

MISSOURI DEPARTMENT OF TRANSPORTATION

Basic Financial Statements

June 30, 2004

(With Independent Auditors' Report Thereon)

MISSOURI DEPARTMENT OF TRANSPORTATION

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Independent Auditors' Report

Missouri Highway and Transportation Commission:

We have audited the accompanying financial statements of the governmental activities, the State Highways and Transportation Department Fund, the State Road Fund, and the aggregate remaining fund information of the Missouri Department of Transportation (the Department) as of and for the year ended June 30, 2004, 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 opinion.

As discussed in note 1, the financial statements of the Missouri Department of Transportation are intended to present the financial position and the changes in the 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. Accordingly, the financial statements do not include financial data for the Department's legally separate component units or other transactions of the State of Missouri that are not attributable to the Department. They do not purport to, and do not, present fairly the financial position of the State of Missouri as of June 30, 2004, and the changes in its financial position and its cash flows, where applicable, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 12, the Division of Highway Safety was combined into the Department effective July 1, 2003.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the State Highways and Transportation Department Fund, the State Road Fund, and the aggregate remaining fund information of the Department, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also provided our report dated September 10, 2004 on our consideration of the Department's internal controls over financial reporting and on our tests of

its compliance with certain provisions of laws, regulations, contracts, 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, 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 on pages 3 through 12 and 41 through 43, respectively, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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 an opinion on the financial statements that collectively comprise the Department's basic financial statements. The accompanying combining statements are supplementary information presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri
September 10, 2004

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

The management of the Missouri Department of Transportation (MoDOT or the Department) provides this discussion and analysis of MoDOT's financial performance during the fiscal year ended June 30, 2004 (FY04). Readers should consider this information in conjunction with the information furnished in the financial statements. The comparisons to the prior year are meaningful in explaining MoDOT's financial position and results of operations.

In evaluating the condition and performance of the Department, management focuses on its mission and strategic plan. The Department's mission is "taking care of and improving Missouri's transportation system."

Highlights of the year in review include:

- The financial position of the Department improved by \$68 million during FY04.
- The Department issued bonds totaling \$254 million in the fall of 2003.
- Maintenance spending increased by \$30 million. Almost all other significant areas including construction, administration, fleet, facilities and information systems showed a decrease in spending.
- Federal highway reimbursement decreased in FY04. This was due to ongoing Congressional debates over future funding formulas.
- The Department began a bond program in FY01 issuing bonds for road and bridge construction. At the end of FY04 the balance of bonds outstanding was \$861 million. Interest expense on bonds totaled \$38 million in FY04.

Missouri's constitution and statutes require all monies received by the Department from highway user fees and taxes be restricted for roads and bridges. Other transportation modes (aviation, rails, transit, and waterways) receive funding from dedicated and non-dedicated funds.

Basic Financial Statements Descriptions

As required by accounting standards generally accepted in the United States of America, this annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements (including notes to the basic financial statements), and other required supplementary information.

The basic financial statements include two kinds of statements that present different views of the Department:

- 1) ***Government-wide Financial Statements*** report information about MoDOT as a whole using accounting methods similar to those used by private-sector companies by using the economic resources measurement focus and accrual basis of accounting. These statements provide both long-term and short-term information about the Department's overall financial status. Therefore, over time, increases or decreases in the net assets are an indicator of whether the Department's financial health is improving or deteriorating. There are two government-wide statements:
 - The *Statement of Net Assets* includes all of the Department's assets and liabilities.
 - The *Statement of Activities* accounts for all of the current year's revenues and expenses, regardless of when cash is received or paid.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

- 2) ***Fund Financial Statements*** provide more detailed information than the government-wide statements about MoDOT's most significant funds—not the Department as a whole. Funds are created by state law and are accounting devices that the state uses to keep track of specific sources of revenue and spending. The Department uses two types of funds:
- ***Governmental Funds***—Most of MoDOT's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that help a reader determine whether there are more or fewer financial resources that can be spent in the near future to finance programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the differences between them.
 - ***Proprietary Funds***—MoDOT uses internal service funds (one kind of proprietary fund) to report activities for the Missouri Highways and Transportation Commission's Self-Insurance Plan and the MoDOT and State Highway Patrol Medical and Life Insurance Plan. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.

Notes to the basic financial statements that interpret and explain some of the information in the basic financial statements and provide more detailed data are included for the government-wide and fund financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Condensed Information Government-wide Financial Statements

Net Assets

MoDOT's net assets were \$24,464 million at the end of FY04, an increase of \$68 million over the beginning FY03 balance of \$24,396 million. The FY03 fund balance was increased by a restatement of \$1 million due to the transfer of the Division of Highway Safety from the Department of Public Safety, pursuant to an executive order signed by the Governor.

Capital assets comprise 97% of total assets. Capital assets consist of roads, bridges, buildings, land for the roads and bridges, vehicles, and equipment. Long-term liabilities are the largest component of total liabilities (87%) and are comprised mainly of \$861 million outstanding bonds.

- Capital assets increased by \$262 million. Nondepreciable assets, including infrastructure in progress, construction in progress, and land, increased by \$212 million. Depreciable assets increased by \$50 million. Capital assets are further detailed in this discussion and in note 6 of the notes to the basic financial statements.
- Long-term liabilities increased by \$229 million. This increase is primarily the result of the issuance of \$254 million in Series A 2003 State Road bonds, less the FY04 debt service payments of \$23.5 million. The Missouri Highways and Transportation Commission is authorized to issue bonds for the purpose of highway construction and construction engineering. Long-term liabilities are further detailed in this discussion and in note 7 of the notes to the basic financial statements.

MoDOT's Net Assets (Summarized)

(In millions of dollars)

	FY04	FY03, As restated	Incr/(Decr)
Current and other assets	\$ 728	719	9
Capital assets, net	24,967	24,705	262
Total assets	\$ 25,695	25,424	271
Long-term liabilities	\$ 1,065	836	229
Other liabilities	166	192	(26)
Total liabilities	\$ 1,231	1,028	203
Net assets:			
Invested in capital assets, net of related debt	\$ 23,953	23,937	16
Restricted for highway and transportation	435	404	31
Restricted for debt service	76	55	21
Total net assets	\$ 24,464	24,396	68

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Changes in Net Assets

Comparisons of activities from year to year can be used as an indicator of a government's financial position and are included in the following section. The program area of motorist assist was segregated in the state's appropriation process for FY04. In prior years, those expenses were included in the maintenance program. Federal government reimbursements (40%) and fuel taxes (29%) are the largest sources of Department revenues. Depreciation of capital assets, including infrastructure depreciation, is the largest expense (46%). Maintenance and construction of roads and bridges are other significant program expenses.

MoDOT's Statement of Activities (Summarized)

(in millions of dollars)

	FY04	FY03, As restated	Incr/(Decr)
Program revenues:			
Licenses, fees, and permits	\$ 269	273	(4)
Cost reimbursement/misc.	75	80	(5)
Federal government	703	779	(76)
Other	24	22	2
General revenues:			
Fuel tax	515	498	17
Sales and use tax	180	178	2
Other	(4)	36	(40)
Total revenues	<u>1,762</u>	<u>1,866</u>	<u>(104)</u>
Program expenses:			
Administration	29	37	(8)
Fleet, facilities, and information systems	44	54	(10)
Maintenance	312	282	30
Construction	198	223	(25)
Multimodal operations	47	47	—
Motorist assist	3	—	3
Interest expense	39	33	6
Other state agencies	166	165	1
Insurance	84	80	4
Depreciation	772	913	(141)
Total program expenses	<u>1,694</u>	<u>1,834</u>	<u>(140)</u>
Change in net assets	68	32	36
Net assets, beginning	<u>24,396</u>	<u>24,364</u>	
Net assets, ending	<u>\$ 24,464</u>	<u>24,396</u>	

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Assessment of Overall Financial Position and Results of Operations

- MoDOT's assets exceeded its liabilities at June 30, 2004 by \$24.5 billion (presented as net assets). Of this amount, \$24 billion was "invested in capital assets, net of related debt."
- Total revenues for the year were \$1.8 billion, which is a decrease of \$104 million from the FY03 level.
 - The federal government revenue decreased because Missouri's FY04 federal highway apportionments were delayed due to Congressional debates over funding formulas. There was an increase of \$13 million in federal grants due to the addition of the Division of Highway Safety to MoDOT.
 - Other general revenues decreased by \$40 million. The amount of other general revenues in FY03 included \$13 million classified as donated assets from the value of fiber optic cable transferred to MoDOT as part of a settlement with the Department's contractor responsible for installation of fiber optic cable for the intelligent transportation communication systems in the State.

The Department's share of market value fluctuations related to investments with the state treasury and interest earned on fund balances is also captured in other general revenues. In FY04, that category decreased by \$29.7 million as a result of the market value loss and reduction of interest earned. The percentage of state funds invested in FY04 decreased from the previous year by 3.2%. Market value fluctuations are not realized until the investment is sold. The total face value of the bonds plus interest will be received if the investment is held to maturity. The state's portfolio includes bonds in a fixed-income portfolio. In a rising interest rate environment, the value of bonds will often fall below their amortized cost or book value. This was experienced at the end of FY04.

- Total program expenses for the year were \$1.7 billion. This compares to total program expenses in the previous year of \$1.8 billion. Although the total program expense fluctuation was minimal, there was considerable fluctuation in individual programs. The most noteworthy increase occurred in the maintenance program.
 - The \$30 million increase in maintenance spending is consistent with the Department's strategic priority to take better care of the assets it owns. During FY04, the Department increased spending for maintenance materials, equipment and supplies. In addition, maintenance spending for pavement repair, asphalt resurfacing, striping, guardrail and guard cable replacement, and bridge repairs increased.
 - While maintenance spending increased, most other significant program areas within the Department decreased. Construction decreased by \$25 million. This reduction is the result of a combination of factors. Spending for design and bridge consultants was where the largest reductions occurred.
 - The reduction of \$141 million in depreciation is a result of a significant amount of infrastructure assets becoming fully depreciated in both the current and previous fiscal year.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Fund Balance Analysis and Availability

At the end of the fiscal year, MoDOT's governmental funds reported a combined fund balance of \$516 million, an increase of \$16 million over FY03. It should be noted that actual expenditures exceeded normal revenues by \$247 million. Included in actual expenditures are monies spent for construction of roads and bridges. One of the sources of funds for these expenditures is \$254 million bond proceeds reported as other financing sources. Scheduled repayment of bond principal and interest for FY05 totals \$76 million.

Analysis of Budget to Budget and Budget to Actual

(Variations from Budgetary Comparison Schedules)

An appropriation classification review was conducted of all job title codes and a determination was made on proper classification based upon primary job duties. When deemed appropriate, budget for personal service, fringe benefits, and expense and equipment were reclassified. These changes were effective July 1, 2003. Amounts are identified in the following sections.

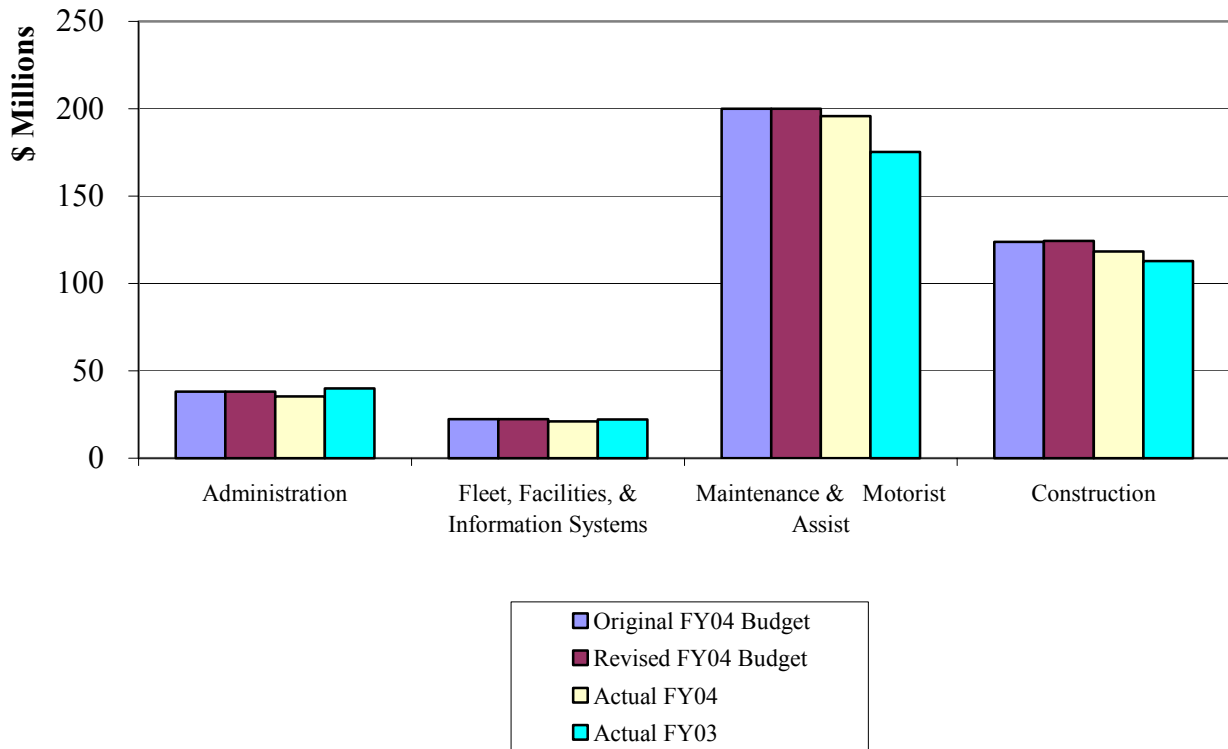
MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Personal Services and Fringe Benefits

Personal service and fringe benefit expenditures for FY04 were \$20 million more than in FY03. Personal services increased by \$5.0 million. Consistent with the state of Missouri, employees earning less than \$40,000 annually received a \$600 per year general adjustment increase. The remaining increase is a result of career ladder promotions and vacancy filling. Fringe benefits increased by \$15.0 million. Fringe benefits include contributions for retirement, medical and life insurance, workers' compensation, deferred compensation, and the employer's share of social security and medicare taxes. The appropriation reclassification reallocated \$8.9 million.



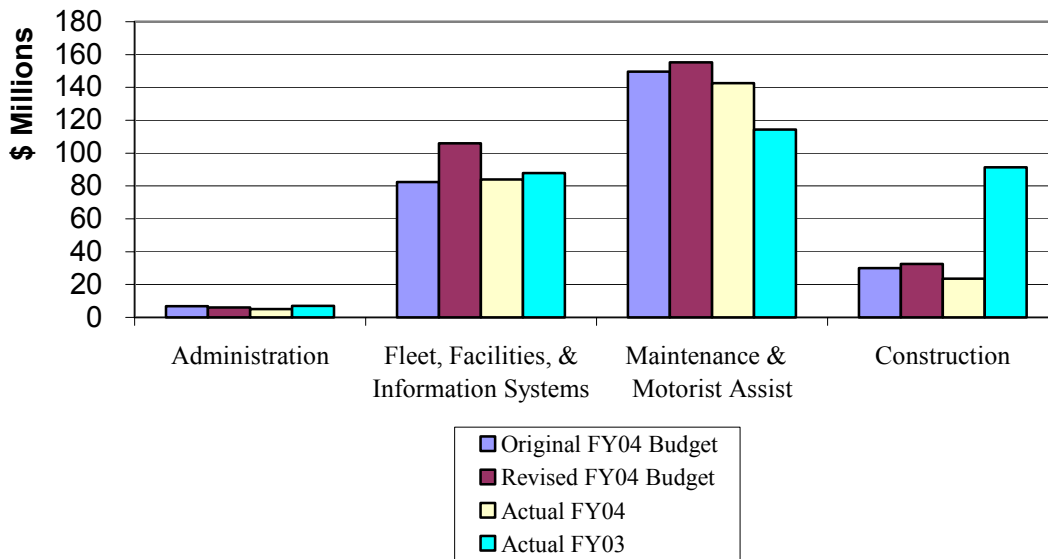
MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Expense and Equipment

Although fleet, facilities, and information systems' expense and equipment (E&E) ended the year under budget by \$22 million, much of that has been encumbered and will be spent in FY05. Maintenance expenditures are \$28 million above the prior year. The appropriation reclassification reallocated \$6.3 million. The FY03 actual amount for construction included \$62.5 million for design and bridge consultants. Beginning in FY04, those expenses are included in construction program specific distributions (next section).



Program Specific Distribution

The majority of expenditures in this area are for contractor payments. Also included are federal pass-throughs to local entities, right-of-way purchases, and innovative finance expenses. Beginning in FY04, design and bridge consultant expenses are also classified as construction program specific distributions. FY04 expenditures for those consultants totaled to \$36 million.

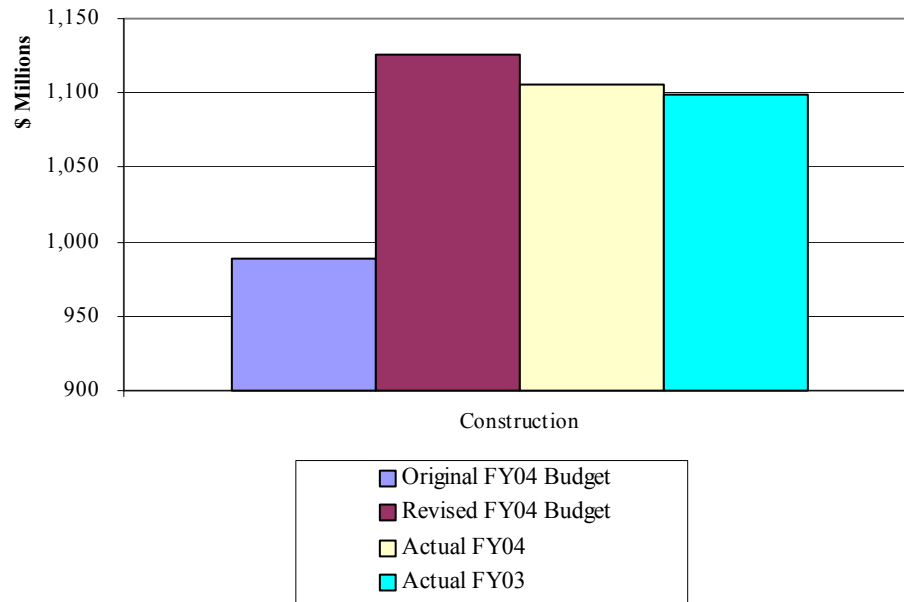
The budget for program-specific expenditures was increased by \$136.3 million for land purchases authorized in previous years but not processed until FY04, local entities spending their federal pass-throughs sooner than anticipated, and contractor payments greater than anticipated due to favorable construction weather. Total program-specific distribution expenditures are \$19.8 million below the revised budgeted amount. The majority is attributable to right-of-way purchases not finalized at year-end.

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

The total construction program-specific expenditures for FY04 are \$1.1 billion. These expenditures include \$914.5 million for contractor payments, \$86.3 million for federal pass-through, \$52.5 million for right-of-way land purchases, \$36.0 million for design and bridge consultants, and \$16.6 million for innovative financing payments.



Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the Department had invested \$25 billion in capital assets, net of depreciation, including equipment, buildings, facilities, roads, bridges, and land. More detailed information about the Department's capital assets is presented in notes 1 and 6 of the notes to the basic financial statements. This year's major capital asset additions, deletions, and retirements included (dollars in thousands):

	July 1, 2003 balance, as restated	Additions	Deletions/ retirements	June 30, 2004 balance
Land and improvements	\$ 1,950,140	41,075	(3,984)	1,987,231
Buildings	155,132	35,244	(297)	190,079
Equipment and vehicles	370,987	40,905	(15,470)	396,422
Infrastructure	36,638,118	745,178	(70,460)	37,312,836
Construction and infrastructure in progress	2,848,925	988,911	(812,439)	3,025,397
Accumulated depreciation	(17,258,124)	(771,756)	84,632	(17,945,248)
Total	\$ 24,705,178	1,079,557	(818,018)	24,966,717

MISSOURI DEPARTMENT OF TRANSPORTATION

Management's Discussion and Analysis

June 30, 2004

Long-term Debt

At the end of 2004, the Department had \$1 billion in outstanding long-term debt, including \$861 million in outstanding bonds. More detailed information about the Department's long-term liabilities is presented in note 7 of the notes to the basic financial statements.

The Department's bonds are rated AA by Standard and Poor's Rating Service and Fitch Rating Service and Aa2 by Moody's Investor Service, Inc. This is the second highest possible rating and has been maintained by the Department since the inception of the bonding program in 2000. The Department is limited by statute to a total debt of \$2.25 billion.

Current Conditions Affecting Future Financial Position or Results of Operations

- State revenues are projected to increase 1.8% during FY05 over FY04 revenues. This assumption is based on historical trend data.
- Federal highway reimbursements are projected to increase from approximately \$679.7 million in FY04 to approximately \$856.0 million for FY05. Based on historical trends, the Department assumes 90% of FY05 federal funding will be available for project obligations. This projection assumes a transportation act will be in place for FY05 and the receipt of remaining FY04 federal reimbursements.
- Fringe benefits are projected to increase approximately 12.1% for FY05, primarily due to increasing medical plan costs and retirement contributions.
- The legislature approved an annual pay increase of \$1,200 for all state employees effective July 1, 2004.
- In FY04 the department established a line of credit with the Missouri Transportation Finance Corporation (the Corporation). The Corporation was created under Missouri General not-for-profit Corporation Law to provide financing and other assistance to public and private entities for highway and transportation projects in the State of Missouri. The amount of the line of credit available is up to the total uncommitted balance of the Corporation accounts. The line of credit was established to finance TEA 21-eligible projects in the event of federal reimbursement delays. No advances have been made.

Contacting the Department's Financial Management

This financial report is designed to provide citizens, taxpayers, customers, investors, and creditors with a general overview of MoDOT'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 sent to the Controller's Division, Missouri Department of Transportation, P.O. Box 270, Jefferson City, MO 65102.

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

June 30, 2004

Assets		Governmental activities
Cash and investments	\$	421,903,652
Miscellaneous receivables		33,597,703
Due from federal government		39,979,643
Taxes receivable—due from other funds		120,097,531
Restricted cash and investments		76,288,182
Inventory		30,576,758
Loans receivable		2,499,674
Bond issue costs		3,170,143
Capital assets:		
Assets not being depreciated		5,001,148,896
Assets being depreciated, net		19,965,568,482
Total assets		<u>25,694,830,664</u>
Liabilities		
Accounts payable		151,758,425
Contract retainage		4,796,531
Unearned revenue		8,569,163
Long-term obligations:		
Due within one year		103,483,702
Due in more than one year		961,862,679
Total liabilities		<u>1,230,470,500</u>
Net Assets		
Invested in capital assets, net of related debt		23,952,946,191
Restricted for:		
Debt service		76,288,182
Highway and transportation		435,125,791
Total net assets	\$	<u><u>24,464,360,164</u></u>

See accompanying notes to basic financial statements.

Exhibit B**MISSOURI DEPARTMENT OF TRANSPORTATION**

Statement of Activities

Year ended June 30, 2004

	<u>Governmental activities</u>
Program expenses:	
Administration	\$ 29,318,472
Fleet, facilities, and information systems	43,603,286
Maintenance	312,021,799
Construction	197,760,891
Multimodal operations	46,880,343
Motorist assist	2,943,191
Interest expense	39,275,763
Other state agency	166,270,540
Self-insurance	15,916,237
Medical and life insurance	68,193,519
Depreciation expense	771,756,438
Total program expenses	<u>1,693,940,479</u>
Program revenue:	
Licenses, fees, and permits	268,829,963
Intergovernmental cost reimbursement/miscellaneous	74,522,510
Interest	75,828
Federal government—operating	43,049,831
Federal government—capital	660,350,019
Employee premiums	23,908,942
Total program revenue	<u>1,070,737,093</u>
Net expense of program	<u>(623,203,386)</u>
General revenues and transfers:	
Fuel tax	515,047,887
Sales and use tax	180,213,326
Investment and interest	9,058,760
Donated assets	161,560
Loss on sale of assets	(2,238,377)
Net decrease in fair value of investments	(21,904,465)
Transfers related to appropriations	11,298,715
Total general revenues and transfers	<u>691,637,406</u>
Change in net assets	68,434,020
Net assets at beginning of year, as restated (note 12)	<u>24,395,926,144</u>
Net assets at end of year	<u><u>\$ 24,464,360,164</u></u>

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Balance Sheet
Governmental Funds
June 30, 2004

Assets	State Highways and Transportation Department Fund	State Road Fund	Nonmajor governmental funds	Total governmental funds
Cash and investments	\$ 30,160,368	318,979,128	10,105,744	359,245,240
Restricted cash and investments	—	76,288,182	—	76,288,182
Miscellaneous receivables	197,146	32,898,700	88,784	33,184,630
Due from federal government	—	35,858,862	4,120,780	39,979,642
Taxes receivable—due from other funds	104,186,876	15,502,862	407,793	120,097,531
Due from agency fund	—	175,074	—	175,074
Due from other funds	—	46,255	—	46,255
Loans receivable	—	—	2,499,674	2,499,674
Inventory	126,231	30,450,527	—	30,576,758
Total assets	\$ 134,670,621	510,199,590	17,222,775	662,092,986
Liabilities and Fund Balance				
Liabilities:				
Vouchers payable	\$ 23,189,166	74,453,434	4,232,258	101,874,858
Contract retainage	—	4,796,531	—	4,796,531
Deferred revenue	—	39,475,640	14,680	39,490,320
Due to other funds	—	—	46,255	46,255
Total liabilities	23,189,166	118,725,605	4,293,193	146,207,964
Fund balances:				
Reserved for:				
Loans receivable	—	—	2,499,674	2,499,674
Inventory	126,231	30,450,527	—	30,576,758
Unreserved	111,355,224	361,023,458	10,429,908	482,808,590
Total fund balance	111,481,455	391,473,985	12,929,582	515,885,022
Total liabilities and fund balance	\$ 134,670,621	510,199,590	17,222,775	662,092,986
Total fund balance from fund statement above			\$ 515,885,022	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets, net of depreciation of \$771,756,438, used in governmental activities are not financial resources and, therefore, are not reported in the funds.			24,966,717,378	
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.			37,145,003	
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.			6,788,996	
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.			(1,062,176,235)	
			\$ 24,464,360,164	

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2004

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor funds	Total
Revenues:				
Fuel tax	\$ 514,589,096	93,168	365,623	515,047,887
Sales and use tax	43,182,032	133,142,926	3,888,368	180,213,326
Licenses, fees, and permits	163,092,511	103,872,130	1,865,322	268,829,963
Intergovernmental/cost reimbursements/miscellaneous	2,518,611	69,979,997	1,393,124	73,891,732
Investment and interest	1,276,863	6,355,626	456,947	8,089,436
Federal government	—	660,350,019	43,049,831	703,399,850
Total revenues	724,659,113	973,793,866	51,019,215	1,749,472,194
Expenditures:				
Administration	40,450,728	2,182	—	40,452,910
Fleet, facilities, and information systems	21,414,652	80,718,384	—	102,133,036
Maintenance	194,289,345	138,663,599	14,787,081	347,740,025
Construction	118,188,873	1,083,269,651	—	1,201,458,524
Multimodal operations	216,354	8,722	46,768,626	46,993,702
Motorist assist	2,634,398	322,382	—	2,956,780
Debt service	—	73,543,958	—	73,543,958
Other state agency	180,743,298	—	108,107	180,851,405
Total expenditures	557,937,648	1,376,528,878	61,663,814	1,996,130,340
Excess of revenues over (under) expenditures	166,721,465	(402,735,012)	(10,644,599)	(246,658,146)
Other financing sources (uses):				
Long-term debt issued	—	256,277,231	—	256,277,231
Premium on bonds	—	9,559,384	—	9,559,384
Proceeds from capital leases	71,972	3,239,653	—	3,311,625
Proceeds from the sale of capital assets	—	3,341,245	—	3,341,245
Transfers in	—	166,206,147	—	166,206,147
Transfers out	(166,206,147)	—	—	(166,206,147)
Net decrease in fair value of investments	(1,683,479)	(19,009,769)	(208,312)	(20,901,560)
Transfers related to appropriations	—	—	11,298,715	11,298,715
Total other financing sources (uses)	(167,817,654)	419,613,891	11,090,403	262,886,640
Excess of revenues and other financing sources under (over) expenditures and other uses	(1,096,189)	16,878,879	445,804	16,228,494
Fund balances, beginning of year, as restated (note 12)	112,577,644	374,595,106	12,483,778	499,656,528
Fund balances, end of year	\$ 111,481,455	391,473,985	12,929,582	515,885,022

See accompanying notes to basic financial statements.

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, 2004

Net change in fund balances—total governmental funds	\$ 16,228,494
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 (\$1,038,875,049) exceeded depreciation (\$771,756,438) in the current period.	267,118,611
In the statement of activities, only the gain on the sale of the 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.	(5,579,649)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(1,045,823)
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 amount by which proceeds exceeded repayments.	(214,399,016)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(6,515,078)
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.	<u>12,626,481</u>
Change in net assets of governmental activities	<u>\$ 68,434,020</u>

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Net Assets

Proprietary Funds

June 30, 2004

	Assets	Internal service funds
Cash		\$ 13,870,242
Government-sponsored investments		48,788,170
Miscellaneous receivables		<u>237,999</u>
Total assets		<u>62,896,411</u>
	Liabilities	
Vouchers payable		1,685,622
Pending self-insurance claims		26,355,945
Deferred revenue		6,223,848
Incurred but not reported claims		<u>21,842,000</u>
Total liabilities		<u>56,107,415</u>
	Net Assets	
Unrestricted net assets		\$ <u><u>6,788,996</u></u>

See accompanying notes to basic financial statements.

Exhibit G**MISSOURI DEPARTMENT OF TRANSPORTATION**

Statement of Activities

Proprietary Funds

Year ended June 30, 2004

	<u>Internal service funds</u>
Operating revenues:	
Insurance premiums:	
Highway workers' compensation	\$ 10,783,137
Highway patrol workers' compensation	1,185,000
Highway fleet vehicle liability	1,880,883
General liability	3,510,572
Contributions:	
State	53,748,827
Member	23,908,942
Other	1,614,127
Total operating revenues	<u>96,631,488</u>
Operating expenses:	
Program	1,473,913
Self-insurance claims:	
Highway workers' compensation	7,726,798
Highway patrol workers' compensation	2,089,349
Highway fleet vehicle liability	998,343
Highway general liability	3,627,834
Medical and life:	
Insurance premium	5,136,810
Claims	48,030,945
Administrative service	2,194,469
Prescription drugs	12,641,598
Professional fees	131,404
Other	58,293
Total operating expenses	<u>84,109,756</u>
Operating income	<u>12,521,732</u>
Nonoperating revenues:	
Interest income	1,107,654
Net decrease in fair value of investments	(1,002,905)
Total nonoperating revenues	<u>104,749</u>
Net income	12,626,481
Net assets (accumulated deficit) at beginning of year	<u>(5,837,485)</u>
Net assets at end of year	<u><u>\$ 6,788,996</u></u>

See accompanying notes to basic financial statements.

Exhibit H**MISSOURI DEPARTMENT OF TRANSPORTATION**

Statement of Cash Flows

Proprietary Funds

Year ended June 30, 2004

	Internal service funds
Cash flows from operations:	
Receipt from customers	\$ 96,562,553
Payment to suppliers	<u>(80,732,590)</u>
Net cash provided by operating activities	<u>15,829,963</u>
Cash flows from investing activities:	
Sale of investments	23,750,500
Purchase of investments	<u>(42,164,366)</u>
Interest on investments	<u>1,107,654</u>
Net cash used in investing activities	<u>(17,306,212)</u>
Net decrease in cash and cash equivalents	(1,476,249)
Cash at beginning of year	<u>15,346,491</u>
Cash at end of year	<u><u>\$ 13,870,242</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 12,521,732
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in receivables	(68,936)
Increase in accounts payable	2,477,842
Increase in deferred revenue	<u>899,325</u>
Net cash provided by operating activities	<u><u>\$ 15,829,963</u></u>
Noncash items impacting recorded assets—decline in fair value of investments	\$ (1,002,904)

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2004

Assets

Cash and cash equivalents	\$ 14,352,122
Investments	13,350,542
Other	<u>46,658</u>
Total assets	<u><u>\$ 27,749,322</u></u>

Liabilities

Due to other governments	\$ 5,590,017
Advances from other governments	22,158,305
Other	<u>1,000</u>
Total liabilities	<u><u>\$ 27,749,322</u></u>

See accompanying notes to basic financial statements.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The State Highway Department was created in 1913 to act as the state's agent 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. As discussed in note 12, in 2003, by the 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. The financial statements of these legally separate organizations are not included herein. Because the Department is not legally separate from the state of Missouri, the financial statements of the Department are included in the financial statements of the state of Missouri. The State of Missouri's Comprehensive Annual Financial Report may be obtained by writing to Missouri's Office of Administration.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(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 programs 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:

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.

The Department reports the following additional fund types:

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

Agency Funds—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

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

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, 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 (the State) 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.

(d) *Statement of Cash Flows*

Cash and cash equivalents include cash and short-term investments.

(e) *Inventories*

Inventories are valued at cost using the weighted average method. Inventories are recorded as expenditures when purchased and expenses when consumed.

(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.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(g) Capital Assets

Capital assets, which include property, buildings, equipment, and infrastructure assets, are reported 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 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

(h) Deferred Revenue

The Department has recorded deferred revenue in the State Road Fund relating to long-term receivables.

(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 \$29,434,854 as of June 30, 2004 that is recorded in the government-wide financial statements. Employees are not paid for accumulated sick leave upon retirement or termination.

(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

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

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*

Reserves, restrictions, and designations are reported in the various funds to indicate that a portion of the fund balance or net assets 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.

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 at the date of the financial statements, including accrued liabilities for compensated absences and claims and judgments. 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 Highway Patrol were \$507,341 during the fiscal year.

(o) *Recently Issued Accounting Standards*

In November 2003, the Governmental Accounting Standards Board issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Department is currently evaluating the impacts of this statement.

(2) *Cash 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.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Cash—At June 30, 2004, the carrying value of the Department's deposits at the State treasury and third-party financial institutions were \$435,533,422 and \$15,790,244, respectively. The bank balance was \$22,100,807, of which \$102,056 was covered by federal depository insurance and \$21,998,751 was covered by collateral held by a third-party bank under a joint custody agreement. Monies were also deposited in overnight repurchase agreements held by the dealer bank's trust department in the Department's name.

Investments—The Department's investments are reported at fair value. At June 30, 2004, the Department had \$58,617,695 of 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, 2004

At June 30, 2004, the Department's deposits and investments consisted 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	\$ 30,160,368	318,979,128	10,105,744	—	—
Cash deposited with banks	—	—	—	13,727,244	2,063,000
Government-sponsored securities	—	—	—	48,788,170	—
Repurchase agreements	—	—	—	142,998	—
	<u>\$ 30,160,368</u>	<u>318,979,128</u>	<u>10,105,744</u>	<u>62,658,412</u>	<u>2,063,000</u>
Interest receivable	<u>\$ 197,146</u>	<u>968,072</u>	<u>8,485</u>	<u>222,753</u>	<u>46,658</u>
Restricted assets:					
Cash and investments pooled in the State treasury	\$ —	76,288,182	—	—	—
Government-sponsored securities	—	—	—	—	9,829,525
Repurchase agreements	—	—	—	—	15,810,139
	<u>\$ —</u>	<u>76,288,182</u>	<u>—</u>	<u>—</u>	<u>25,639,664</u>

At June 30, 2004, the Department's investments had the following maturities:

Investment type	Fair value	Investment maturities (in years)			
		Less than 1	1	2	3 or more
Repurchase agreements	\$ 15,953,137	15,953,137	—	—	—
U.S. Treasury securities	199,812	—	199,812	—	—
U.S. agency securities	58,417,883	9,851,119	30,984,424	15,116,555	2,465,785
Total	<u>\$ 74,570,832</u>	<u>25,804,256</u>	<u>31,184,236</u>	<u>15,116,555</u>	<u>2,465,785</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(3) Taxes

Tax revenues for the year ended June 30, 2004 were as follows:

	State Highways and Transportation Department Fund	State Road Fund	Nonmajor funds	Total
Fuel tax	\$ 514,589,096	93,168	365,623	515,047,887
Vehicle sales and use tax	43,182,032	133,142,926	3,888,368	180,213,326
	<u>\$ 557,771,128</u>	<u>133,236,094</u>	<u>4,253,991</u>	<u>695,261,213</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 special fuel (primarily diesel fuel and liquefied petroleum gas) 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 special 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 a tax 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, and the other 25% is distributed to cities and counties.

(4) Interfund Transactions

Transfers for the year are:

	Transfers in	Transfers out
State Highways and Transportation Department Fund	\$ —	166,206,147
State Road Fund	166,206,147	—
	<u>\$ 166,206,147</u>	<u>166,206,147</u>

The Department is required by State law to transfer any unspent monies in the State Highways and Transportation Department Fund to the State Road Fund.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

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

	Due to	Due from
Nonmajor funds	\$ —	46,255
State Road Fund	46,255	—
	<u>\$ 46,255</u>	<u>46,255</u>

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

(5) Receivables

Receivables at June 30, 2004 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	\$ —	35,858,862	4,120,780	—	39,979,642	39,979,642
Taxes	104,186,876	15,502,862	407,793	—	120,097,531	120,097,531
Reimbursements	—	30,966,990	73,409	—	31,040,399	19,973,405
Interest	197,146	1,931,710	15,375	222,753	2,366,984	2,366,984
Contributions	—	—	—	15,246	15,246	15,246
Loans	—	—	2,499,674	—	2,499,674	389,745
Total	<u>\$ 104,384,022</u>	<u>84,260,424</u>	<u>7,117,031</u>	<u>237,999</u>	<u>195,999,476</u>	<u>182,822,553</u>

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, 2004

(6) Capital Assets

Changes in capital assets are summarized below:

	Balances July 1, 2003, as restated	Additions	Deletions/ retirements	Balances June 30, 2004
Nondepreciable capital assets:				
Land	\$ 1,940,788,046	38,948,759	3,984,362	1,975,752,443
Construction in progress	284,981,889	63,188,416	67,254,289	280,916,016
Infrastructure in progress	2,563,942,755	925,722,541	745,184,859	2,744,480,437
Total nondepreciable capital assets	4,789,712,690	1,027,859,716	816,423,510	5,001,148,896
Depreciable capital assets:				
Land improvements	9,352,353	2,126,090	—	11,478,443
Buildings	155,132,409	35,244,121	296,901	190,079,629
Equipment	225,588,613	32,447,317	11,291,664	246,744,266
Vehicles	145,397,728	8,458,396	4,178,171	149,677,953
Infrastructure	36,638,118,193	745,178,557	70,460,293	37,312,836,457
Total depreciable capital assets	37,173,589,296	823,454,481	86,227,029	37,910,816,748
Accumulated depreciation—land improvements	5,478,100	314,728	—	5,792,828
Accumulated depreciation—buildings	48,861,978	5,945,815	190,674	54,617,119
Accumulated depreciation—equipment	125,507,548	21,453,667	10,197,281	136,763,934
Accumulated depreciation—vehicles	76,161,767	13,824,717	3,783,495	86,202,989
Accumulated depreciation—infrastructure	17,002,114,178	730,217,511	70,460,293	17,661,871,396
Total accumulated depreciation	17,258,123,571	771,756,438	84,631,743	17,945,248,266
Total depreciable capital assets, net	19,915,465,725	51,698,043	1,595,286	19,965,568,482
Total capital assets	\$ 24,705,178,415	1,079,557,759	818,018,796	24,966,717,378

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(7) Long-term Obligations

Changes in long-term obligations for the year ended June 30, 2004 were as follows:

Type of issue	Beginning balance, restated	Additions	Reductions	Discount accreted	Ending balance	Due within a year
State road bonds	\$ 630,455,000	254,000,000	23,455,000	—	861,000,000	32,500,000
State road bond accrued interest	12,880,792	37,665,362	31,085,649	—	19,460,505	19,460,505
Advances from other governments	21,804,591	806,722	2,883,686	—	19,727,627	7,700,000
Advances from component units	64,532,918	9,416,665	13,991,327	563,000	60,521,256	9,753,965
Component unit accrued interest	79,636	197,847	277,483	—	—	—
Federal Highway Administration loan	15,000,000	—	—	—	15,000,000	—
Capital leases	22,982,191	3,311,624	9,072,440	—	17,221,375	7,690,567
Claims and judgments payable	27,487,109	2,660,038	8,006,809	—	22,140,338	4,428,067
Compensated absences	28,981,592	22,403,860	21,950,598	—	29,434,854	21,950,598
	<u>\$ 824,203,829</u>	<u>330,462,118</u>	<u>110,722,992</u>	<u>563,000</u>	<u>1,044,505,955</u>	<u>103,483,702</u>
Add premium					<u>20,840,426</u>	
					<u>\$ 1,065,346,381</u>	

The detail of long-term debt at June 30, 2004 follows:

Series A 2000 State Road Fund 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%	\$ 225,965,000
Series A 2001 State Road Fund 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%	185,470,000
Series A 2002 State Road Fund 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%	195,565,000
Series A 2003 State Road Fund 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%	254,000,000
	<u>\$ 861,000,000</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

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	\$ 607,435
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	674,166
Missouri Development Finance Board to upgrade Route 40 and develop the Route DD and Route 40 interchange; principal due on August 1, 2004; no interest will accrue	7,700,000
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
	<u>\$ 19,727,627</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Advances from component units:

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	\$ 15,223,625
210 Highway Transportation Development District for the widening of 210 Highway; principal payments begin July 2006 and conclude July 2007; 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	8,667,000
Fulton 54 Transportation Corporation for the right-of-way acquisition and utility adjustments for Route 54 and HH interchange; principal payments will occur on September 1, 2004, 2005, 2006, and 2007; no interest will accrue	7,695,000
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 July 1, 2004 through 2008; the interest rate is 3.232%	13,463,133
	<u>\$ 60,521,256</u>
Federal Highway Administration loan; for the extension of Page Avenue in St. Charles; principal payment due as early as January 1, 2008; no interest will accrue	\$ <u>15,000,000</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Capital lease obligations:

2001 lease-purchase of 10 copy machines, due in monthly installments of \$82 to \$4,212 through May 2006; interest varying from 0% to 18.9%	\$ 173,606
2002 lease-purchase of eight copy machines, due in monthly installments of \$138 to \$916 through February 2007; interest varying from 0% to 16.2%	54,064
2002 lease-purchase of 475 dump trucks, due in annual installments of \$7,438,277 through June 2006; interest at 3.83%	14,063,544
2003 lease-purchase of 15 copy machines, due in monthly installments varying from \$143 to \$439 through February 2008; interest varying from 0% to 9.6%	97,645
2004 lease-purchase of 19 copy machines, due in monthly installments varying from \$44 to \$4,851 through December 2008; interest varying from 0% to 13.6%	369,732
2004 lease-purchase of 11 wheel loaders, due in monthly installments of \$1,014 through May 2007; interest at 3.9%	950,917
2004 lease-purchase of two topcon hiper survey equipment, due in monthly installments of \$1,793 through July 2005; interest at 0.325%	51,891
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%	1,298,007
2004 lease-purchase of bobcat, due in monthly installments of \$815 through May 2005; interest at 2.9%	24,469
2004 lease-purchase of wheeled excavator, due in annual installments of \$29,912 through April 2009; interest at 2.9%	137,500
	<u>\$ 17,221,375</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Annual debt service requirements to maturity:

Fiscal year	Principal due	Interest due	Total due
State road bonds:			
2005	\$ 32,500,000	43,788,182	76,288,182
2006	35,440,000	40,537,032	75,977,032
2007	36,740,000	39,086,044	75,826,044
2008 – 2012	207,050,000	168,382,704	375,432,704
2013 – 2017	259,730,000	111,945,246	371,675,246
2018 – 2023	289,540,000	42,068,172	331,608,172
	<u>\$ 861,000,000</u>	<u>445,807,380</u>	<u>1,306,807,380</u>
Advances from other governments:			
2005	\$ 7,700,000	—	7,700,000
2006	—	—	—
2007	—	—	—
2008 – 2012	2,584,857	—	2,584,857
2013 – 2017	8,835,335	—	8,835,335
2018 – 2022	607,435	—	607,435
	<u>\$ 19,727,627</u>	<u>—</u>	<u>19,727,627</u>
Advances from component units:			
2005	\$ 9,753,965	485,720	10,239,685
2006	14,249,782	403,117	14,652,899
2007	21,981,694	314,936	22,296,630
2008 – 2012	14,535,815	341,672	14,877,487
	<u>\$ 60,521,256</u>	<u>1,545,445</u>	<u>62,066,701</u>
Capital leases:			
2005	\$ 7,690,567	660,477	8,351,044
2006	7,815,083	360,040	8,175,123
2007	1,200,263	60,294	1,260,557
2008	445,337	18,086	463,423
2009 – 2013	70,125	1,383	71,508
	<u>\$ 17,221,375</u>	<u>1,100,280</u>	<u>18,321,655</u>

On May 30, 2000, the governor signed 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

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

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, 2004, no advances had been made to MoDOT on the line-of-credit agreement.

(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. Various lawsuits against the Department arise incident to the Department's normal operations. These include 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 by setting aside assets for the settlement of certain claims in its internal service fund, the Self-Insurance Fund. The Self-Insurance Fund services claims for workers' compensation, vehicle liability, and general liability. 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 \$2,186,741 for all claims arising out of a single accident or occurrence and shall not exceed \$328,011 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.

	Beginning of fiscal year liability	Current claims and estimate changes	Claim payments	Balance at fiscal year-end
2004	\$ 11,702,000	14,442,324	12,552,324	13,592,000
2003	11,305,546	14,659,671	14,263,217	11,702,000

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%.

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.

Inverse condemnation and contractor suits are paid from the State Road Fund. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. As discussed in note 7, the Department has approximately \$22,140,000 in claims and judgments payable related to inverse condemnation and contractor suits.

(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.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

Incurred but not reported claims of \$8,250,000 are reported in the Medical and Life Plan as of June 30, 2004. These medical and prescription drug reserves are estimated based upon lag reports using an 18-month run-off.

	<u>Beginning of fiscal year liability</u>	<u>Current claims and estimate changes</u>	<u>Claim payments</u>	<u>Balance at fiscal year-end</u>
2004	\$ 8,866,000	60,672,542	61,288,542	8,250,000
2003	9,200,000	57,108,724	57,442,724	8,866,000

(10) Defined Benefit Pension Plan

The Highway and Transportation Employees' and Highway Patrol 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.

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 are 25.54% of covered payroll. The Department made the required contributions of \$59,737,271, \$52,497,099, and \$53,575,901 in 2004, 2003, and 2002, 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:

Highway and Transportation Employees' and
Highway Patrol Retirement System
P.O. Box 1930
Jefferson City, Missouri 65102

(11) 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

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

benefit payments that may be made to former employees for wage credits earned prior to June 30, 2004. Consequently, this potential obligation is not included in the accompanying basic financial statements. Total reimbursements made by the Department during the fiscal year were \$565,747.

(b) Construction Commitments

Construction awards outstanding for both state and federally participating projects at June 30, 2004 amounted to approximately \$682,959,832. The federal portion of this total was approximately \$501,099,450, or 73.3%.

(c) 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 to the grantor agency for any expenditures that are disallowed under grant terms. The Department believes that such disallowances, if any, would be immaterial.

(d) Operating Leases

The Department is committed under leases for buildings, as well as various office and maintenance equipment. Rental expenditures for the year ended June 30, 2004 amounted to \$4,588,559. Future minimum lease payments for these leases are as follows:

Year ending:	
2005	\$ 1,694,962
2006	1,108,114
2007	124,188
2008	30,957
2009 – future	25,337
	<hr/>
	\$ 2,983,558
	<hr/>

(e) 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, 2004, no liability has been accrued for these refunds as total state revenues are not expected to exceed the revenue limit.

MISSOURI DEPARTMENT OF TRANSPORTATION

Notes to Basic Financial Statements

June 30, 2004

(12) Restatements

Effective July 1, 2003, the Division of Highway Safety, formerly a part of the Department of Public Safety was combined into MoDOT. This change was part of the Governor's Reorganization Plan of 2003. The effect of this consolidation was an increase to fund balance in the governmental funds as of June 30, 2003 as follows:

	Governmental activities	Nonmajor governmental funds
Net assets/fund balance at June 30, 2003, as previously reported	\$ 24,395,146,180	11,692,202
Addition of programs from other state agencies	<u>779,964</u>	<u>791,576</u>
Net assets/fund balance at June 30, 2003, as restated	<u>\$ 24,395,926,144</u>	<u>12,483,778</u>

MISSOURI DEPARTMENT OF TRANSPORTATION

State Highways and Transportation Department Fund

Required Supplementary Information—Budgetary Comparison Schedule

Year ended June 30, 2004

	Budgeted amounts		Actual	Variance between final budget and actual
	Original	Final		
Budgetary fund balance, July 1, 2003	\$ 31,067,324	31,067,324	31,067,324	—
Resources (inflows):				
Fuel taxes	482,499,000	502,087,000	511,599,016	9,512,016
Vehicle sales and use taxes	42,935,000	40,540,000	43,580,885	3,040,885
Licenses, fees, and permits	175,223,000	171,908,000	162,941,036	(8,966,964)
Investment and interest	3,292,000	1,910,000	1,318,857	(591,143)
Intergovernmental/cost reimbursements/misc.	1,737,000	1,967,000	2,542,631	575,631
Amount available for appropriation	736,753,324	749,479,324	753,049,749	3,570,425
Charges to appropriations (outflows):				
Administration:				
Personal service	19,217,346	19,229,710	17,883,184	1,346,526
Fringe	18,804,097	18,807,511	17,489,218	1,318,293
Expense and equipment	6,731,171	6,033,164	5,159,588	873,576
Maintenance:				
Personal service	128,642,161	128,803,160	125,485,834	3,317,326
Fringe	68,741,191	68,578,831	67,768,671	810,160
Expense and equipment	1,324,502	1,324,340	645,519	678,821
Construction:				
Personal service	81,576,170	81,674,704	78,581,927	3,092,777
Fringe	41,971,910	42,338,951	39,565,343	2,773,608
Fleet, facilities, and information systems:				
Personal service	14,724,408	14,681,135	13,830,560	850,575
Fringe	7,686,627	7,750,003	7,258,482	491,521
Expense and equipment	352,115	352,115	201,789	150,326
Multimodal operations:				
Personal service	163,675	163,675	137,931	25,744
Fringe	93,113	93,113	81,398	11,715
Motorist assist:				
Personal service	1,857,662	1,799,703	1,746,919	52,784
Fringe	793,622	793,622	774,011	19,611
Appropriations spent by other state agencies	193,354,045	194,772,544	180,513,739	14,258,805
Total charges to appropriations	586,033,815	587,196,281	557,124,113	30,072,168
Transfers to State Road Fund	121,886,378	112,363,336	166,206,147	
Budgetary fund balance, June 30, 2004	\$ 28,833,131	49,919,707	29,719,489	

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

State Road Fund

Required Supplementary Information—Budgetary Comparison Schedule

Year ended June 30, 2004

	Budgeted amounts		Actual	Variance between final budget and actual
	Original	Final		
Budgetary fund balance, July 1, 2003	\$ 362,604,406	362,604,406	362,604,406	—
Resources (inflows):				
Fuel taxes	87,000	84,000	93,168	9,168
Vehicle sales and use taxes	151,083,000	132,358,000	134,160,201	1,802,201
Licenses, fees, and permits	90,412,000	88,697,000	98,970,917	10,273,917
Investment and interest	8,708,000	8,090,000	5,543,941	(2,546,059)
Intergovernmental/cost reimbursements/miscellaneous	80,263,000	95,033,000	89,610,780	(5,422,220)
Federal government	554,828,000	715,904,000	679,652,903	(36,251,097)
Bond sales proceeds	254,000,000	262,722,000	262,739,005	17,005
Amount available for appropriation	1,501,985,406	1,665,492,406	1,633,375,321	(32,117,085)
Charges to appropriations (outflows):				
Maintenance/preservation:				
Expense and equipment	147,886,907	153,521,995	141,629,975	11,892,020
Construction:				
Expense and equipment	29,916,336	32,479,828	23,546,053	8,933,775
Contracts	954,350,000	1,060,639,479	1,053,268,137	7,371,342
ROW purchases	35,000,000	65,000,000	52,580,755	12,419,245
Fleet, facilities, and information systems				
Expense and equipment	81,977,354	105,604,043	83,839,621	21,764,422
Multimodal operations:				
Expense and equipment	15,000	15,000	8,539	6,461
Bond principal and interest payments	58,537,648	54,540,649	54,540,649	—
Motorist assist:				
Expense and equipment	328,493	317,129	293,849	23,280
Total charges to appropriations	1,308,011,738	1,472,118,123	1,409,707,578	62,410,545
Transfers from Highway Fund	121,886,378	112,363,336	166,206,147	
Budgetary fund balance, June 30, 2004	\$ 315,860,046	305,737,619	389,873,890	

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Required Supplementary Information—Budget Basis to GAAP Reconciliation and Disclosure Year ended June 30, 2004

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

	State Highways and Transportation Department Fund	State Road Fund
Fund balance, budgetary basis	\$ 29,719,489	389,873,890
Receivables	104,384,022	84,260,424
Due from other funds	—	221,329
Inventories	126,231	30,450,527
Accounts payable	(23,189,166)	(74,453,434)
Retainages payable	—	(4,796,531)
Deferred revenues	—	(39,475,640)
Investment market value adjustment	440,879	5,393,420
	<hr/>	<hr/>
Fund balance, GAAP basis	\$ <u>111,481,455</u>	<u>391,473,985</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 is given by the Commission. The fund level is the legal level of control for the State Road Fund.

The Department develops its budget through processes involving each of its 10 districts and the Central Office business units. Upon Commission approval, the legislative budget request is sent to the Office of Administration (OA) on October 1st 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.

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION
Combining Balance Sheet—Nonmajor Governmental Funds
June 30, 2004

	General Revenue and MO 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	Light Rail Safety Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
Assets											
Cash and investments	\$ 649,430	273,495	2,775,132	521,961	214,037	4,856,618	97,779	—	550,989	166,303	10,105,744
Miscellaneous receivables	16,080	—	6,969	8,406	—	—	30,949	—	26,380	—	88,784
Due from federal government	3,231,252	—	—	—	147,461	—	—	—	742,067	—	4,120,780
Taxes receivable	—	148,774	259,019	—	—	—	—	—	—	—	407,793
Loans receivable	—	—	—	2,499,674	—	—	—	—	—	—	2,499,674
Total assets	\$ 3,896,762	422,269	3,041,120	3,030,041	361,498	4,856,618	128,728	—	1,319,436	166,303	17,222,775
Liabilities and Fund Equity											
Vouchers payable	\$ 3,237,239	2,477	43,313	—	142,560	141,804	14,915	—	649,950	—	4,232,258
Deferred revenue	14,680	—	—	—	—	—	—	—	—	—	14,680
Due to other funds	20,731	1,190	9,401	—	—	—	14,933	—	—	—	46,255
Total liabilities	3,272,650	3,667	52,714	—	142,560	141,804	29,848	—	649,950	—	4,293,193
Fund Balance											
Reserve for loans receivable	—	—	—	2,499,674	—	—	—	—	—	—	2,499,674
Unreserved fund balance	624,112	418,602	2,988,406	530,367	218,938	4,714,814	98,880	—	669,486	166,303	10,429,908
Total fund balance	624,112	418,602	2,988,406	3,030,041	218,938	4,714,814	98,880	—	669,486	166,303	12,929,582
Total liabilities and fund balance	\$ 3,896,762	422,269	3,041,120	3,030,041	361,498	4,856,618	128,728	—	1,319,436	166,303	17,222,775

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, 2004

	General Revenue and MO 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	Light Rail Safety Fund	Highway Safety Fund	Motorcycle Safety Fund	Total
Revenues:											
Fuel tax	\$ —	—	365,623	—	—	—	—	—	—	—	365,623
Sales and use tax	—	1,652,978	2,235,390	—	—	—	—	—	—	—	3,888,368
License, fees, and permits	—	—	—	—	—	1,215,990	649,332	—	—	—	1,865,322
Intergovernmental/cost reimbursements/miscellaneous	1,391,632	—	—	—	—	1,492	—	—	—	—	1,393,124
Investment and interest	—	—	39,290	91,513	—	—	—	—	—	326,144	456,947
Federal government	28,544,513	—	—	—	1,645,261	—	—	—	12,860,057	—	43,049,831
Total revenues	29,936,145	1,652,978	2,640,303	91,513	1,645,261	1,217,482	649,332	—	12,860,057	326,144	51,019,215
Expenditures:											
Multimodal operations	37,161,371	5,416,681	2,145,890	—	—	1,308,112	736,572	—	—	—	46,768,626
Maintenance	—	—	—	—	1,645,106	—	—	—	12,860,057	281,918	14,787,081
Other state agency	—	—	50,609	22,630	—	19,699	15,156	—	—	13	108,107
Total expenditures	37,161,371	5,416,681	2,196,499	22,630	1,645,106	1,327,811	751,728	—	12,860,057	281,931	61,663,814
Excess of revenues (under) over expenditures	(7,225,226)	(3,763,703)	443,804	68,883	155	(110,329)	(102,396)	—	—	44,213	(10,644,599)
Other financing sources:											
Net decrease in fair value of investments	—	—	(180,961)	(27,351)	—	—	—	—	—	—	(208,312)
Transfers related to appropriations	7,646,094	3,652,621	—	—	—	—	—	—	—	—	11,298,715
Excess of revenues and other financing sources over (under) expenditures	420,868	(111,082)	262,843	41,532	155	(110,329)	(102,396)	—	—	44,213	445,804
Fund balance, beginning of year, as restated	203,244	529,684	2,725,563	2,988,509	218,783	4,825,143	201,276	—	669,486	122,090	12,483,778
Fund balance, end of year	\$ 624,112	418,602	2,988,406	3,030,041	218,938	4,714,814	98,880	—	669,486	166,303	12,929,582

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet—All Internal Service Funds

June 30, 2004

Assets	Highway Employees' and Highway Patrol Insurance Plan	Self- insurance	Total
Cash	\$ 13,870,242	—	13,870,242
Investments	11,924,640	36,863,530	48,788,170
Miscellaneous receivables	23,432	214,567	237,999
Total assets	<u>\$ 25,818,314</u>	<u>37,078,097</u>	<u>62,896,411</u>
Liabilities and Net Assets			
Liabilities:			
Vouchers payable	\$ 1,412,870	272,752	1,685,622
Pending self-insurance claims	—	26,355,945	26,355,945
Deferred revenue	6,223,848	—	6,223,848
Incurred but not reported claims	8,250,000	13,592,000	21,842,000
Total liabilities	15,886,718	40,220,697	56,107,415
Net assets unrestricted (accumulated deficit)	9,931,596	(3,142,600)	6,788,996
Total liabilities and net assets	<u>\$ 25,818,314</u>	<u>37,078,097</u>	<u>62,896,411</u>

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Statement of Revenues, Expenses, and Changes
in Net Assets (Accumulated Deficit)—All Internal Service Funds

Year ended June 30, 2004

	Highway Employees' and Highway Patrol Insurance Plan	Self- insurance	Total
Operating revenues:			
Insurance premiums:			
Highway workers' compensation	\$ —	10,783,137	10,783,137
Highway patrol workers' compensation	—	1,185,000	1,185,000
Highway fleet vehicle liability	—	1,880,883	1,880,883
General liability	—	3,510,572	3,510,572
Contributions:			
State	53,748,827	—	53,748,827
Member	23,908,942	—	23,908,942
Other	825,231	788,896	1,614,127
Total operating revenues	<u>78,483,000</u>	<u>18,148,488</u>	<u>96,631,488</u>
Operating expenses:			
Program	—	1,473,913	1,473,913
Self-insurance claims:			
Highway workers' compensation	—	7,726,798	7,726,798
Highway patrol workers' compensation	—	2,089,349	2,089,349
Highway fleet vehicle liability	—	998,343	998,343
Highway general liability	—	3,627,834	3,627,834
Medical and life:			
Insurance premium	5,136,810	—	5,136,810
Claims	48,030,945	—	48,030,945
Administrative service	2,194,469	—	2,194,469
Prescription drugs	12,641,598	—	12,641,598
Professional fees	131,404	—	131,404
Other	58,293	—	58,293
Total operating expenses	<u>68,193,519</u>	<u>15,916,237</u>	<u>84,109,756</u>
Operating income	<u>10,289,481</u>	<u>2,232,251</u>	<u>12,521,732</u>
Nonoperating revenues:			
Interest income	211,893	895,761	1,107,654
Net decrease in fair value of investments	(14,154)	(988,751)	(1,002,905)
Total nonoperating revenues (loss)	<u>197,739</u>	<u>(92,990)</u>	<u>104,749</u>
Net income	<u>10,487,220</u>	<u>2,139,261</u>	<u>12,626,481</u>
Net assets (accumulated deficit) at beginning of year	<u>(555,624)</u>	<u>(5,281,861)</u>	<u>(5,837,485)</u>
Net assets (accumulated deficit) at end of year	<u>\$ 9,931,596</u>	<u>(3,142,600)</u>	<u>6,788,996</u>

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION
Combining Statement of Cash Flows—All Internal Service Funds
Year ended June 30, 2004

	Highway Employees' and Highway Patrol Insurance Plan	Self- insurance	Totals
Cash flows from operations:			
Receipts from customers	\$ 78,474,460	18,088,093	96,562,553
Payment to suppliers	(67,629,711)	(13,102,879)	(80,732,590)
Net cash provided by operating activities	<u>10,844,749</u>	<u>4,985,214</u>	<u>15,829,963</u>
Cash flows from investing activities:			
Sale of investments	—	23,750,500	23,750,500
Purchase of investments	(11,938,794)	(30,225,572)	(42,164,366)
Interest on investments	211,893	895,761	1,107,654
Net cash used in investing activities	<u>(11,726,901)</u>	<u>(5,579,311)</u>	<u>(17,306,212)</u>
Net decrease in cash	(882,152)	(594,097)	(1,476,249)
Cash at beginning of year	<u>14,752,394</u>	<u>594,097</u>	<u>15,346,491</u>
Cash at end of year	<u>\$ 13,870,242</u>	<u>—</u>	<u>13,870,242</u>
Cash flows from operating activities:			
Operating income	\$ 10,289,481	2,232,251	12,521,732
Adjustments to reconcile operating income to net cash provided by operating activities:			
Decrease in receivables	(8,541)	(60,395)	(68,936)
Increase (decrease) in accounts payable	(335,516)	2,813,358	2,477,842
Increase in deferred revenue	899,325	—	899,325
Net cash provided by operating activities	<u>\$ 10,844,749</u>	<u>4,985,214</u>	<u>15,829,963</u>
Noncash items impacting recorded assets:			
Decline in fair value of investments	\$ (14,154)	(988,750)	(1,002,904)

See accompanying independent auditors' report.

MISSOURI DEPARTMENT OF TRANSPORTATION

Combining Balance Sheet—All Fiduciary Funds

June 30, 2004

Assets	Local fund	Base State Registration Fund	International Fuel Tax Agreement Fund	International Fuel Tax Agreement Bond Fund	International Registration Plan Fund	Total
Cash and cash equivalents	\$ 12,289,122	123,000	1,913,000	27,000	—	14,352,122
Investments	9,829,525	17	889,000	192,000	2,440,000	13,350,542
Other	39,658	—	5,000	—	2,000	46,658
Total assets	<u>\$ 22,158,305</u>	<u>123,017</u>	<u>2,807,000</u>	<u>219,000</u>	<u>2,442,000</u>	<u>27,749,322</u>
Liabilities and Net Assets						
Liabilities:						
Due to other governments	\$ —	123,017	2,806,000	219,000	2,442,000	5,590,017
Advances from other governments	22,158,305	—	—	—	—	22,158,305
Other	—	—	1,000	—	—	1,000
Total liabilities	<u>\$ 22,158,305</u>	<u>123,017</u>	<u>2,807,000</u>	<u>219,000</u>	<u>2,442,000</u>	<u>27,749,322</u>

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