

MICHIGAN DEPARTMENT OF TRANSPORTATION
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED SEPTEMBER 30, 2011

Note 1: Significant Accounting Policies

A. Reporting Entity

These financial statements report the financial activity of transportation related funds administered by the Department of Transportation (Department). Department administered funds by classification are:

Special Revenue

Michigan Transportation Fund
Comprehensive Transportation Fund

Debt Service

Combined State Trunkline Bond and Interest Redemption Fund
Combined Comprehensive Transportation Bond and Interest Redemption Fund

Capital Projects

State Aeronautics Fund
State Trunkline Fund
Transportation Related Trust Fund
Blue Water Bridge Fund
Combined State Trunkline Bond Proceeds Fund
Combined Comprehensive Transportation Bond Proceeds Fund

The funds above are a part of the State of Michigan reporting entity and are reported in the State of Michigan Comprehensive Annual Financial Report (SOMCAFR). The SOMCAFR provides general disclosures regarding summary of significant accounting policies, treasurer's common cash, pension benefits, compensated absences (annual leave and sick leave accumulations), general long-term obligations, interfund receivables and payables, contingencies, and commitments.

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The Michigan Department of Transportation (MDOT) and the St. Mary's River Bridge Company (SMRBC), a Canadian Corporation, share ownership of the International Bridge. The Sault Ste. Marie Bridge Authority (SSMBA) is an international non-profit entity with eight members, four from Michigan and four from Canada, created by an intergovernmental agreement to set policy and oversee bridge operations. The Agreement became effective September 1, 2009 and shall remain in effect until September 30, 2017, and is automatically renewed for successive ten-year periods thereafter unless, one year prior to the renewal date, an Owner gives written notice to the other Owner that it elects not to renew the Agreement. The Agreement is subject to written notice of cancellation upon one year written notice by MDOT or the SMRBC.

This is a revised intergovernmental agreement between MDOT and SMRBC, whereby the SSMBA replaced the Joint International Bridge Authority (JIBA), as established on September 1, 2000.

The International Bridge Administration (IBA) is a special administrative entity within MDOT created to carry out the policy decisions of the SSMBA, and, under the direction and supervision of MDOT, to enter into contracts and manage and operate the bridge on a daily basis. The IBA is made up of MDOT employees who are responsible for the administration, operation, repair, and improvement of the International Bridge. Revenue from bridge tolls covers the expenses of the IBA.

Summary financial information for the JIBA eight month audit period ending August 31, 2009, the SSMBA's four months ending December 31, 2009, and fiscal year ending December 31, 2010 follows (In Thousands):

	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>August 31, 2009</u>
Assets	\$ 10,568	\$ 8,251	\$ 5,785
Liabilities	4,963	4,763	2,649
Total Equity	5,605	3,601*	3,135
Total Revenues and Other Sources	7,602	2,263	3,847
Total Expenditures and Other Uses	5,598	1,911	4,856
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 2,004	\$ 352	\$ (1,010)

*Restated due to prior period adjustment of \$113.

The Mackinac Bridge Authority (Authority), a component unit of the State of Michigan, is reported in the SOMCAFR and is not reported in these statements. The Authority issues its own audited financial statements. Further information regarding the relationship between the Department and the Authority is provided in Note 10 of this report.

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B. Basis of Presentation

The financial transactions of the Department are recorded in individual funds in the Michigan Administrative Information System (MAIN). The various transportation funds are combined in the SOMCAFR into fund types described as follows:

Governmental Fund Types

Special Revenue Funds: This fund group accounts for specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

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

Capital Projects Funds: This fund group accounts for resources used for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude capital-related outflows financed by proprietary or trust funds.

C. Basis of Accounting

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

D. Calculation Practice

Amounts recorded in the Department's financial statements are rounded to thousands of dollars, unless otherwise noted. Because of this, the amounts may not add to the totals.

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Note 2: Equity in Common Cash

Custodial Credit Risk: All of MDOT’s deposits are managed by the State Treasurer. “Equity in common cash” represents an interest in the State’s common cash pool, which is used by most State funds as a short-term investment vehicle. MDOT’s deposits are included in the State of Michigan equity in common cash.

MDOT’s common cash balances were as follows (in thousands) as of September 30:

	<u>Special Revenue Funds</u>		<u>Debt Service Funds</u>		<u>Capital Projects Funds</u>	
	<u>2011</u>	<u>2010*</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010*</u>
Equity in Common Cash	\$185,508	\$178,365	\$ -	\$ -	\$726,475	\$329,878

The balances for the special revenue funds averaged approximately \$189.8 million and \$176.0 million* and the balances for the capital projects funds averaged approximately \$650.6 million and \$726.7 million* during fiscal years 2011 and 2010, respectively.

The Governmental Accounting Standards Board (GASB) requires certain disclosures related to custodial credit risk for deposits. Custodial credit risk of deposits is the risk that, in the event of a bank failure, MDOT’s deposits will not be returned to it. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized, collateralized with securities held by pledging financial institutions, or collateralized with securities held by the pledging financial institution’s trust department or agent but not in MDOT’s name. The State Treasurer evaluates each financial institution it deposits common cash funds with and assesses the level of risk of each institution. The State Treasurer's policy requires all financial institutions holding the State's money must pledge collateral equal to the amount of the account balance for all demand and time deposits, to secure the State's funds. Only those institutions with an acceptable estimated risk are used as depositories.

*Restated in compliance with Governmental Accounting Standards Board (GASB) statement No. 54.

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Note 3: Current Receivables

A. Contested Receivables

Current receivables recorded in the financial statements represent amounts due to the Department as of September 30, 2011 and 2010, and are expected to be collected within 12 months. Receivables not due for collection within 12 months are classified as noncurrent assets with an offsetting deferred revenue. Due to the uncertainty associated with contested receivables in litigation or pending litigation, these receivables are recorded in an allowance for doubtful accounts, with the net amount reported in the financial statements. Receivables referred to Treasury for collection will no longer be classified as a receivable with a corresponding entry to allowance for doubtful accounts, but will instead be written-off as uncollectible at the time of referral.

	<u>Contested Receivables</u>	
	(In Thousands)	
	<u>2011</u>	<u>2010</u>
State Aeronautics Fund	\$ 170	\$2,268
State Trunkline Fund	1,173	700
Comprehensive Transportation Fund	<u>4</u>	<u>1</u>
Total Allowance for Doubtful Accounts	<u>\$1,347</u>	<u>\$2,969</u>

B. Taxes Receivable

In the Michigan Transportation Fund, the net amount of current receivables, \$169.6 million and \$178.6 million, and allowances for uncollectible receivables, \$63.9 million and \$78.0 million, were recorded for motor fuel taxes due to the fund as of September 30, 2011 and 2010, respectively. The reporting of a gross receivable net of a related allowance for uncollectible accounts is consistent with the treatment of other taxes receivable reported in the SOMCAFR.

C. Federal Highway Administration (FHWA) Receivable

The Department recorded federal aid receivables in the State Trunkline Fund, State Trunkline Bond Proceeds Fund, and Transportation Related Trust Fund totaling \$201.7 million and \$190.0 million for the fiscal years ending September 30, 2011 and 2010, respectively. No noncurrent federal aid receivables were recorded for the fiscal years ending September 30, 2011 and 2010.

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Note 4: Capital Assets

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

Classification: The following tables summarize, by major class of asset, fiscal year 2011 changes in reported costs for the Department's capital assets (In Millions):

	Changes in Capital Assets Fiscal Year 2011				
	Beginning Balance	Additions	Deletions	Adjustments	Ending Balance
<u>Capital assets, not depreciated:</u>					
Roads	\$11,004.5	\$201.7	(\$142.7)	\$115.4	\$11,178.9
Land	2,978.3	25.1	-	-	3,003.4
Bridges	1,738.7	183.1	(64.7)	9.1	1,866.2
Construction in Progress	1,741.9	539.0	(327.7)	137.2	2,090.3
Land Rights	-	0.2	-	-	0.2
<u>Capital assets, depreciated:</u>					
Ramps	637.4	19.9	(0.7)	-	656.5
Equipment	137.6	5.1	(7.4)	0.3	135.6
Buildings	162.6	3.8	(3.0)	2.4	165.9
Railroads	32.5	-	-	-	32.5
Rest Areas & Welcome Centers	87.4	9.4	(2.2)	-	94.6
Land Improvements	13.2	3.7	-	0.8	17.7
Airports	1.9	-	(0.3)	-	1.6
<u>Less accumulated depreciation for:</u>					
Ramps	(442.2)	(25.9)	0.7	-	(467.4)
Equipment	(87.0)	(7.3)	5.9	0.2	(88.2)
Buildings	(67.0)	(4.0)	3.0	(0.1)	(68.1)
Railroads	(23.5)	(0.8)	-	-	(24.3)
Rest Areas & Welcome Centers	(34.0)	(2.1)	1.1	-	(35.0)
Land Improvements	(1.8)	(0.7)	-	-	(2.5)
Airports	(0.8)	(0.1)	0.1	-	(0.8)
 Total Capital Assets	 <u>\$17,879.6</u>	 <u>\$950.2</u>	 <u>(\$538.0)\$265.3</u>	 <u>\$18,557.2</u>	

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Funding Source: Following is a summary of funding sources for investments in capital assets as of September 30, 2011 (In Millions):

<u>Fund</u>	<u>Investment</u>
State Trunkline Fund	\$ 18,511.7
Comprehensive Transportation Fund	24.5
State Aeronautics Fund	<u>21.0</u>
Total Investment in Capital Assets	<u>\$ 18,557.2</u>

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Note 5: General Long-Term Obligations

A. **Revenue Dedicated Bonded Debt**

The Department has periodically issued long-term bonds for specific purposes, with the pledge that financing of debt requirements is to come strictly from designated revenue sources, including State Trunkline Funds (STF), Comprehensive Transportation Funds (CTF) and federal grants. The State of Michigan's general credit does not support such issues. Public Act 51 of 1951, as amended, provides that monies deposited in the STF and/or the CTF are appropriated for specific purposes, with debt service being the first priority. A sufficient portion of the STF and the CTF is appropriated to pay, when due, the principal of and interest outstanding on bonds and notes. The STF Series 1992 A and B bond issues included capital appreciation bonds (zero coupon bonds) with an ultimate maturity value of \$27.4 million. These bonds are recorded in the amount of \$26.6 million, which is the accreted value at September 30, 2011. These bonds mature in the years 2012 to 2013.

Revenue Dedicated Bonded Debt Department of Transportation (In Thousands)						
	Amounts Issued	Outstanding		Maturities		Average Interest Rate %
		9/30/11	9/30/10	First Year	Last Year	
<u>Comprehensive Transportation Fund Bonds:</u>						
Series 2001 A (Refunding)	\$ 27,765	\$ 22,295	\$ 23,750	2008	2022	5.01
Series 2002 A (Refunding)	89,620	-	6,950	2003	2011	5.07
Series 2002 B	82,310	3,950	4,460	2004	2012	5.13
Series 2003	35,020	13,895	14,905	2004	2023	3.61
Series 2005 (Refunding)	62,180	62,175	62,175	2009	2023	5.15
Series 2006 and Refunding	53,685	51,375	51,610	2007	2031	4.54
Series 2009 (Refunding)	<u>42,335</u>	<u>42,335</u>	<u>42,335</u>	2012	2019	4.11
Total Comprehensive Transportation Fund Bonds:	\$ 392,915	\$ 196,025	\$ 206,185			
<u>State Trunkline Fund Bonds:</u>						
Series 1992 A	\$ 253,618	\$ 23,457	\$ 34,131	2000	2013	5.76
Series 1992 B (Refunding)	99,592	3,103	4,515	2000	2013	5.68
Series 1998 A (Refunding)	377,890	194,845	206,335	2006	2019	5.03
Series 2001 A	308,200	7,250	14,115	2003	2012	4.96
Series 2002 (Refunding)	97,870	57,815	59,335	2004	2022	4.71
Series 2004 (Refunding)	103,450	98,260	98,305	2006	2022	4.13
Series 2004	185,710	49,725	63,225	2008	2019	4.36
Series 2005 (Refunding)	223,020	223,015	223,015	2010	2023	5.10
Series 2005 B (Refunding)	378,250	316,400	348,080	2010	2019	4.81
Series 2006	244,525	195,600	208,715	2008	2022	4.74
Series 2009 and Refunding	<u>146,190</u>	<u>146,190</u>	<u>146,190</u>	2018	2027	4.76
Total State Trunkline Fund Bonds:	\$ 2,418,315	\$ 1,315,660	\$ 1,405,961			
<u>Grant Anticipation Bonds:</u>						
Series 2007	\$ 485,115	\$ 467,245	\$ 474,585	2009	2027	4.87
Series 2009 B Taxable Build America Bonds	<u>281,910</u>	<u>281,910</u>	<u>281,910</u>	2012	2027	7.63
Total Grant Anticipation Bonds:	\$ 767,025	\$ 749,155	\$ 756,495			
Total Revenue Dedicated Bonded Debt	\$ <u>3,578,255</u>	\$ <u>2,260,840</u>	\$ <u>2,368,641</u>			

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Advance Refunding and Defeasance

The Department has issued refunding bond issues to finance the advance refunding of selected bond issues. A portion of the proceeds of the refunding issues were placed in trust and used to purchase securities of the U.S. Government and related agencies at various interest rates and maturities sufficient to meet all debt service requirements of the refunded debt. These assets are administered by a trustee and are restricted for the retirement of the refunded debt. The liability for the refunded bonds and the related securities and escrow accounts are not included in the accompanying financial statements, as the Department defeased its obligation for payment of the refunded bonded debt upon completion of the refunding transaction.

The following table summarizes the defeased bonds outstanding at September 30, 2011 and 2010:
 Summary of Refunding Transactions
 (In Millions)

<u>Bond Series</u>	<u>Amount Refunded</u>	<u>Balance with Trustee</u>	
		<u>2011</u>	<u>2010</u>
State Trunkline Fund Bonds:			
Series 2001A	\$245.8	\$245.8	\$245.8
Series 2004	<u>85.2</u>	<u>85.2</u>	<u>85.2</u>
Total State Trunkline Fund Bonds	<u>\$331.1</u>	<u>\$331.1</u>	<u>\$331.1</u>
Comprehensive Transportation Fund Bonds:			
Series 2002B	\$ 64.4	\$ 52.9	\$ 56.2
Series 2003	<u>11.4</u>	<u>9.9</u>	<u>10.4</u>
Total Comprehensive Transportation Fund Bonds	<u>\$ 75.8</u>	<u>\$ 62.8</u>	<u>\$ 66.6</u>
Total	<u>\$406.9</u>	<u>\$393.9</u>	<u>\$397.6</u>

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B. Debt Service Requirements

The following table summarizes debt service requirements for outstanding bonds (In Thousands):

FISCAL YEARS ENDING SEPTEMBER 30	STATE TRUNKLINE FUND			COMPREHENSIVE TRANSPORTATION FUND			GRANT ANTICIPATION BONDS			COMBINED TOTAL		
	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL	PRINCIPAL	INTEREST	TOTAL
2012	\$95,840	\$64,305	\$160,145	\$14,020	\$9,452	\$23,472	\$7,700	\$45,666	\$53,366	\$117,560	\$119,424	\$236,984
2013	99,985	60,130	160,115	14,635	8,838	23,473	8,045	45,345	53,390	122,665	114,313	236,978
2014	104,730	55,340	160,070	15,275	8,193	23,468	8,450	44,985	53,435	128,455	108,519	236,974
2015	110,725	49,532	160,257	15,960	7,509	23,469	8,655	44,595	53,250	135,340	101,636	236,976
2016	116,430	43,784	160,214	16,645	6,824	23,469	9,075	44,215	53,290	142,150	94,823	236,973
2017	122,520	37,695	160,215	17,470	6,031	23,501	9,515	43,776	53,291	149,505	87,502	237,007
2018	128,510	31,685	160,195	18,360	5,143	23,503	9,990	43,325	53,315	156,860	80,153	237,013
2019	134,885	25,275	160,160	19,305	4,198	23,503	10,545	42,801	53,346	164,735	72,274	237,009
2020	96,560	18,121	114,681	11,775	3,220	14,995	56,390	42,247	98,637	164,725	63,589	228,314
2021	97,720	13,118	110,838	12,390	2,608	14,998	33,375	39,287	72,662	143,485	55,013	198,498
2022	102,875	7,934	110,809	13,035	1,965	15,000	35,160	37,535	72,695	151,070	47,433	198,503
2023	75,870	3,378	79,248	2,635	1,356	3,991	45,500	35,689	81,189	124,005	40,422	164,427
2024	11,980	1,182	13,162	2,770	1,226	3,996	109,950	33,300	143,250	124,700	35,708	160,408
2025	12,590	569	13,159	2,910	1,088	3,998	117,220	26,034	143,254	132,720	27,690	160,410
2026	2,570	192	2,762	3,055	942	3,997	135,375	18,271	153,646	141,000	19,406	160,406
2027	2,700	64	2,764	3,210	789	3,999	144,210	9,434	153,644	150,120	10,287	160,407
2028	-	-	-	3,370	629	3,999	-	-	-	3,370	629	3,999
2029	-	-	-	3,535	460	3,995	-	-	-	3,535	460	3,995
2030	-	-	-	3,715	284	3,999	-	-	-	3,715	284	3,999
2031	-	-	-	1,955	98	2,053	-	-	-	1,955	98	2,053
TOTAL	\$1,316,490	\$412,306	\$1,728,796	\$196,025	\$70,852	\$266,877	\$749,155	\$596,504	\$1,345,659	\$2,261,670	\$1,079,662	\$3,341,332

C. Other General Long-Term Obligations

Capital Leases:

Capitalized lease liabilities are described in more detail in Note 6.

Compensated Absences:

Compensated absences liabilities are detailed in Note 7.

Claims and Judgments:

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

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Changes in General Long-term Obligations:

Changes in general long-term obligations (In Thousands) for the fiscal years ended September 30, 2011 and 2010 are summarized as follows:

	Revenue Dedicated Debt - Oversight Entity		Capital Lease Obligations	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Bonds and Capital Lease Obligations:				
Balance – Beginning	\$ 2,368,641	\$ 2,474,489	\$ 656	\$ 723
New bond issues/capital lease additions and adjustments	-	146,190	1,018	-
Accretion on Capital Appreciation Bonds	1,610	2,342	-	-
Bond principal retirements/ capital lease payments and adjustments	<u>(109,410)</u>	<u>(254,380)</u>	<u>(168)</u>	<u>(67)</u>
Balance – Ending	<u>\$ 2,260,840</u>	<u>\$ 2,368,641</u>	<u>\$ 1,505</u>	<u>\$ 656</u>

	Claims and Judgments		Compensated Absences Liabilities	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Other Obligations:				
Balance - Beginning	\$ 2,694	\$ 438	\$ 35,272	\$ 34,300
Net increase (decrease) in estimated liabilities	<u>(1,619)</u>	<u>2,256</u>	<u>(8,347)</u>	<u>972</u>
Balance - Ending	<u>\$ 1,074</u>	<u>\$ 2,694</u>	<u>\$ 26,925</u>	<u>\$ 35,272</u>

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Note 6: Leases

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

Actual rental expenditures incurred under operating leases totaled \$770,094 and \$812,781 during fiscal years 2011 and 2010, respectively.

Summary of the noncancelable operating and capital leasing commitments to maturity for fiscal year 2011 follows (In Thousands):

Noncancelable Lease Commitments
 As of September 30, 2011

Fiscal Year Ended <u>September 30</u>	Operating <u>Leases</u>	<u>Capital Leases</u>			
		<u>Principal</u>	<u>Interest</u>	<u>Executory</u>	<u>Total</u>
2012	\$ 551	\$ 233	\$ 226	\$ 164	\$ 624
2013	349	269	190	164	624
2014	235	311	148	164	624
2015	62	319	99	158	576
2016	-	214	48	104	366
<u>2017- 2021</u>	<u>-</u>	<u>158</u>	<u>32</u>	<u>86</u>	<u>276</u>
Total	<u>\$ 1,196</u>	<u>\$ 1,505</u>	<u>\$ 745</u>	<u>\$ 840</u>	<u>\$ 3,090</u>

The schedule above is consistent with SOMCAFR in that it does not include leases for state owned buildings, leases for an amount less than \$10,000, lease extensions less than 12 months and lease payment changes less than \$200.

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

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The historical cost of assets acquired under capital leases, which are included in the government-wide statements of the SOMCAFR, at September 30, 2011 and 2010 follows (In Thousands):

	<u>2011</u>	<u>2010</u>
Buildings	\$2,115	\$ 1,098

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Note 7: Employee Benefits - Retirement and Compensated Absences

A. Retirement Contributions

Department of Transportation employees are members of the State Employees' Retirement System. Retirement contributions are expended from the Department's special revenue funds and capital projects funds to the State Employees' Retirement Fund, the State Employees' Other Postemployment Benefits Fund and the State Employees' Defined Contribution Retirement Fund.

The Department's retirement contributions were as follows (In Thousands):

	<u>2011</u>	<u>2010</u>
State Trunkline Fund	\$43,458	\$43,470
Comprehensive Transportation Fund	1,164	1,301
State Aeronautics Fund	991	1,006
Blue Water Bridge	<u>537</u>	<u>527</u>
 Total Department of Transportation Contributions	 <u>\$46,151</u>	 <u>\$46,304</u>

B. Compensated Absences

The Department has accrued liabilities for compensated absences as required by GASB. Liabilities related to governmental fund types are recorded in the government-wide statements in the SOMCAFR, unless the liability is "due and payable" (i.e., liabilities are recognized in the year employee leaves State service) at year-end. The amount "due and payable" is reflected in the "Accounts payable" line of the applicable fund's balance sheet.

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The following table summarizes Department of Transportation related compensated absences liabilities as of September 30, 2011 and 2010 (In Thousands):

	<u>Sick Leave</u>		<u>Annual Leave</u>		<u>Banked Leave</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
State Trunkline Fund	\$4,394	\$8,403	\$15,945	\$18,143	\$4,850	\$6,277	\$25,188	\$32,823
Comprehensive Transportation Fund	156	417	468	587	182	240	806	1,243
State Aeronautics Fund	248	362	354	433	136	176	738	970
Blue Water Bridge	<u>40</u>	<u>60</u>	<u>124</u>	<u>137</u>	<u>29</u>	<u>38</u>	<u>193</u>	<u>235</u>
TOTAL	<u>\$4,838</u>	<u>\$9,242</u>	<u>\$16,890</u>	<u>\$19,299</u>	<u>\$5,197</u>	<u>\$6,731</u>	<u>\$26,925</u>	<u>\$35,272</u>

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

Compensated absences liabilities for persons employed at the Michigan Welcome Centers have been included in the Department's totals. The operation of the Centers was previously overseen by the Michigan Economic Development Corporation while the funding authorization was included in the Department's annual appropriation bill. The Department is now overseeing the operation of the Centers beginning in fiscal year 2011 and the funding authorization continues to be included in the Department's annual appropriation bill.

For a more detailed explanation of retirement benefits, other post-employment benefits and compensated absence accruals, refer to Notes 10, 11 and 1, respectively, of the SOMCAFR.

MICHIGAN DEPARTMENT OF TRANSPORTATION
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Note 8: Excess of Expenditures Over Appropriation

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

The Department incurred no overexpenditures in fiscal year 2011 or in fiscal year 2010.

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Note 9: Interfund Transactions by the Michigan Transportation Fund

MDOT's most significant interfund transaction is the distribution of Michigan Transportation Fund (MTF) revenues to the State Trunkline Fund (STF) and Comprehensive Transportation Fund (CTF). This distribution is in accordance with section 247.660 of Public Act 51 of 1951, as amended.

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

CTF receives ten percent of the remaining balance from MTF. After CTF's balance is distributed, additional deductions are taken for the Local Bridge program, the Economic Development program, and the Local Road program. Three of the four cents a gallon that MTF receives for gasoline taxes is then added to the total. The remaining penny is dedicated to bridge repair and is distributed evenly between STF and the Local Bridge fund. STF receives 39.1 percent of the remaining balance.

Other transactions from MTF are also required by P.A. 51 of 1951, or the current year's appropriation bill. See the table below for MTF's interfund transactions in fiscal years 2011 and 2010 (In Thousands).

<u>Interfund Transactions</u>	<u>2011</u>	<u>2010</u>
MTF Distribution – STF	\$591,709	\$587,438
MTF Distribution – CTF	156,717	155,205
Other State agencies	45,424	45,349
Debt Service	43,000	43,000
Economic Development Program	40,275	40,275
Local Road Program	33,000	33,000
Local Bridge Fund	30,138	30,485
Transportation Planning	7,871	7,776
Design and Engineering Services	4,543	4,922
Rail Grade Crossing Program	3,000	3,000
Freight and Safety Services	1,651	1,743
Finance, Contracts and Support Services	1,615	1,625
Enhancement Program	<u>179</u>	<u>184</u>
Total	<u>\$959,122</u>	<u>\$954,002</u>

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Note 10: Component Unit - Mackinac Bridge Authority

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

State statutes require that the Authority continue charging bridge tolls and begin repaying the State Trunkline Fund and the Michigan Transportation Fund for the subsidies provided. These repayments would continue until such time as the subsidies have been completely returned. Executive Order 1986-14 created the Governor's Mackinac Bridge Task Force to develop an advisory proposal concerning reimbursement of the subsidies, future funding of repair and renovation costs, and the bridge toll structure. The Authority has not recorded a liability, and the state funds have not recorded receivables for these subsidies, because the reimbursements are contingent upon future net revenues and because the repayment commitment is long-term and budgetary in nature. Repayments may be authorized by the Authority after consideration of the Authority's annual needs for its operations and planned repairs and improvements.

The Authority repaid \$11,750,000 between fiscal years 1993 and 2011 to the Michigan Transportation Fund. These repayments come directly from the revenue generated by bridge tolls and are not included as a financing use of the State Trunkline Fund. A balance of \$51,250,000 is owed to the Michigan Transportation Fund and a balance of \$12,306,172 is owed to the State Trunkline Fund.

For the fiscal year ended September 30, 2011, a current receivable of \$1,195,618.83 is recorded in the State Trunkline Fund's balance sheet as an amount due from component units for the authority's reimbursement of payroll and related expenses. An account payable due to the Department is recorded in the Authority's balance sheet.

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Note 11: Contingencies and Commitments

A. Litigation

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

The Department accrues fund liabilities at year-end related to settled cases where the outcome and dollar amount of the claim is final. For unsettled cases, liability recognition or disclosure is recorded at the statewide level, dependent on whether the loss is probable or reasonably possible.

B. Federal Grants

Federal revenues are generally subject to review and audit by grantor agencies or their designees. Such audits could lead to a request for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grant. As of September 30, 2011 and 2010 the Department estimates the disallowance of recognized revenues will not be material to the financial statements.

C. Commitments and Encumbrances

The Department has construction and consultant commitments that will be paid with transportation related funds. As of September 30, 2011 and 2010 the balances remaining on these contracts equaled \$720.6 million and \$795.9 million, respectively. Portions of these balances, \$94.8 million as of September 30, 2011, and \$98.8 million, as of September 30, 2010, have been encumbered. As of September 30, 2011 and 2010, the balances remaining on these contracts, less the Transportation Related Trust Funds equaled \$637.9 million and \$668.0 million, respectively. As of September 30, 2011 and 2010, the balances remaining on these contracts in the State Trunkline Fund equaled \$583.2 million and \$592.8 million, respectively.

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D. Advance Construction

Under an agreement with FHWA, the Department has, over a period of years, qualified a number of construction projects without placing them under a reimbursement agreement. These deferred federal aid projects may be converted to current reimbursement at the option of the Department, provided that there are adequate federal aid allocations. The arrangement was worked out between the states and the federal government so that the states could obtain federal reimbursement not received during the construction period, in case a relatively greater amount of federal aid became available at some later date or to assist in balancing the federal aid from year to year. At the end of fiscal year 2010, the Department had \$672.2 million of State Trunkline expenditures on projects not under a reimbursement agreement. \$198.9 million of these expenditures were placed a under reimbursement agreement by the end of fiscal year 2011. The remaining \$473.3 million is included in the fiscal year 2011 amount below. At the end of fiscal year 2011, the Department had \$537.7 million of State Trunkline expenditures on projects not under a reimbursement agreement.

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Note 12: Subsequent Events

On November 1, 2011, the Department issued State of Michigan Comprehensive Transportation Refunding Bonds, Series 2011 in the amount of \$18.5 million as fully registered bonds bearing interest which is payable semi-annually commencing May 15, 2012. Proceeds of this issuance were used to refund Comprehensive Transportation Bonds, Series 2001A in the amount of \$20.8 million. A deposit was also made in the Michigan Department of Transportation 2011 Bond Proceeds Fund in the amount of \$.2 million.

On December 20, 2011, the Department issued State of Michigan State Trunkline Fund Bonds, Series 2011 in the amount of \$91.0 million as fully registered bonds bearing interest which is payable semi-annually commencing May 15, 2012. Proceeds of this issuance were deposited into the Michigan Department of Transportation's 2011 Bond Proceeds Fund in the amount of \$101.3 million.