>	
Operating income	\$ 1,983,261
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in receivables	(206,411)
Increase in accounts payable	6,428,161
Increase in deferred revenue	<u>484,145</u>
Net cash provided by operating activities	<u><u>\$ 8,689,156</u></u>
<b>Noncash Items Impacting Recorded Assets – Increase in Fair Value of Investments</b>	<u><u>\$ 104,690</u></u>

**Missouri Department of Transportation**  
**Statement of Fiduciary Net Assets**  
**Fiduciary Funds**  
**June 30, 2005**

**Assets**

Cash and cash equivalents	\$ 9,322,746
Investments	16,260,072
Other	<u>66,647</u>
Total assets	<u>\$ 25,649,465</u>

**Liabilities**

Due to other governments	\$ 6,436,855
Advances from other governments	<u>19,212,610</u>
Total liabilities	<u>\$ 25,649,465</u>

# **Missouri Department of Transportation**

## **Notes to Basic Financial Statements**

### **June 30, 2005**

#### **Note 1: Summary of Significant Accounting Policies**

The State Highway Department was created in 1913 to act as the agent of the State of Missouri (the State) for public roads. The State Highway Commission was created in 1921 with the passage of the Centennial Road Law and was charged with the administration of the network of connecting state highways, including their location, design, construction, and maintenance.

In 1979, the State of Missouri passed a constitutional amendment merging the State Highway Department with the Department of Transportation (the Department). This constitutional amendment gave a newly created Highway and Transportation Commission (the Commission) the authority over all state transportation programs and facilities. The Commission is a bipartisan body of six members appointed by the Governor with the consent of the Senate for a term of six years.

In 1996, by legislative action, the Missouri Highways and Transportation Department became the Missouri Department of Transportation (MoDOT). In 2002, several programs from other state agencies were combined into MoDOT. This was the result of legislative action and the Governor's Executive Order, which created the "One-Stop Shop" for motor carrier and railroad operators and overdimension/overweight permitting. In 2003, by Governor's Executive Order, the Division of Highway Safety was transferred from the Department of Public Safety to MoDOT. This change was part of the Governor's Reorganization Plan of 2003, because both the Division of Highway Safety and MoDOT are engaged in activities related to the state highway system and its safe operation. The Division of Highway Safety works to promote the safe operation of vehicles on or about the highways, roads and streets of the state.

#### **(A) Financial Reporting Entity**

As defined by accounting principles generally accepted in the United States of America (GAAP), the financial reporting entity consists of a primary government, as well as its component units, which are legally separate organizations for which the primary government is financially accountable. Financial accountability is defined as:

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

Based on the above criteria, certain legally separate organizations involved in transportation-related projects, such as the Missouri Transportation Finance Corporation, Highway 179 Transportation Corporation, Fulton 54 Transportation Corporation, and the Wentzville Transportation Corporation, are considered component units of the State of Missouri. The financial statements of these legally separate organizations are not included herein.

# **Missouri Department of Transportation**

## **Notes to Basic Financial Statements**

### **June 30, 2005**

Because the Department is not legally separate from the State of Missouri, it is a part of the primary government of the State, not a component unit. The financial statements of the Department are included in the primary government financial statements of the State of Missouri. The State of Missouri's Comprehensive Annual Financial Report may be obtained by writing to the State of Missouri, Office of Administration.

#### **(B) Basis of Presentation and Fund Structure**

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

The Department creates a single function – Transportation. The statement of activities demonstrates the degree to which the direct expenses of that function are offset by program revenues. Direct expenses are those that are clearly identifiable with the function. Program revenues include (a) charges paid by the recipients of goods or services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of the program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

The Department reports the following major governmental funds, which operate as special revenue funds for the primary government, the State of Missouri:

**State Highways and Transportation Department Fund** – This fund is established by Section 226.200, RSMo. to receive revenues derived from the use of state highways. This fund pays the costs incurred to collect that revenue, to administer the Highways and Transportation Commission and the Department of Transportation, to administer and enforce any state motor vehicle laws or traffic regulations, and to provide other related functions.

**State Road Fund** – This fund is constitutionally established to receive monies from the motor vehicle sales tax, the federal government, transfers from the State Highways and Transportation Department Fund, and any other revenues held by the Department not required to be in another fund. Disbursements consist of costs incurred to construct, improve, and maintain the state highway system and for debt service payments.

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

The Department reports the following additional fund types:

**Internal Service Funds** – These funds account for the financing of services provided to other funds and departments on a cost-reimbursed basis. These funds are used to account for medical and life insurance coverage of Department and Highway Patrol personnel along with the self-insurance activities of the Department, including workers' compensation for the Highway Patrol.

**Agency Fund** – These funds account for monies held on behalf of various political subdivisions and other interested parties and will be used to reimburse the Department for expenditures incurred by the Department on behalf of the previously mentioned parties and to collect and administer international registration license fees and fuel taxes payable to contiguous states, Canadian provinces, and to cities and counties.

#### **(C) Basis of Accounting**

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Department gives (or receives) value without directly receiving (or giving) equal value in exchange include fuel taxes, sales and use taxes, grants, entitlements, and donations. On an accrual basis, revenues from fuel taxes and sales and use taxes are recognized in the fiscal year in which the underlying exchange transaction occurs. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State of Missouri considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Sales taxes, licenses, and interest are accrued. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital-asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital lease are recorded as other financing sources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. The Department's operating revenues and expenses generally result from providing services in connection with the internal service funds' principal ongoing operations. The principal operating revenues are charges for insurance premiums. Operating expenses include self-insurance claims, benefits claims, insurance premiums and administrative expenses. Investment income is reported as nonoperating revenue.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed.



# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

#### **(D) Cash and Cash Equivalents**

Cash and cash equivalents include cash and short-term investments, which are liquid investments with original maturities of three months or less.

#### **(E) Inventories**

Inventories, primarily consisting of maintenance and sign shop materials, are valued at cost using the weighted average method. Inventories are recorded in the governmental funds as expenditures when consumed rather than when purchased.

#### **(F) Interfund Transactions**

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

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

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

#### **(G) Capital Assets**

Capital assets, which include land, buildings, equipment, and infrastructure assets, are reported at cost (or estimated historical cost) in the governmental activities column in the government-wide financial statements. Infrastructure assets are those assets that are normally immovable and of value only to the State, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items. The Department capitalizes assets with an expected useful life greater than one year with a cost of greater than \$1,000 for equipment and greater than \$15,000 for buildings and land improvements. No dollar threshold is set for land and infrastructure. Donated capital assets are recorded at their fair market value at the date of the donation.

Capital assets utilized in the governmental funds are recorded as expenditures in the governmental fund financial statements. Depreciation expense, including amortization on leased capital assets, is recorded in the government-wide financial statements.

Capital assets, including infrastructure, are depreciated on the straight-line method over the asset's estimated useful life. There is no depreciation recorded for land and construction in progress. Generally, estimated useful lives are as follows:

Vehicles, machinery and equipment	1 to 20 years
Buildings and other improvements	10 to 50 years
Infrastructure	12 to 50 years

# **Missouri Department of Transportation**

## **Notes to Basic Financial Statements**

### **June 30, 2005**

#### **(H) *Deferred Revenue***

The Department has recorded deferred revenue in the State Road Fund relating to long-term cost reimbursement receivables. Deferred revenue in the Internal Service Funds is employee medical insurance premiums received/withheld for subsequent month's coverage.

#### **(I) *Compensated Absences***

Under the terms of the Department's personnel policy, Department employees are granted 10 to 14 hours of annual leave per month. Additionally, certain employees can accrue a maximum of 240 hours of compensatory time for unpaid overtime. Employees have accrued annual leave and compensatory time available amounting to \$31,096,819 as of June 30, 2005 that is recorded in the government-wide financial statements. Because employees are not paid for accumulated sick leave upon retirement or termination no liability has been recorded for accumulated sick leave.

#### **(J) *Bond Premiums, Discounts, and Issuance Costs***

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums on debt issuances are reported as other financing sources and discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### **(K) *Reservations of Fund Equity***

In the fund financial statements, governmental funds report reservations of fund balances to indicate that a portion of the fund balance is not available for appropriations or is restricted by law or contract for a specific purpose.

#### **(L) *Net Assets***

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

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

**Restricted** – This consists of net assets that are legally restricted by outside parties or by law through constitutional provisions or enabling legislation. This also includes unexpended bond or lease proceeds less the related outstanding liability.

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

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

#### **(M) Use of Estimates**

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses/expenditures and other changes in net assets/fund balances during the reporting period. Actual results could differ from those estimates.

#### **(N) Related Party Transactions**

The Department sells petroleum products to various other state agencies. Significant sales related to the Missouri Highway Patrol were \$986,632 during the fiscal year.

#### **Note 2: Cash (Deposits) and Investments**

Cash and investments include amounts pooled in the State Treasury. Interest income earned on cash and investments pooled in the State Treasury is allocated to the funds based on the respective investment and cash balances.

**Investments** – The Department’s investments are reported at fair value. At June 30, 2005, the Department had \$19,887,748 of uninsured, unregistered government sponsored securities for which the securities are held by a financial institution’s trust department in the Department’s name.

**Interest Rate Risk** – The Department minimizes the risk that the market value of pooled cash and investments will fall due to changes in general interest rates by maintaining an effective duration of less than 1.5 years and holding at least 40% of the portfolio’s total market value in securities with a maturity of 12 months or less.

**Credit Risk** – Section 30.270, RSMo authorizes the Department, with certain restrictions, to deposit funds in open accounts, time deposits, certificates of deposit, repurchase agreements, and United States Treasury Bills and notes. Statutes also require collateral pledged to have a fair market value equal to 100% of the funds on deposit, less insured amounts, and the underlying investments must be assigned for the benefit of the Department. Collateral securities must be held by the Department or an independent third party and must be of the kind prescribed by State law and approved by the State Treasurer of Missouri.

**Concentration of Credit Risk** – The Department diversifies its investments to minimize the risk of loss resulting from excess concentration into a specific maturity, issuer or class of security. The asset allocation is periodically reversed by the State Treasurer.

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

At June 30, 2005, the Department's deposits and investments consist of the following:

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor Funds	Internal Service Funds	Local Fiduciary Agency Funds
Cash and investments:					
Cash and investments pooled in the State Treasury	\$ 26,418,960	\$ 240,586,981	\$ 19,877,168	\$ —	\$ —
Cash deposited with banks	—	—	—	23,225,489	—
Government-sponsored securities	—	—	—	49,162,330	—
Repurchase agreements	—	—	—	574,742	—
	<u>\$ 26,418,960</u>	<u>\$ 240,586,981</u>	<u>\$ 19,877,168</u>	<u>\$ 72,962,561</u>	<u>\$ —</u>
Restricted assets:					
Cash and investments pooled in the State Treasury	\$ —	\$ 75,977,031	\$ —	\$ —	\$ —
Cash deposited with banks	—	—	—	—	7,900
Money market funds	—	5,839,632	—	—	—
Government-sponsored securities	—	19,887,748	—	198,420	13,797,750
Repurchase agreements	—	—	—	—	11,777,168
	<u>\$ —</u>	<u>\$ 101,704,411</u>	<u>\$ —</u>	<u>\$ 198,420</u>	<u>\$ 25,582,818</u>

At June 30, 2005, the Department's investments had the following maturities:

Investment Type	Fair Value	Investment Maturities (In Years)			
		Less Than 1	1	2	3 or More
Money market funds	\$ 5,839,632	\$ 5,839,632	\$ —	\$ —	\$ —
Repurchase agreements	12,351,910	12,351,910	—	—	—
U.S. Treasury securities	198,420	—	198,420	—	—
U.S. agency securities	82,847,828	40,846,028	24,285,100	13,741,050	3,975,650
Total	<u>\$ 101,237,790</u>	<u>\$ 59,037,570</u>	<u>\$ 24,483,520</u>	<u>\$ 13,741,050</u>	<u>\$ 3,975,650</u>

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

#### Note 3: Taxes

Tax revenues for the year ended June 30, 2005 were as follows:

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor Funds	Total
Fuel tax	\$ 518,551,199	\$ 100,954	\$ 337,723	\$ 518,989,876
Vehicle sales and use tax	<u>41,892,868</u>	<u>129,146,958</u>	<u>10,422,455</u>	<u>181,462,281</u>
	<u>\$ 560,444,067</u>	<u>\$ 129,247,912</u>	<u>\$ 10,760,178</u>	<u>\$ 700,452,157</u>

Taxes are remitted by the Missouri Department of Revenue to the Department subsequent to collection. The Department receives the following taxes:

- **Fuel tax** is paid on the sale of gasoline, aviation fuel used in propelling aircraft with reciprocating engines, and diesel fuel authorized by Sections 142.010 – 142.350; 155.080 and 155.090; and 142.362 – 142.621, RSMo., respectively. The tax rate on gasoline and diesel fuels is \$0.17 per gallon. The Department receives 75% of the first \$0.11 and 70% of the next \$0.06. The remaining tax is distributed to cities and counties. The tax rate on aviation fuel is \$0.09 per gallon.
- **Vehicle sales and use taxes** are paid on the purchase of any new or used motor vehicle or trailer, on vehicles purchased out of state and titled in Missouri, or on the sale of a vehicle between individuals within Missouri. The taxes are authorized by Sections 144.070 and 144.440, RSMo. The general sales tax rate is 3% and Proposition C tax (Section 144.701, RSMo) is 1% for a total of 4%. Of the 4%, the Department receives 75% of 50% of the tax. The remaining 25% is distributed to cities and counties. The Department receives 100% of the 3% general use tax and 75% of the Proposition C use tax. The other 25% of the Proposition C use tax is distributed to cities and counties.

#### Note 4: Interfund Transactions

Transfers for the year are:

	Transfers In	Transfers Out
State Highways and Transportation Department Fund	\$ —	\$ 136,487,084
State Road Fund	<u>136,487,084</u>	<u>—</u>
	<u>\$ 136,487,084</u>	<u>\$ 136,487,084</u>

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

The Department is required by State statute (RSMo 226.200) to transfer any unspent monies in the State Highways and Transportation Department Fund to the State Road Fund.

Amounts due to/from other funds at year end were as follows:

	Due To	Due From
Nonmajor funds	\$ —	\$ 49,752
State Road Fund	<u>49,752</u>	<u>—</u>
	<u>\$ 49,752</u>	<u>\$ 49,752</u>

The due to/from the State Road Fund and nonmajor funds represent reimbursements for expenditures related to modes of transportation other than highways.

#### Note 5: Receivables

Receivables at June 30, 2005 were as follows:

Type	State Highways and Transportation Department Fund	State Road Fund	Nonmajor Funds	Internal Service Funds	Total	Due Within A Year
Federal government	\$ 405,849	\$ 29,294,006	\$ 10,138,779	\$ —	\$ 39,838,634	\$ 39,838,634
Taxes, licenses and fees	108,250,264	14,374,936	636,338	—	123,261,538	123,261,538
Miscellaneous:						
Reimbursements	—	23,567,834	24,298	117,000	23,709,132	11,584,847
Interest	218,491	2,760,255	56,124	294,758	3,329,628	3,329,628
Contributions	<u>—</u>	<u>—</u>	<u>—</u>	<u>104,657</u>	<u>104,657</u>	<u>104,657</u>
Total miscellaneous	<u>218,491</u>	<u>26,328,089</u>	<u>80,422</u>	<u>516,415</u>	<u>27,143,417</u>	<u>15,019,132</u>
Loans	<u>—</u>	<u>—</u>	<u>2,543,093</u>	<u>—</u>	<u>2,543,093</u>	<u>409,521</u>
	<u>\$ 108,874,604</u>	<u>\$ 69,997,031</u>	<u>\$ 13,398,632</u>	<u>\$ 516,415</u>	<u>\$ 192,786,682</u>	<u>\$ 178,528,825</u>

Reimbursement receivables consist of receivables from various political subdivisions and other interested parties to reimburse for expenditures incurred by MoDOT on behalf of these entities. Also included are receivables from contractors and other parties awaiting settlement on billing issues. Reimbursement receivables are shown net of an allowance for doubtful accounts of \$1,855,713. The Department provides an allowance based upon a review of the outstanding receivables, historical collection information and existing economic conditions.

The federal government receivable represents funds to be received on federally participating projects. Loans receivable represent loans to the cities and counties for nonhighway-related projects.

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 6: Capital Assets**

Changes in capital assets are summarized below:

	<b>Balances July 1, 2004</b>	<b>Additions</b>	<b>Deletions/ Retirements</b>	<b>Transfers</b>	<b>Balances June 30, 2005</b>
Nondepreciable capital assets:					
Land	\$ 1,975,752,443	\$ —	\$ 1,116,981	\$ 23,043,167	\$ 1,997,678,629
Construction in progress	280,916,016	68,262,901	—	(25,820,512)	323,358,405
Infrastructure in progress	<u>2,744,480,437</u>	<u>789,566,341</u>	<u>—</u>	<u>(785,404,121)</u>	<u>2,748,642,657</u>
Total nondepreciable capital assets	<u>5,001,148,896</u>	<u>857,829,242</u>	<u>1,116,981</u>	<u>(788,181,466)</u>	<u>5,069,679,691</u>
Depreciable capital assets:					
Land improvements	11,478,443	494,024	30,591	324,219	12,266,095
Buildings	190,079,629	5,376,353	1,839,891	2,453,126	196,069,217
Equipment	246,744,266	28,747,960	22,530,215	—	252,962,011
Vehicles	149,677,953	19,027,920	5,243,947	—	163,461,926
Infrastructure	<u>37,312,836,457</u>	<u>7,257,063</u>	<u>41,134,782</u>	<u>785,404,121</u>	<u>38,064,362,859</u>
Total depreciable capital assets	<u>37,910,816,748</u>	<u>60,903,320</u>	<u>70,779,426</u>	<u>788,181,466</u>	<u>38,689,122,108</u>
Accumulated depreciation:					
Land improvements	5,792,828	429,665	21,813	—	6,200,680
Buildings	54,617,119	6,187,007	1,412,280	—	59,391,846
Equipment	136,763,934	22,704,352	20,220,127	—	139,248,159
Vehicles	86,202,989	13,775,183	4,732,034	—	95,246,138
Infrastructure	<u>17,661,871,396</u>	<u>646,603,024</u>	<u>41,134,782</u>	<u>—</u>	<u>18,267,339,638</u>
Total accumulated depreciation	<u>17,945,248,266</u>	<u>689,699,231</u>	<u>67,521,036</u>	<u>—</u>	<u>18,567,426,461</u>
Total depreciable capital assets, net	<u>19,965,568,482</u>	<u>(628,795,911)</u>	<u>3,258,390</u>	<u>788,181,466</u>	<u>20,121,695,647</u>
Total capital assets, net	<u>\$ 24,966,717,378</u>	<u>\$ 229,033,331</u>	<u>\$ 4,375,371</u>	<u>\$ —</u>	<u>\$ 25,191,375,338</u>

# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

#### Note 7: Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2005 were as follows:

Type of Issue	Beginning Balance	Additions	Reductions	Discount Accreted	Ending Balance	Due Within a Year
State road bonds	\$ 861,000,000	\$ —	\$ 32,500,000	\$ —	\$ 828,500,000	\$ 35,440,000
Advances from other governments	19,727,627	318,830	7,700,000	—	12,346,457	—
Advances from component units of the State of Missouri	60,521,256	8,370,000	15,893,658	485,720	53,483,318	8,595,808
Federal loan	15,000,000	—	—	—	15,000,000	—
Capital leases	17,221,375	44,467,465	8,175,165	—	53,513,675	11,840,524
Claims and judgments	22,140,338	2,374,345	5,231,943	—	19,282,740	2,358,009
Compensated absences	<u>29,434,854</u>	<u>24,161,829</u>	<u>22,499,864</u>	<u>—</u>	<u>31,096,819</u>	<u>22,499,864</u>
	<u>\$ 1,025,045,450</u>	<u>\$ 79,692,469</u>	<u>\$ 92,000,630</u>	<u>\$ 485,720</u>	1,013,223,009	<u>\$ 80,734,205</u>
Add premium					<u>19,849,843</u>	
					<u>\$ 1,033,072,852</u>	

Payments on state road bonds, advances from other governments, advances from component units of the State of Missouri, loan from the Federal Highway Administration and capital leases are made from the State Road Fund. Payments for claims and judgments are made from the State Road Fund. Compensated absences liabilities are liquidated by the governmental funds from which the related salaries are paid.

The detail of long-term debt at June 30, 2005 follows:

State road bonds:

Series A 2000 State Road bonds for the acceleration of projects in the Department's five-year plan due in annual installments of \$6,610,000 to \$20,315,000 beginning February 1, 2002; interest varying from 4.30% to 5.63%; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	\$ 216,615,000
Series A 2001 State Road bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$7,110,000 to \$15,605,000 beginning February 1, 2003; interest varying from 2.25% to 5.125%; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	178,060,000
Series A 2002 State Road bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$7,435,000 to \$15,830,000 beginning February 1, 2004; interest varying from 3.00% to 5.25%; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	187,950,000
Series A 2003 State Road bonds for financing of projects in conformity with the priorities established in the 1992 plan developed by the Department due in annual installments of \$8,125,000 to \$18,910,000 beginning February 1, 2005; interest varying from 2.00% to 5.00%; secured by revenues collected under Article IV, Section 30(b) of the Missouri Constitution.	<u>245,875,000</u>
	<u>\$ 828,500,000</u>



# Missouri Department of Transportation

## Notes to Basic Financial Statements

### June 30, 2005

#### Advances from other governments:

County of St. Charles to provide for a location, needs and cost study of a river crossing on Hwy. 40 between St. Louis County and St. Charles County; principal due on July 1, 2020; no interest will accrue.	\$ 644,498
County of St. Charles for the final design of Route 364, from west of Harvester Road to west of Central School Road; principal due on July 1, 2008; no interest will accrue.	755,933
City of O'Fallon to accelerate a portion of the Route 364 (Page Avenue Extension) project, which consists of constructing a south outer road parallel to Route N between Winghaven Blvd. to Missouri Rte. K; principal due July 1, 2015; no interest will accrue.	8,835,335
City of Monett to make improvements to Route 60 in Barry County from 1.2 miles east of Route 37 to 1.8 miles east of Route 37; principal due in 2010; no interest will accrue.	1,120,691
City of O'Fallon to extend Bryan Road from Feise Road to Route N across the Route 364 (Page Avenue Extension) right-of-way; principal due on December 31, 2008; no interest will accrue.	790,000
City of Jackson to make improvements to Routes I-55 and 61/34 in Cape Girardeau County; principal due November 12, 2006; no interest will accrue.	<u>200,000</u>
	<u>\$ 12,346,457</u>

#### Advances from components units of the State of Missouri:

Highway 179 Transportation Corporation for the construction of Highway 179; principal payments due through August 1, 2008; principal payments range from \$2,140,734 to \$3,784,974.	\$ 12,634,660
210 Highway Transportation Development District for the widening of 210 Highway; principal payments will occur yearly on July 1, through 2008; principal payments range from \$965,504 to \$2,375,000; no interest will accrue.	6,622,686
Springfield, Missouri State Highway Improvement Corporation for widening and improvements to the West Bypass; principal payments due through August 2005; principal payments range from \$3,667,000 to \$5,000,000; no interest will accrue.	3,667,000
Fulton 54 Transportation Corporation for the right-of-way acquisition and utility adjustments for Route 54 and HH interchange; principal payments will occur yearly on September 1, through 2007; no interest will accrue.	5,530,000
Wentzville Parkway Transportation Corporation for the expansion and reconstruction of the I-70 interchange and Wentzville Parkway; principal payment due July 1, 2006; no interest will accrue.	8,849,812
Missouri Transportation Finance Corporation for right-of-way and construction-related cost for two additional lanes on Highway 63; principal and interest payments will occur yearly on July 1, through 2008; the interest rate is 3.232%.	<u>16,179,160</u>
	<u>\$ 53,483,318</u>
Federal loan	
Federal Highway Administration loan; for the extension of Page Avenue in St. Charles; principal payment due as early as January 1, 2011; no interest will accrue.	<u>\$ 15,000,000</u>

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Capital lease obligations:

2001 lease-purchase of six copy machines, due in monthly installments of \$82 to \$2,345 through May 2006; interest varying from 0% to 11.8%.	\$ 40,240
2002 lease-purchase of seven copy machines, due in monthly installments of \$138 to \$720 through February 2007; interest varying from 2.5% to 16.2%.	25,763
2002 lease-purchase of 475 dump trucks, due in yearly installments of \$7,438,277 through June 2006; interest at 3.83%.	7,163,900
2003 lease-purchase of 15 copy machines, due in monthly installments of \$143 to \$439 through February 2008; interest varying from 0% to 9.6%.	56,311
2003 lease-purchase of postage machine, due in quarterly installments of \$195; interest at 1%.	1,351
2004 lease-purchase of 24 copy machines, due in monthly installments varying from \$44 to \$4,851 through December 2008; interest varying from 0% to 13.6%.	300,149
2004 lease-purchase of postage machine, due in quarterly installments of \$435; interest at 4.2%.	7,105
2004 lease-purchase of 11 wheel loaders, due in monthly installments of \$1,014 through May 2007; interest at 3.9%.	845,156
2004 lease-purchase of two Topcon hiper survey equipment, due in monthly installments of \$1,793 through July 2005; interest at 0.325%.	1,793
2004 lease-purchase of 20 dump trucks, due in yearly installments varying from \$14,514 to \$20,960 through April 2008; interest at 3.8%.	990,934
2004 lease-purchase of wheeled excavator, due in yearly installments of \$29,912 through April 2009; interest at 2.9%.	86,153
2005 lease-purchase of building, due in monthly installments of \$33,000 through November 2019; interest at 5.7%.	3,881,010
2005 lease-purchase of three copiers, due in monthly installments varying from \$99 to \$2,975 through December 2009; interest varying from 0% to 2.7%.	160,833
2005 lease-purchase of blueprint machine, due in monthly installments of \$2,609 through January 2010; interest at 2.4%.	135,639
2005 lease-purchase of five copy machines, due in yearly installments varying from \$2,032 to \$4,141 through May 2008; interest varying from 0% to 0.45%.	34,337
2005 lease-purchase of six motorgraders, due in yearly installments varying from \$28,847 to \$28,951 through January 2009; interest varying from 4.3% to 4.8%.	621,607
2005 lease-purchase of survey equipment, due in monthly installments varying from \$769 to \$2,284 through April 2007; interest varying from 8.6% to 8.7%.	64,518
2005 lease-purchase of tractor and slope mower, due in yearly installments of \$28,572 through March 2007; interest at 13.8%.	47,163
2005 lease-purchase of two tractors, due in minimum monthly installments of \$2,099 through October 2005 with balance due at lease termination; interest at 1.5%.	72,338
2005 lease-purchase of UPS and switchgear, due in yearly installments of \$1,037,257 through December 2005; interest at 4.5%.	992,590
2005 lease-purchase of four wheel loaders, due in yearly installments of \$33,074 through February 2007; interest at 4.3%.	250,010
2005 lease-purchase of dump trucks, due in yearly installments of \$4 million the first year and \$8 million in following years through August 2010; interest at 4.2%.	<u>37,734,775</u>
	<u>\$ 53,513,675</u>

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

Lease-purchase agreements for equipment and vehicles grant a security interest in related capital assets.

Annual debt service requirements to maturity:

<b>Fiscal Year</b>	<b>Principal Due</b>	<b>Interest Due</b>	<b>Total Due</b>
State road bonds:			
2006	\$ 35,440,000	\$ 40,537,031	\$ 75,977,031
2007	36,740,000	39,086,044	75,826,044
2008	38,005,000	37,519,054	75,524,054
2009	39,540,000	35,740,279	75,280,279
2010	41,280,000	33,786,636	75,066,636
2011 – 2015	236,530,000	136,312,927	372,842,927
2016 – 2020	300,110,000	70,821,709	370,931,709
2021 – 2023	<u>100,855,000</u>	<u>8,215,513</u>	<u>109,070,513</u>
	<u>\$ 828,500,000</u>	<u>\$ 402,019,193</u>	<u>\$ 1,230,519,193</u>
Advances from other governments:			
2006	\$ —	\$ —	\$ —
2007	200,000	—	200,000
2008	—	—	—
2009	1,545,933	—	1,545,933
2010	1,120,691	—	1,120,691
2011 – 2015	—	—	—
2016 – 2020	8,835,335	—	8,835,335
2021	<u>644,498</u>	<u>—</u>	<u>644,498</u>
	<u>\$ 12,346,457</u>	<u>\$ —</u>	<u>\$ 12,346,457</u>
Advances from component units of the State of Missouri:			
2006	\$ 8,595,808	\$ 403,117	\$ 8,998,925
2007	21,981,694	837,927	22,819,621
2008	12,501,622	607,224	13,108,846
2009	<u>10,404,194</u>	<u>319,826</u>	<u>10,724,020</u>
	<u>\$ 53,483,318</u>	<u>\$ 2,168,094</u>	<u>\$ 55,651,412</u>
Capital leases:			
2006	\$ 11,840,524	\$ 2,239,679	\$ 14,080,203
2007	8,334,346	1,784,253	10,118,599
2008	7,664,675	1,438,668	9,103,343
2009	7,592,445	1,117,102	8,709,547
2010	7,632,090	797,918	8,430,008
2011 – 2015	8,905,417	956,994	9,862,411
2016 – 2020	<u>1,544,178</u>	<u>204,822</u>	<u>1,749,000</u>
	<u>\$ 53,513,675</u>	<u>\$ 8,539,436</u>	<u>\$ 62,053,111</u>

# **Missouri Department of Transportation**

## **Notes to Basic Financial Statements**

### **June 30, 2005**

On May 30, 2000, the Governor approved House Bill 1742, which permits the General Assembly to authorize the Commission to issue up to \$2 billion in bonds in fiscal years 2001 to 2006. No more than \$500 million may be issued in any one year.

The Missouri Highway and Transportation Commission entered into a line-of-credit loan with the Missouri Transportation Finance Corporation (MTFC) on December 15, 2003. The amount of the line-of-credit available is up to the maximum available amount of the total uncommitted balance of the MTFC accounts. The purpose of the loan is to finance federally funded construction projects in the event of federal reimbursement delays for State Road Fund projects. The Commission will make a lump-sum payment of principal and interest three months after the loan is advanced. At June 30, 2005, no advances had been made to MoDOT on the line-of-credit agreement.

#### **Note 8: Risk Management**

The Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. In addition, various lawsuits against the Department arise incident to the Department's normal operations. These risks have been classified as workers' compensation, vehicle liability, general liability, inverse condemnation, and contractor suits.

It is the policy of the Department not to purchase commercial insurance, but to manage its risks internally. The Department sets aside assets for the settlement of workers' compensation, vehicle liability and general liability claims in its internal service fund, the Self-Insurance Fund. The State Road Fund services claims for inverse condemnation and contractor suits. Per Section 537.610, RSMo., the liability of the State and its public entities on claims within the scope of Sections 537.600 to 537.650 shall not exceed \$2,234,121 for all claims arising out of a single accident or occurrence and shall not exceed \$335,118 for any one person in a single accident or occurrence, as established by the Missouri Department of Insurance, except for those claims governed by the provisions of the Missouri Workers' Compensation Law, Chapter 287 RSMo.

Workers' compensation, vehicle and general liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimated claims payable represents the Department's determination of the expected losses to be realized on known claims pending. Department personnel estimate the claims liability based on prior claims experience. Estimated unreported claims represent expected losses or claims incurred but not reported. The unreported claims liability is established from data provided by an actuary. Liabilities for incurred losses related to workers' compensation and general and vehicle liability claims are reported at their discounted value, assuming an investment yield of 4%.

Changes in pending self-insurance claims and incurred but not reported claims for workers' compensation, vehicle and general liability during the past two years are as follows:

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

	<b>Beginning of Fiscal Year Liability</b>	<b>Current Claims and Estimate Changes</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year-end</b>
2005	\$ 39,947,945	\$ 20,406,386	14,426,894	\$ 45,927,437
2004	37,387,655	14,426,368	11,866,078	39,947,945

The District is in various stages of defense of other possible workers' compensation, vehicle and general liability claims of approximately \$21 million. No liability for these claims has been recorded because the claims have not been determined to be probable.

Liabilities for inverse condemnation and contractor suits, paid from the State Road Fund, are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As noted in *Note 7*, the Department has approximately \$19,282,000 in claims and judgments payable related to inverse condemnation and contractor suits. The Department is involved in other condemnation and contractor suits for which no liability has been recorded as a probable loss has not occurred. The aggregate potential liability of all claims deemed to possibly result in a loss is approximately \$27 million.

**Note 9: Insurance Plan**

The Highway Employees' and Highway Patrol Insurance Plan (the Medical and Life Plan) Internal Service Fund accounts for the medical coverage provided on a self-insured basis and life insurance benefits, underwritten by a commercial insurance company, for Department employees and members of the Missouri State Highway Patrol. Changes to the plan are required to be approved by the Commission.

Incurred but not reported claims of \$9,119,000 are reported in the Medical and Life Plan as of June 30, 2005. These medical and prescription drug reserves are estimated based upon lag reports using an 18-month run-out.

	<b>Beginning of Fiscal Year Liability</b>	<b>Current Claims and Estimate Changes</b>	<b>Claim Payments</b>	<b>Balance at Fiscal Year-end</b>
2005	\$ 8,250,000	\$ 73,998,627	\$ 73,129,627	\$ 9,119,000
2004	8,866,000	60,672,542	61,288,542	8,250,000

**Note 10: Defined Benefit Pension Plan**

The MoDOT and Patrol Employees' Retirement System (the Retirement System) was established and is administered by a board of trustees in accordance with the Revised Statutes of Missouri. The Retirement System is a single-employer, defined-benefit, public-employee, retirement system of the State.

# **Missouri Department of Transportation**

## **Notes to Basic Financial Statements**

### **June 30, 2005**

As the plan includes employees outside of the Department, the Retirement System is disclosed in accordance with the requirements of a cost-sharing, multiemployer, public -employee retirement plan. The Retirement System provides retirement, death, and disability benefits to full-time employees (defined as at least 1,000 hours to be worked annually) with benefits vesting after five years of creditable service. Contributions to the Retirement System for fiscal year 2005 were 28.28% of covered payroll. The Department made the required contributions of \$69,608,657, \$59,737,271, and \$52,497,099 in 2005, 2004, and 2003, respectively. Any amendments to the plan are established by State law and the Retirement System board of trustees.

Employees do not contribute to the Retirement System. The Retirement System's funding policy provides for actuarially determined employer contributions using the entry-age normal cost method on a closed group basis (consisting of normal cost and amortization of any unfunded accrued liabilities over a 33-year period). Actuarially determined rates, expressed as percentages of annual covered payroll, provide for amounts sufficient to fund those benefits designated by State statute to be funded in advance. Contributions for the special consultant fees are funded on an actuarial basis.

The Retirement System issues its own stand-alone financial report. Copies may be requested from:

MoDOT and Patrol Employee's Retirement System  
P.O. Box 1930  
Jefferson City, Missouri 65102

#### **Note 11: Other Post-Employment Benefits (OPEB)**

In addition to the pension benefits described above, the Department provides a portion of health care insurance, in accordance with Missouri state statutes, for its employees who retired from the Department with a minimum of 5 years of state service, or certain disabled employees, and who participate in the Highway Employees' and Highway Patrol Insurance Plan. The Department's and participant's contributions are established by the Insurance Plan's Board of Trustees and are approved by the Missouri Highways and Transportation Commission. As of June 2005, there were 4,008 post-employment Department participants. Costs are recognized on a pay-as-you-go basis, with the cost during fiscal year 2005 for retirees of approximately \$27.5 million of medical and prescription drug claims, which is approximately 37% of the total fiscal year 2005 claims expense. These claims were partially funded by retirees' fiscal year 2005 contributions, in the form of insurance premiums to the plan of approximately \$11.5 million. The remaining costs were borne by the Department through approximately \$9.5 million in fiscal year 2005 insurance premiums paid into the plan specifically for retirees, with the balance covered by other insurance premiums paid into the plan by the Department. Premiums paid into the plan vary by coverage categories which include retirees, certain disabled employees, spouses, certain dependents and survivors of deceased employees.

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**Note 12: Commitments and Contingencies**

**(A) Unemployment Benefits**

The Department is subject to the Missouri Employment Security Law. Department employees who qualify are entitled to benefit payments during periods of unemployment. The Department is required to reimburse the Division of Employment Security for benefit payments made to its former employees. The Department has identified no practical method of estimating the amount of future benefit payments that may be made to former employees for wage credits earned prior to June 30, 2005. Consequently, this potential obligation is not included in the accompanying basic financial statements. Total reimbursements made by the Department during the fiscal year were \$565,370.

**(B) Construction Commitments**

Construction awards outstanding for both state and federal participating projects at June 30, 2005 amounted to approximately \$918,790,520. The federal portion of this total was approximately \$566,319,710 or 61.6%.

**(C) Commitment for Equipment Purchase**

The Department had \$25,727,380 at June 30, 2005, in escrowed cash and investments to be used for the purchase of equipment under a lease-purchase agreement. All equipment is expected to be received and all monies expended during 2006.

**(D) Operating Leases**

The Department is committed under leases for buildings, as well as various office and maintenance equipment. Lease expenditures for the year ended June 30, 2005 amounted to \$4,264,403. Future minimum lease payments for these leases are as follows:

2006	\$ 1,505,846
2007	101,701
2008	32,497
2009	18,075
2010	<u>950</u>
	<u>\$ 1,659,069</u>

**(E) Federal Funding**

The Department receives federal grants that are subject to review and audit by federal grantor agencies. This could result in requests for reimbursements by the grantor agency for any expenditures disallowed under grant terms. The Department believes such disallowances, if any, would be immaterial.

**Missouri Department of Transportation**  
**Notes to Basic Financial Statements**  
**June 30, 2005**

**(F) *Hancock Amendment***

The Missouri Constitution bars the general assembly from imposing taxes that, together with all other revenues of the state, excluding federal funds, exceed a specified revenue limit. The revenue limit is calculated by dividing total state revenues by the personal income of Missouri in 1979 multiplied by the personal income of Missouri in either the calendar year prior to the calendar year in which appropriations for the fiscal year for which the calculation is being made or the average of personal income of Missouri in the previous three calendar years, whichever is greater. In the event total state revenues exceed the revenue limit by 1% or more, excess revenues are refunded to taxpayers. As of June 30, 2005, no liability has been accrued for these refunds as total state revenues are not expected to exceed the revenue limit.

**Note 13: Subsequent Events**

On June 10, 2005, the Commission authorized the issuance of up to \$300,000,000 in bonds for the First Lien State Road Bonds, Series A 2005. On July 1, 2005, the Department issued \$278,660,000 of the bonds. These bonds bear interest, payable semiannually, from 2.5% to 5% and are due in semiannual installments beginning May 1, 2006. These bonds are callable by the Department, subject to certain provisions. Proceeds from the issuance of these bonds will be used to finance certain construction and reconstruction costs of the Missouri State Highway System.

On June 10, 2005, the Commission authorized the issuance of up to \$100,000,000 in bonds for the Multimodal Third Lien State Road Bonds, Series B 2005. On July 1, 2005, the Department issued \$72,000,000 of the bonds. These bonds bear interest at a variable rate and are due May 1, 2015. These bonds are callable by the Department, subject to certain provisions. Proceeds from the issuance of these bonds will be used to finance certain construction and reconstruction costs of the Missouri State Highway System.



**Missouri Department of Transportation**  
**State Highways and Transportation Department Fund**  
**Required Supplementary Information – Budgetary Comparison**  
**Year Ended June 30, 2005**

	Budgeted Amounts			Variance Between Final Budget and Actual
	Original	Final	Actual	
Budgetary fund balance, July 1, 2004	\$ 29,719,489	\$ 29,719,489	\$ 29,719,489	\$ —
Resources (inflows):				
Fuel taxes	512,382,000	512,382,000	519,521,028	7,139,028
Vehicles sales and use taxes	44,231,000	44,231,000	42,782,421	(1,448,579)
Licenses, fees, and permits	164,526,000	164,526,000	167,330,563	2,804,563
Investment income	1,345,000	1,345,000	1,462,919	117,919
Intergovernmental/cost reimbursements/miscellaneous	2,798,000	2,798,000	963,115	(1,834,885)
Federal government	<u>—</u>	<u>—</u>	<u>1,602,976</u>	<u>1,602,976</u>
Amount available for appropriation	<u>755,001,489</u>	<u>755,001,489</u>	<u>763,382,511</u>	<u>8,381,022</u>
Charges to appropriations (outflows):				
Administration				
Personal service	19,145,141	19,114,115	18,197,340	916,775
Fringe	19,209,418	19,196,276	18,267,454	928,822
Expense and equipment	6,186,845	6,124,271	4,740,530	1,383,741
Maintenance				
Personal service	142,425,635	137,613,337	135,613,984	1,999,353
Fringe	82,933,439	82,927,517	80,608,355	2,319,162
Expense and equipment	2,695,958	2,544,524	972,688	1,571,836
Motorist assist				
Personal service	1,850,388	1,866,884	1,849,331	17,553
Fringe	1,116,442	1,123,523	1,071,865	51,658
Construction				
Personal service	84,625,326	84,620,166	79,904,430	4,715,736
Fringe	41,771,068	41,766,700	39,738,718	2,027,982
Fleet, facilities and information systems				
Personal service	15,090,590	15,216,522	14,749,832	466,690
Fringe	7,810,116	7,856,310	7,435,970	420,340
Expense and equipment	62,817	62,817	44,416	18,401
Multimodal operations				
Personal service	142,382	142,382	140,639	1,743
Fringe	66,845	66,845	60,290	6,555
Appropriations spent by other state agencies	<u>211,478,159</u>	<u>211,523,977</u>	<u>196,830,252</u>	<u>14,693,725</u>
Total charges to appropriations	<u>636,610,569</u>	<u>631,766,166</u>	<u>600,226,094</u>	<u>\$ 31,540,072</u>
Transfers to State Road Fund	<u>121,886,378</u>	<u>136,487,084</u>	<u>136,487,084</u>	
Budgetary fund balance, June 30, 2005	<u>\$ (3,495,458)</u>	<u>\$ (13,251,761)</u>	<u>\$ 26,669,333</u>	

## Schedule 2

**Missouri Department of Transportation**  
**State Road Fund**  
**Required Supplementary Information – Budgetary Comparison**  
**Year Ended June 30, 2005**

	Budgeted Amounts			Variance Between Final Budget and Actual
	Original	Final	Actual	
Budgetary fund balance, July 1, 2004	\$ 389,873,890	\$ 389,873,890	\$ 389,873,890	\$ —
Resources (inflows):				
Fuel taxes	240,000	240,000	100,954	(139,046)
Vehicles sales and use taxes	139,595,000	139,595,000	131,572,844	(8,022,156)
Licenses, fees, and permits	98,527,000	98,527,000	104,134,267	5,607,267
Investment income	5,655,000	5,655,000	7,933,864	2,278,864
Intergovernmental/cost reimbursements/				
miscellaneous	101,548,000	101,548,000	74,768,995	(26,779,005)
Federal government	<u>856,034,000</u>	<u>856,034,000</u>	<u>775,119,463</u>	<u>(80,914,537)</u>
Amount available for appropriation	<u>1,591,472,890</u>	<u>1,591,472,890</u>	<u>1,483,504,277</u>	<u>(107,968,613)</u>
Charges to appropriations (outflows):				
Maintenance/preservation:				
Expense and equipment	154,391,729	174,791,477	173,657,424	1,134,053
Motorist assist				
Expense and equipment	317,129	317,129	317,129	—
Construction				
Expense and equipment	30,490,357	33,120,421	24,228,572	8,891,849
Contracts	837,932,535	879,158,744	887,353,520	(8,194,776)
ROW purchases	65,000,000	65,000,000	54,122,552	10,877,448
Fleet, facilities, and information systems				
Expense and equipment	89,855,394	87,677,475	84,537,248	3,140,227
Multimodal operations				
Expense and equipment	15,000	15,000	5,173	9,827
Bond principal and interest payments	76,288,182	76,285,470	76,285,470	—
FY04 projected unspent obligations	<u>17,603,013</u>	<u>10,543,996</u>	<u>—</u>	<u>10,543,996</u>
Total charges to appropriations	<u>1,271,893,339</u>	<u>1,326,909,712</u>	<u>1,300,507,088</u>	<u>\$ 26,402,624</u>
Transfers from Highway Fund	<u>121,886,378</u>	<u>136,487,084</u>	<u>136,487,084</u>	
Budgetary fund balance, June 30, 2005	<u>\$ 441,465,929</u>	<u>\$ 401,050,262</u>	<u>\$ 319,484,273</u>	

**Missouri Department of Transportation**  
**Required Supplementary Information – Budget Basis to GAAP**  
**Reconciliation and Disclosure**  
**Year Ended June 30, 2005**

The following is a reconciliation to the difference between the Department's budgetary basis and accounting principles generally accepted in the United States of America (GAAP) basis:

	<b>State Highways and Transportation Department Fund</b>	<b>State Road Fund</b>
Fund balance, budgetary basis	\$ 26,669,333	\$ 319,484,273
Receivables	108,874,604	69,997,031
Due from other funds	—	49,752
Inventories	89,018	35,029,558
Capital lease escrow	—	25,727,380
Accounts payable	(9,064,494)	(117,783,460)
Deferred revenues	—	(26,383,021)
Investment market value adjustment	<u>(250,373)</u>	<u>(2,920,261)</u>
Fund balance, GAAP basis	<u>\$ 126,318,088</u>	<u>\$ 303,201,252</u>

***Budgetary Principles and Presentation***

The budgetary comparison schedules are presented on the Department's budgetary basis of accounting. Under this basis, revenues are recognized when cash is received. Expenditures are recognized for cash disbursements made during the fiscal year and for adjustments made in the lapse period, as defined by the Office of Administration.

The legal authority for approval of the Department's budget and amendments for all funds, except the State Road Fund, rests with the State Legislature. The budgeted amounts lapse at the end of the lapse period. Approval of the State Road Fund budget and amendments are given by the Commission. The fund level is the legal level of control for the State Road Fund. However, at any time, the Commission may approve the Department to spend more or less than the State legislature or the fund level of the State Road Fund which will drive the Department's budget to be higher or lower than the other legal limits.

The Department develops its budget through processes involving each of its ten districts and the central office units. Upon Commission approval, the legislative budget request is sent to the Office of Administration (OA) on October 1<sup>st</sup> which, in turn, is forwarded to the governor's office. The Governor develops a recommendation regarding the budget and forwards both the budget request and the recommendation to the Legislature. The Legislature generally acts on budget matters during January through May. The Governor has veto authority and generally acts on those matters in June. The Department distributes funds available internally based on district and the central office units' input and feedback. This is then submitted to the Commission for approval.

**Missouri Department of Transportation**  
**Combining Balance Sheet – Nonmajor Governmental Funds**  
**June 30, 2005**

	General Revenue and Missouri Federal Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCSAP Division Transportation Federal Fund	Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
<b>Assets</b>										
Cash and investments	\$ 570,104	\$ 141,276	\$ 10,636,183	\$ 562,175	\$ 192,624	\$ 5,425,074	\$ 296,448	\$ 1,840,938	\$ 212,346	\$ 19,877,168
Taxes receivable – due from state funds	—	241,228	341,236	—	—	53,874	—	—	—	636,338
Miscellaneous receivables, net	24,298	—	52,089	4,035	—	—	—	—	—	80,422
Due from federal government	5,975,275	—	—	—	232,638	—	—	3,930,866	—	10,138,779
Loans receivable	—	—	—	2,543,093	—	—	—	—	—	2,543,093
Total assets	<u>\$ 6,569,677</u>	<u>\$ 382,504</u>	<u>\$ 11,029,508</u>	<u>\$ 3,109,303</u>	<u>\$ 425,262</u>	<u>\$ 5,478,948</u>	<u>\$ 296,448</u>	<u>\$ 5,771,804</u>	<u>\$ 212,346</u>	<u>\$ 33,275,800</u>
<b>Liabilities and Fund Equity</b>										
Accounts payable	\$ 6,221,978	\$ 1,757	\$ 49,005	\$ —	\$ 206,819	\$ 60,091	\$ 25,408	\$ 5,102,318	\$ —	\$ 11,667,376
Deferred revenue	341,956	—	—	—	—	—	237,490	—	—	579,446
Due to other funds	21,063	1,228	11,096	—	—	—	16,365	—	—	49,752
Total liabilities	<u>6,584,997</u>	<u>2,985</u>	<u>60,101</u>	<u>—</u>	<u>206,819</u>	<u>60,091</u>	<u>279,263</u>	<u>5,102,318</u>	<u>—</u>	<u>12,296,574</u>
<b>Fund Balance</b>										
Reserve for loans receivable	—	—	—	2,543,093	—	—	—	—	—	2,543,093
Unreserved, special revenue funds	(15,320)	379,519	10,969,407	566,210	218,443	5,418,857	17,185	669,486	212,346	18,436,133
Total fund balance	<u>(15,320)</u>	<u>379,519</u>	<u>10,969,407</u>	<u>3,109,303</u>	<u>218,443</u>	<u>5,418,857</u>	<u>17,185</u>	<u>669,486</u>	<u>212,346</u>	<u>20,979,226</u>
Total liabilities and fund balance	<u>\$ 6,569,677</u>	<u>\$ 382,504</u>	<u>\$ 11,029,508</u>	<u>\$ 3,109,303</u>	<u>\$ 425,262</u>	<u>\$ 5,478,948</u>	<u>\$ 296,448</u>	<u>\$ 5,771,804</u>	<u>\$ 212,346</u>	<u>\$ 33,275,800</u>

See Accompanying Independent Auditors' Report

**Missouri Department of Transportation**  
**Combining Statement of Revenues, Expenditures, and Changes in**  
**Fund Balances – Nonmajor Governmental Funds**  
**Year Ended June 30, 2005**

	General Revenue and Missouri Federal Fund	State Transportation Fund	Aviation Trust Fund	State Transportation Assistance Revolving Fund	MCSAP Division Transportation Federal Fund	Grade Crossing Safety Fund	Railroad Expense Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
<b>Revenues</b>										
Fuel tax	\$ —	\$ —	\$ 337,723	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 337,723
Sales and use tax	—	1,725,864	8,696,591	—	—	—	—	—	—	10,422,455
License, fees, and permits	—	—	—	—	—	1,303,910	695,039	—	—	1,998,949
Intergovernmental/cost reimbursements/miscellaneous	1,475,625	—	9,950	—	20	5,311	—	—	—	1,490,906
Investment earnings	—	223	92,615	86,993	—	147	—	—	364,316	544,294
Federal government	<u>36,826,308</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,064,859</u>	<u>—</u>	<u>—</u>	<u>19,605,349</u>	<u>—</u>	<u>57,496,516</u>
Total revenues	<u>38,301,933</u>	<u>1,726,087</u>	<u>9,136,879</u>	<u>86,993</u>	<u>1,064,879</u>	<u>1,309,368</u>	<u>695,039</u>	<u>19,605,349</u>	<u>364,316</u>	<u>72,290,843</u>
<b>Expenditures</b>										
Current:										
Multimodal operations	45,017,462	5,417,791	1,076,274	—	—	598,269	774,108	—	—	52,883,904
Maintenance	—	—	—	—	822,110	—	—	19,592,049	318,202	20,732,361
Capital outlay	2,039,310	—	—	—	243,264	—	2,115	13,300	—	2,297,989
Other state agencies	<u>—</u>	<u>—</u>	<u>79,604</u>	<u>7,731</u>	<u>—</u>	<u>7,056</u>	<u>8,761</u>	<u>—</u>	<u>71</u>	<u>103,223</u>
Total expenditures	<u>47,056,772</u>	<u>5,417,791</u>	<u>1,155,878</u>	<u>7,731</u>	<u>1,065,374</u>	<u>605,325</u>	<u>784,984</u>	<u>19,605,349</u>	<u>318,273</u>	<u>76,017,477</u>
Excess of revenues over (under) expenditures	(8,754,839)	(3,691,704)	7,981,001	79,262	(495)	704,043	(89,945)	—	46,043	(3,726,634)
<b>Other Financing Sources</b>										
Proceeds from the sale of capital assets	—	—	—	—	—	—	8,250	—	—	8,250
Transfers related to state appropriations	<u>8,115,407</u>	<u>3,652,621</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>11,768,028</u>
<b>Net Change in Fund Balance</b>	(639,432)	(39,083)	7,981,001	79,262	(495)	704,043	(81,695)	—	46,043	8,049,644
<b>Fund Balance, Beginning of Year</b>	<u>624,112</u>	<u>418,602</u>	<u>2,988,406</u>	<u>3,030,041</u>	<u>218,938</u>	<u>4,714,814</u>	<u>98,880</u>	<u>669,486</u>	<u>166,303</u>	<u>12,929,582</u>
<b>Fund Balance, End of Year</b>	<u>\$ (15,320)</u>	<u>\$ 379,519</u>	<u>\$ 10,969,407</u>	<u>\$ 3,109,303</u>	<u>\$ 218,443</u>	<u>\$ 5,418,857</u>	<u>\$ 17,185</u>	<u>\$ 669,486</u>	<u>\$ 212,346</u>	<u>\$ 20,979,226</u>

See Accompanying Independent Auditors' Report

**Missouri Department of Transportation**  
**Combining Statement of Net Assets (Deficit) – Internal Service Funds**  
**June 30, 2005**

	Highway Employees' and Highway Patrol Insurance Fund	Self-Insurance Fund	Total
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 23,800,231	\$ —	\$ 23,800,231
Investments	8,906,280	3,162,000	12,068,280
Miscellaneous receivables	<u>141,622</u>	<u>374,793</u>	<u>516,415</u>
Total current assets	<u>32,848,133</u>	<u>3,536,793</u>	<u>36,384,926</u>
<b>Noncurrent Assets</b>			
Restricted investments	—	198,420	198,420
Investments	<u>—</u>	<u>37,094,050</u>	<u>37,094,050</u>
Total noncurrent assets	<u>—</u>	<u>37,292,470</u>	<u>37,292,470</u>
Total assets	<u>\$ 32,848,133</u>	<u>\$ 40,829,263</u>	<u>\$ 73,677,396</u>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Accounts payable	\$ 1,169,427	\$ 95,864	\$ 1,265,291
Deferred revenue	6,707,993	—	6,707,993
Pending self-insurance claims	—	9,025,000	9,025,000
Incurred but not reported claims	<u>8,100,000</u>	<u>4,700,000</u>	<u>12,800,000</u>
Total current liabilities	<u>15,977,420</u>	<u>13,820,864</u>	<u>29,798,284</u>
<b>Noncurrent Liabilities</b>			
Pending self-insurance claims	—	20,967,437	20,967,437
Incurred but not reported claims	<u>1,019,000</u>	<u>11,235,000</u>	<u>12,254,000</u>
Total noncurrent liabilities	<u>1,019,000</u>	<u>32,202,437</u>	<u>33,221,437</u>
Total liabilities	<u>16,996,420</u>	<u>46,023,301</u>	<u>63,019,721</u>
<b>Net Assets</b>			
Restricted for workers' compensation	—	198,420	198,420
Unrestricted net assets (deficit)	<u>15,851,713</u>	<u>(5,392,458)</u>	<u>10,459,255</u>
Total net assets (deficit)	<u>\$ 15,851,713</u>	<u>\$ (5,194,038)</u>	<u>\$ 10,657,675</u>

**Missouri Department of Transportation**  
**Combining Statement of Revenues, Expenses, and Changes in**  
**Net Assets (Deficit) – Internal Service Funds**  
**Year Ended June 30, 2005**

	Highway Employees' and Highway Patrol Insurance Fund	Self-Insurance Fund	Total
<b>Operating Revenues</b>			
Self insurance premiums:			
Highway workers' compensation	\$ —	\$ 10,021,882	\$ 10,021,882
Highway patrol workers' compensation	—	1,185,000	1,185,000
Highway fleet vehicle liability	—	1,974,942	1,974,942
Highway general liability	—	5,337,372	5,337,372
Medical insurance premiums:			
Department and patrol	61,148,170	—	61,148,170
Member	26,024,330	—	26,024,330
Other	<u>564,096</u>	<u>198,980</u>	<u>763,076</u>
Total operating revenues	<u>87,736,596</u>	<u>18,718,176</u>	<u>106,454,772</u>
<b>Operating Expenses</b>			
Self-insurance program:			
Highway workers' compensation	—	8,953,500	8,953,500
Highway patrol workers' compensation	—	2,929,810	2,929,810
Highway fleet vehicle liability	—	919,818	919,818
Highway general liability	—	7,574,859	7,574,859
Other	—	1,619,971	1,619,971
Medical and life insurance program:			
Insurance premium	5,500,523	—	5,500,523
Medical benefits	59,323,892	—	59,323,892
Prescription drug benefits	14,674,735	—	14,674,735
Professional fees	543,996	—	543,996
Administrative services	2,302,961	—	2,302,961
Other	<u>127,446</u>	<u>—</u>	<u>127,446</u>
Total operating expenses	<u>82,473,553</u>	<u>21,997,958</u>	<u>104,471,511</u>
Operating income	<u>5,263,043</u>	<u>(3,279,782)</u>	<u>1,983,261</u>
<b>Nonoperating Revenues</b>			
Interest income	650,174	1,130,554	1,780,728
Net increase in fair value of investments	<u>6,900</u>	<u>97,790</u>	<u>104,690</u>
Total nonoperating revenues	<u>657,074</u>	<u>1,228,344</u>	<u>1,885,418</u>
Change in net assets	5,920,117	(2,051,438)	3,868,679
<b>Net Assets (Deficit), Beginning of Year</b>	<u>9,931,596</u>	<u>(3,142,600)</u>	<u>6,788,996</u>
<b>Net Assets (Deficit), End of Year</b>	<u>\$ 15,851,713</u>	<u>\$ (5,194,038)</u>	<u>\$ 10,657,675</u>

## Schedule 7

**Missouri Department of Transportation**  
**Combining Statement of Cash Flows – Internal Service Funds**  
**Year Ended June 30, 2005**

	Highway Employees' and Highway Patrol Insurance Fund	Self-Insurance Fund	Totals
<b>Cash Flows From Operations</b>			
Receipts from interfund services provided	\$ 87,619,813	\$ 18,628,548	\$ 106,248,361
Payments for interfund services used	(78,146,005)	(14,398,494)	(92,544,499)
Payments to suppliers	<u>(3,217,846)</u>	<u>(1,796,860)</u>	<u>(5,014,706)</u>
Net cash provided by operating activities	<u>6,255,962</u>	<u>2,433,194</u>	<u>8,689,156</u>
<b>Cash Flows From Investing Activities</b>			
Proceeds from sale and maturities of investments	6,000,000	5,448,750	11,448,750
Purchase of investments	(2,974,740)	(8,941,900)	(11,916,640)
Interest received	<u>648,767</u>	<u>1,059,956</u>	<u>1,708,723</u>
Net cash provided by (used in) investing activities	<u>3,674,027</u>	<u>(2,433,194)</u>	<u>1,240,833</u>
Net increase in cash and cash equivalents	9,929,989	—	9,929,989
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>13,870,242</u>	<u>—</u>	<u>13,870,242</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u><u>\$ 23,800,231</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 23,800,231</u></u>
<b>Cash Flows From Operating Activities</b>			
Operating income	\$ 5,263,043	\$ (3,279,782)	\$ 1,983,261
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase in receivable	(116,783)	(89,628)	(206,411)
Increase in accounts payable	625,557	5,802,604	6,428,161
Increase in deferred revenue	<u>484,145</u>	<u>—</u>	<u>484,145</u>
Net cash provided by operating activities	<u><u>\$ 6,255,962</u></u>	<u><u>\$ 2,433,194</u></u>	<u><u>\$ 8,689,156</u></u>
<b>Noncash Items Impacting Recorded Assets</b>			
Increase items impacting recorded assets – increase in fair value of investments	<u><u>\$ 6,900</u></u>	<u><u>\$ 97,790</u></u>	<u><u>\$ 104,690</u></u>



**Missouri Department of Transportation**  
**Combining Statement of Fiduciary Net Assets**  
**June 30, 2005**

	<b>Local Fund</b>	<b>Base State Registration Fund</b>	<b>International Fuel Tax Agreement Fund</b>	<b>International Fuel Tax Agreement Bond Fund</b>	<b>International Registration Plan Fund</b>	<b>Total</b>
<b>Assets</b>						
Cash and cash equivalents	\$ 9,314,846	\$ 520	\$ 5,276	\$ 41	\$ 2,063	\$ 9,322,746
Investments	9,857,750	158,409	1,767,332	209,887	4,266,694	16,260,072
Other	<u>40,014</u>	<u>—</u>	<u>15,466</u>	<u>468</u>	<u>10,699</u>	<u>66,647</u>
Total assets	<u>\$ 19,212,610</u>	<u>\$ 158,929</u>	<u>\$ 1,788,074</u>	<u>\$ 210,396</u>	<u>\$ 4,279,456</u>	<u>\$ 25,649,465</u>
<b>Liabilities and Net Assets</b>						
Liabilities						
Due to other governments	\$ —	\$ 158,929	\$ 1,788,074	\$ 210,396	\$ 4,279,456	\$ 6,436,855
Advances from other governments	<u>19,212,610</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>19,212,610</u>
Total liabilities	<u>\$ 19,212,610</u>	<u>\$ 158,929</u>	<u>\$ 1,788,074</u>	<u>\$ 210,396</u>	<u>\$ 4,279,456</u>	<u>\$ 25,649,465</u>

*See Accompanying Independent Auditors' Report*