Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources. All financial statements, with the exception of the Statement of Budgetary Resources, are presented on a consolidated basis (material intra-agency transactions and balances have been eliminated). The Statement of Budgetary Resources is presented on a combined basis.

The Balance Sheet presents agency assets and liabilities, and the difference between the two, which is the agency net position. Agency assets include both entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency but not available for use in its operations). Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

The Statement of Net Cost presents the gross costs of programs less earned revenue to arrive at the net cost of operations for both programs and for the agency as a whole.

The Statement of Changes in Net Position reports beginning balances, budgetary and other financing sources, and net cost of operations, to arrive at ending balances.

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2002.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 21 to the financial statements.

The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers;

international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

Office of The Secretary (OST)
Federal Aviation Administration (FAA)
United States Coast Guard (USCG)
Federal Highway Administration (FHWA)
Federal Motor Carrier Safety Administration (FMCSA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA)
Transportation Security Administration (TSA)

Effective December 29, 2002, the Secretary of Transportation realigned service functions, formerly performed by TASC, by placing these service providers in OST, the organization responsible for service policies. In addition, legislation was signed on November 25, 2002, to create a new Department of Homeland Security (DHS) as of January 24, 2003. The DHS Reorganization Plan dated November 25, 2002, indicates that both the USCG and TSA will be transferred from DOT to DHS on March 1, 2003.

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 23.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2002. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2002, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

Transactions are generally recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, Aquatic Resources Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

F. Funds with the U.S. Treasury and Cash

DOT does not generally maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the U.S. Treasury. The funds with the U.S. Treasury are appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchases. DOT has substantially reduced the number of petty cash (imprest) funds outside the U.S. Treasury to reduce the amount of cash paid outside of Treasury. This reduces the amount of interest that must be paid to borrow funds. Lockboxes have been established with financial institutions to collect payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

G. Receivables

Accounts receivable consist of amounts owed to the Department by other Federal agencies and the public. Federal accounts receivable are generally the result of the provision of goods and services to other Federal agencies and, with the exception of occasional billing disputes, are considered to be fully collectible. Public accounts receivable are generally the result of the provision of goods and services or the levy of fines and penalties from the Department's regulatory activities. Amounts due from the public are presented net of an allowance for loss on uncollectible accounts, which is based on historical collection experience and/or an analysis of the individual receivables.

Loans are accounted for as receivables after funds have been disbursed. For loans obligated prior to October 1, 1991, loan principal, interest, and penalties receivable are reduced by an allowance for estimated uncollectible amounts. The allowance is estimated based on past experience, present market conditions, and an analysis of outstanding balances. Loans obligated after September 30, 1991, are reduced by an allowance equal to the present value of the subsidy costs (due to the interest rate differential between the loans and Treasury borrowing, the estimated delinquencies and defaults net of recoveries, the offset from fees, and other estimated cash flows) associated with these loans.

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts. Operating materials and supplies at Coast Guard small cutters and shore units are accounted for in the property system but not inventoried for financial statement purposes, since the amount is not material.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated. DOT currently has a capitalization threshold of $200,000 for structures and facilities and for internal use software, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is permitted. Construction in progress is valued at direct (actual) costs plus applied overhead and other indirect costs as accumulated by the regional project material system. The system accumulates costs by project number assigned to the equipment or facility being constructed. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

K. Prepaid and Deferred Charges

Payments in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred which are covered by realized budgetary resources as of the balance sheet data. Available budgetary resources include new budget authority, spending authority from offsetting collections, recoveries of unexpired budget authority through downward adjustments of prior year obligations, unobligated balances of budgetary resources at the beginning of the year or net transfers of prior year balances during the year, and permanent indefinite appropriations or borrowing authority. Unfunded liabilities are not considered to be covered by such budgetary resources. Examples of unfunded liabilities are actuarial liabilities for future Federal Employees' Compensation Act payments and actuarial estimates of the present value of USCG pension and medical expenses. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest.

FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program, the Amtrak Corridor Improvement Program and the Alameda Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program that provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U.S. Government.

O. Contingencies

The criteria for recognizing contingencies for claims are: (1) a past event or exchange transaction has occurred as of the date of the statements; (2) a future outflow or other sacrifice of resources is probable; and (3) the future outflow or sacrifice of resources is measurable (reasonably estimated). DOT recognizes material contingent liabilities in the form of claims, legal action, administrative proceedings and environmental suits that have been brought to the attention of legal counsel, some of which will be paid by the Treasury Judgment Fund. It is the opinion of management and legal counsel that the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of operations.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. Accruals for other leave (e.g., credit hours and compensatory leave) are also recorded in the financial statement. Under the Transportation Administrative Service Center, the liability for accrued annual leave is a funded item. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources. Sick leave and other types of non-vested leave are expended as taken.

Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) are eligible, upon retirement, for a sick leave buy back option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty percent of the value of his or her accumulated sick leave as of the effective date of retirement.

Q. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

Employing agencies are required to recognize pensions and other post retirement benefits during the employees' active years of service. Reporting the assets and liabilities associated with such benefits is the responsibility of the administering agency, the Office of Personnel Management. Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a “pay-as-you-go” basis.

R. Comparative Data

Comparative data for the prior year has been presented for the Balance Sheet, the Statement of Net Cost, and their related notes.

<u>Note 2. Non-Entity Assets</u>:

(Dollars in Thousands)

Intragovernmental:	FY 2002	FY 2001
Fund Balance with Treasury	$ 62,181	$ (6,237)
Accounts Receivable	38,773	535
Other	104	-
Total Intragovernmental	$ 101,058	$ (5,702)
Accounts Receivable	$ 19,288	$ 16,132
Other Assets	-	-
Total Non-Entity Assets	$ 120,346	$ 10,430
Total Entity Assets	84,343,451	86,749,969
Total Assets	$ 84,463,797	$ 86,760,399

Note 3. Fund Balance with Treasury:

Fund Balances:	FY 2002	FY 2001
Trust Funds	$ 4,260,272	$ 4,337,319
Revolving Funds	293,664	583,391
Appropriated Funds	24,610,996	20,884,284
Other Fund Types	803,718	302,275
Total	$ 29,968,650	$ 26,107,269

Status of Fund Balance with Treasury:	FY 2002	FY 2001
Unobligated Balance		
Available	$ 7,740,176	$ 4,840,599
Unavailable	1,155,138	1,152,720
Obligated Balance Not Yet Disbursed	21,073,336	20,113,950
Total	$ 29,968,650	$ 26,107,269

Fund Balances with Treasury are the aggregate amounts of the entity's accounts with Treasury for which the entity is authorized to make expenditures and pay liabilities. Other Fund Types include uncleared Suspense Accounts, which temporarily hold collections pending clearance to the applicable account, and Deposit Funds, which are established to record amounts held temporarily until ownership is determined.

Fund Balance with Treasury for FY 2001 has been restated to correct a previously reported error in FAA revolving funds and other fund types. However, the restatement does not change the total reported Fund Balance with Treasury as of September 30, 2001.

Note 4. Investments:

(Dollars in Thousands)

As of September 30, 2002: Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 277,715	$ (1,237)	$ 276,478	$ (635)	$ 275,843
Non-Marketable:					
Par Value	12,001,271	2,339	12,003,610	-	12,003,610
Market-Based	18,932,314	(454)	18,931,860	-	18,931,860
Subtotal	$ 31,211,300	$ 648	$ 31,211,948	$ (635)	$ 31,211,313
Accrued Interest	127,257		127,257		127,257
Total Intragovernmental	$ 31,338,557	$ 648	$ 31,339,205	$ (635)	$ 31,338,570
Other Securities:					
Private Stock	$ 27	$ -	$ 27	$ 25	$ 52
Total Public	$ 27	$ -	$ 27	$ 25	$ 52

As of September 30, 2001: Intragovernmental Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 85,216	$ 909	$ 86,125	$ -	$ 86,125
Non-Marketable:					
Par Value	14,789,076	(2,866)	14,786,210	-	14,786,210
Market-Based	24,114,775	-	24,114,775	-	24,114,775
Subtotal	$ 38,989,067	$ (1,957)	$ 38,987,110	$ -	$ 38,987,110
Accrued Interest	211,247		211,247		211,247
Total Intragovernmental	$ 39,200,314	$ (1,957)	$ 39,198,357	$ -	$ 39,198,357

Other Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Private Stock	$ 27	$ -	$ 27	$ -	$ 27
Total Public	$ 27	$ -	$ 27	$ -	$ 27

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations.

Marketable Federal securities can be bought and sold on the open market. Non-marketable par value Treasury securities are issued by the Bureau of Public to Federal accounts and are purchased and redeemed at par exclusively through Treasury's Federal Investment Branch. Non-marketable market-based Treasury securities are also issued by the Bureau of Public Debt to Federal accounts. They are not traded on any securities exchange but mirror the prices of particular Treasury securities trading in the Government securities market. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in Coast Guard's Gift Fund.

Note 5. Accounts Receivable:

(Dollars in Thousands)

Intragovernmental:	Gross Amount Due	Allowance for Uncollectible Amounts	FY 2002 Net Amount Due	FY 2001 Net Amount Due
Accounts Receivable	$ 612,172	$ -	$ 612,172	$ 688,211
Accrued Interest	-	-	-	10
Total Intragovernmental	$ 612,172	$ -	$ 612,172	$ 688,221
Public:				
Accounts Receivable	$ 448,764	$ 118,509	$ 330,255	$ 159,861
Accrued Interest	186	-	186	40
Total Public	$ 448,950	$ 118,509	$ 330,441	$ 159,901
Total Receivables	$ 1,061,122	$ 118,509	$ 942,613	$ 848,122

Allowance for Uncollectible Amounts is based on historical data or actual amounts that are determined to be uncollectible based upon review of individual receivables. Accrued interest includes interest, penalties and other administrative charges pertaining to accounts receivable.

Note 6. Other Assets

		(Dollars in Thousands)		
Intragovernmental:		FY 2002		FY 2001
Advances and Prepayments	$	53,744	$	52,283
Undistributed Assets and Payments		37,820		95,136
Total Intragovernmental	$	91,564	$	147,419
Public:				
Advances to the States	$	97,573	$	109,780
Other Advances and Prepayments		156,056		84,993
Undistributed Assets and Payments		157,913		-
Total Public	$	411,542	$	194,773

Intragovernmental Other Assets are comprised of advance payments to other Federal Government entities for agency expenses not yet incurred and for goods or services not yet received and undistributed assets and payments for which DOT is awaiting documentation. Public Other Assets are comprised of advances to the States and advances to employees and contractors.

Note 7. Cash, Foreign Currency and Other Monetary Assets:

	FY 2002	FY 2001
Cash	$ 24,765	$ 48,217
Other Monetary Assets	443	445
Total Cash and Other Monetary Assets	$ 25,208	$ 48,662

Cash consists of undeposited collections and imprest fund balances. Other Monetary Assets consist of USCG Cadet Savings Accounts.

Note 8. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

DOT administers the following direct loan and/or loan guarantee programs:

(1) Amtrak Corridor Improvement Program
(2) Railroad Rehabilitation Improvement Program
(3) Alameda Corridor Transportation Authority Loan
(4) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
(5) Maritime (Title XI) Guaranteed Loan
(6) Federal Ship Financing Fund (Title XI)
(7) Office of Small & Disadvantaged Business Utilization (OSDBU) Guaranteed Loan Program

An analysis of loans receivable, allowance for subsidy costs, liability for loan guarantees, foreclosed property, modifications, reestimates, and administrative costs associated with the direct loans and loan guarantees is provided in the following sections:

Direct Loans Obligated Prior to FY 1992 (Present Value Method):

(Dollars in Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Value of Assets Related to Direct Loans
(1) Amtrak Corridor	$ 2,511	$ -	$ 2,511
(2) Railroad Rehab Improv	39,418	1,102	40,520
Total	$ 41,929	$ 1,102	$ 43,031

Direct Loans Obligated After FY 1991:

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
(2) Railroad Rehab Improv	$ 104,370	$ 8	$ -	$ 104,378
(3) Alameda Corridor	400,000	110,675	112,853	623,528
(4) TIFIA Loan	350,714	-	(5,162)	345,552
Total	$ 855,084	$ 110,683	$ 107,691	$ 1,073,458

Total Amount of Direct Loans Disbursed (Post-1991):

Direct Loan Programs	Current Year	Prior Year
(2) Railroad Rehab Improv	$ 101,131	$ -
(3) Alameda Corridor	-	400,000
(4) TIFIA Loan	50,716	300,000
Total	$ 151,847	$ 700,000

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed (Current reporting year):

Direct Loan Programs	Fees and Other Collections	Other	Total
(2) Railroad Rehab Improv	$ (7)	$ -	$ (7)
(4) TIFIA Loan	-	(106)	(106)
Total	$ (7)	$ (106)	$ (113)

Subsidy Expense for New Direct Loans Disbursed (Prior reporting year):

		Other	Total
(4) TIFIA Loan		$ (7,770)	$ (7,770)
Total		$ (7,770)	$ (7,770)

Total Direct Loan Subsidy Expense:

Direct Loan Programs	Current Year	Prior Year
(4) TIFIA Loan	$ 106	$ 7,770
Total	$ 106	$ 7,770

Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991 Direct Loans)

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning Balance of the Subsidy Cost Allowance	$ 7,770	$ -
Add: Other Subsidy Costs	106	-
Ending Balance of the Subsidy Cost Allowance	$ 7,876	$ -

Defaulted Guaranteed Loans from Post-1991 Guarantees:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
(5) MARAD Guar Loan	$ 459,375	$ 2,965	$ 7,000	$ (380,585)	$ 88,755
Total	$ 459,375	$ 2,965	$ 7,000	$ (380,585)	$ 88,755

Guaranteed Loans Outstanding:

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(5) MARAD Guar Loan	$ 3,303,275	$ 3,303,275
(6) Fed Ship Fin Fund	108,473	108,473
(7) OSDBU Guar Loan	4,791	3,593
Total	$ 3,416,539	$ 3,415,341
New Guaranteed Loans Disbursed (Current reporting year):		
(5) MARAD Guar Loan	$ 724,734	$ 724,734
(7) OSDBU Guar Loan	4,791	3,593
Total	$ 729,525	$ 728,327
New Guaranteed Loans Disbursed (Prior reporting year):		
(5) MARAD Guar Loan	$ 492,764	$ 492,764
(7) OSDBU Guar Loan	6,592	4,952
Total	$ 499,356	$ 497,716

Liability for Loan Guarantees (Present Value Method for pre-1992 guarantees):

Loan Guarantee Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(5) MARAD Guar Loan	$ 383,993	$ 383,993
(7) OSDBU Guar Loan	295	295
Total	$ 384,288	$ 384,288

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (Current reporting year):

Loan Guarantee Programs	Defaults	Fees and Other Collections	Total
(5) MARAD Guar Loan	$ -	$ 22,688	$ 22,688
(7) OSDBU Guar Loan	129	-	129
Total	$ 129	$ 22,688	$ 22,817

Subsidy Expense for New Loan Guarantees (Prior reporting year):

(5) MARAD Guar Loan	$ -	$ 18,738	$ 18,738
(7) OSDBU Guar Loan	166	-	166
Total	$ 166	$ 18,738	$ 18,904

Modifications and Reestimates (Current reporting year):

Loan Guarantee Programs	Technical Reestimates	Total
(5) MARAD Guar Loan	$ 77,883	$ 77,883
	$ 77,883	$ 77,883

Modifications and Reestimates (Prior reporting year):

(5) MARAD Guar Loan	$ 186,407	$ 186,407
	$ 186,407	$ 186,407

Total Loan Guarantee Subsidy Expense Loan Guarantee Programs	Current Year	Prior Year
(5) MARAD Guar Loan	$ 16,365	$ (187,192)
(7) OSDBU Guar Loan	129	166
Total	$ 16,494	$ (187,026)

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(5) MARAD Guar Loan	0%	6%	0%	0%	6%
(7) OSDBU Guar Loan	0%	3%	0%	0%	3%

Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning Balance of the Loan Guarantee Liability	$ (400,192)	$ (213,167)
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Default Costs (net of recoveries)	285,770	62,691
Fees and Other Collections	(67,166)	(61,275)
Total of the Above Subsidy Expense Components	$ 218,604	$ 1,416
Adjustments:		
Interest Accumulation on the Liability Balance	(31,106)	(40,116)
Other	(93,121)	47
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ (305,815)	$ (251,820)
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(77,883)	(148,373)
Total of the Above Reestimate Components	$ (77,883)	$ (148,373)
Ending Balance of the Loan Guarantee Liability	$ (383,698)	$ (400,193)

Administrative Expense:

Loan Guarantee Programs		
(5) MARAD Guar Loan	$	3,973
(7) OSDBU Guar Loan		80
Total	$	4,053

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans obligations or loan guarantees, and (2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees. The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans.

Note 9. Inventory and Related Property:

(Dollars in Thousands)

	Cost	Allowance for Loss	FY 2002 Net	FY 2001 Net
Inventory:				
Inventory Held for Current Sale	$ 126,437	$ (6)	$ 126,443	$ 143,967
Inventory Held in Reserve for Future Sale	3,409	-	3,409	365,737
Excess, Obsolete and Unserviceable Inventory	29,991	11,406	18,585	24,657
Inventory Held for Repair	419,096	82,963	336,133	-
Inventory Work In Process	(307)	-	(307)	(214)
Other	13,643	-	13,643	14,294
Total Inventory	$ 592,269	$ 94,363	$ 497,906	$ 548,441
Operating Materials and Supplies:				
Items Held for Use	$ 1,127,543	$ -	$ 1,127,543	$ 1,553,680
Items Held in Reserve for Future Use	15,546	-	15,546	17,897
Excess, Obsolete and Unserviceable Items	71,861	47,044	24,817	21,482
Items Held for Repair	400,098	107,975	292,123	350,334
Other	-	-	-	-
Total Operating Materials & Supplies	$ 1,615,048	$ 155,019	$ 1,460,029	$ 1,943,393
Total Inventory and Related Property			$ 1,957,935	$ 2,491,834

All DOT inventory is in FAA, USCG, and TASC. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

DOT operating materials and supplies are in USCG, FAA, and MARAD. Valuation methods used include weighted average, moving weighted average, historical cost, last acquisition price, standard price/specific identification, and standard repair cost. The only restrictions on use are that USCG consumption must be in accordance with USCG Directives and FAA is not permitted to donate.

Inventory and related property for FY 2001 has been restated to reflect a reduction of $416.4 million in the gross value of FAA's operating materials and supplies. This is due to the reclassification of exchange and repair spare parts to equipment, where it can be depreciated based on the period benefited.

Note 10. General Property, Plant and Equipment:

(Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	FY 2002 Net Book Value	FY 2001 Net Book Value
Land		$ 133,630	$ -	$ 133,630	$ 138,220
Buildings and Structures	Various	6,061,139	3,096,522	2,964,617	2,837,276
Furniture and Fixtures	Various	74,737	51,931	22,806	394
Equipment	Various	11,859,114	5,288,113	6,571,001	6,532,309
ADP Software	Various	137,627	35,395	102,232	100,353
Electronics	6-10	155,277	101,844	53,433	75,650
Assets Under Capital Lease	Various	127,143	56,392	70,751	71,802
Leasehold Improvements	Various	37,882	8,682	29,200	18,397
Aircraft	11-20	2,088,624	1,265,106	823,518	810,170
Ships and Vessels	>20	3,648,700	1,516,888	2,131,812	2,178,375
Small Boats	11-20	307,346	108,478	198,868	179,179
Other Vehicles	1-5	18,599	16,466	2,133	2,539
Construction in Progress		5,417,432	-	5,417,432	3,861,185
Property Not in Use		2,283	1,272	1,011	-
Total		$ 30,069,533	$ 11,547,089	$ 18,522,444	$ 16,805,849

Depreciation is computed using the straight line method. Property Not in Use consists of decommissioned assets awaiting disposition.

Net book value of multi-use heritage assets is now included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplemental Stewardship Information.

*** Key:**

Range of Service Life

1-5 - 1 to 5 years
6-10 - 6 to 10 years
11-20 - 11 to 20 years
>20 - Over 20 years

Note 11. Liabilities Not Covered by Budgetary Resources:

	(Dollars in Thousands)	
Intragovernmental:	FY 2002	FY 2001
Debt	$ 774,460	$ 28
Other Liabilities	233,867	225,128
Total Intragovernmental	$ 1,008,327	$ 225,156
Accounts Payable	$ 1	$ -
Federal Employee and Veterans' Benefits Payable	30,138,478	28,789,852
Environmental and Disposal Liabilities	1,041,322	1,010,053
Other Liabilities	1,531,154	1,267,632
Total Liabilities Not Covered by Budgetary Resources	$ 33,719,282	$ 31,292,693
Total Liabilities Covered by Budgetary Resources	8,508,130	8,558,222
Total Liabilities	$ 42,227,412	$ 39,850,915

Note 12. Debt:

(Dollars in Thousands)

Intragovernmental Debt:	FY 2001 Beginning Balance	Net Change During Fiscal Year	FY 2001 Ending Balance	Net Change During Fiscal Year	FY 2002 Ending Balance
Debt to the Treasury	$ 808,584	$ 89,302	$ 897,886	$ 255,957	$ 1,153,843
Debt to the Fed Financing Bank	3,549	(142)	3,407	(160)	3,247
Total Intragovernmental Debt	$ 812,133	$ 89,160	$ 901,293	$ 255,797	$ 1,157,090

Net Change During Fiscal Year includes new borrowing, repayments and net change in accrued payables. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), MARAD Title XI guaranteed loans, and the FAA Aircraft Purchase Loan Guarantee Program.

Note 13. Other Liabilities:

(Dollars in Thousands)

Intragovernmental:	Non-Current	Current	FY 2002 Total
Advances and Prepayments	$ -	$ 171,488	$ 171,488
Accrued Pay and Benefits	1,354	264,106	265,460
Undisbursed Loans	194,180	-	194,180
FECA Billings	130,586	100,297	230,883
Uncleared Disbursements and Collections	15	6,567	6,582
Deferred Credits	-	4,739	4,739
Deposit Funds	-	(433)	(433)
Other Accrued Liabilities	-	277,054	277,054
Total Intragovernmental	$ 326,135	$ 823,818	$ 1,149,953

Public:			
Accrued Unbilled State Payments	$ 19,422	$ 2,178,191	$ 2,197,613
Other Accrued Unbilled Payments	6,069	22,715	28,784
Accrued Unrecorded Grantee Liabilities	-	1,445,488	1,445,488
Accrued Pay and Benefits	817,504	693,794	1,511,298
Legal Claims	94,498	76,939	171,437
Deferred Credits	245,712	71	245,783
Capital Leases	64,398	13,698	78,096
Advances and Prepayments	-	23,824	23,824
Uncleared Disbursements and Collections	65,133	12,152	77,285
Deposit Funds	-	(7,339)	(7,339)
Other Accrued Liabilities	105,425	7,672	113,097
Total Public	$ 1,418,161	$ 4,467,205	$ 5,885,366

Intragovernmental:	Non-Current	Current	FY 2001 Total
Advances and Prepayments	$ -	$ 333,362	$ 333,362
Accrued Pay and Benefits	-	94,163	94,163
Undistributed and Unapplied Collections	-	3,571	3,571
Deferred Credits	-	1,082	1,082
Deposit Funds	-	(3,329)	(3,329)
FECA Billings	125,853	98,019	223,872
Undisbursed Loans	175,920	-	175,920
Other Accrued Liabilities	-	304,185	304,185
Total Intragovernmental	$ 301,773	$ 831,053	$ 1,132,826

Public:

Accrued Unbilled State Payments	$ -	$ 2,177,972	$ 2,177,972
Other Accrued Unbilled Payments	-	46,119	46,119
Accrued Pay and Benefits	747,994	500,586	1,248,580
Undistributed and Unapplied Collections	(19,528)	(23,935)	(43,463)
Advances and Prepayments from Others	-	10,823	10,823
Deposit Funds	-	2,221	2,221
Deferred Credits	59,335	-	59,335
Legal Claims	189,809	-	189,809
FAA Return Rights	10,100	-	10,100
Capital Leases	80,323	58	80,381
Other Accrued Liabilities	109,346	16,451	125,797
Total Public	$ 1,177,379	$ 2,730,295	$ 3,907,674

Accrued pay and benefits pertain to unpaid pay and benefits, and may be either current or non-current. Agency expenses for payments made under the Federal Employees Compensation Act (FECA) are forwarded to the Department of Labor (DOL). Funding for FECA is normally appropriated to agencies in the fiscal year two years subsequent to the actual FECA billing from DOL.

Legal claims liabilities for FY 2001 have been restated to reflect a $489.2 million reduction in FAA's legal claims. The previously stated amount erroneously included certain claims that are not considered probable of loss.

Note 14. Federal Employee and Veterans' Benefits:

(Dollars in Thousands)

	Value of Projected Plan Benefits	
	FY 2002	FY 2001
Pensions:		
USCG Retired Pay	$ 17,663,500	$ 16,130,300
Other Retirement Benefits:		
USCG Military Health Care	11,323,000	11,458,900
Other Post-Employment Benefits:		
Federal Employees Compensation Act Actuarial Liability	1,152,368	1,201,160
Total Federal Employee and Veterans Benefits	$ 30,138,868	$ 28,790,360

The Coast Guard Military Retirement System (covering both retirement pay and health care benefits) is funded through annual appropriations and, as such, is essentially a pay-as-you-go system. Consequently, the only assets in the system are unintentional overpayments in the past which are due to be repaid by participants. The unfunded figures reported above reflect the actuarial accrued liability for both retired pay and health care benefits. Calculation of these numbers is a multi-step process. First, an "actuarial present value of accumulated plan benefits" is derived from the future payments that are attributable under the retirement plan's provisions to a member's credited service as of the valuation date (e.g., benefits to retired members or their beneficiaries). The accumulated plan benefits are converted to a present value of future benefits by applying assumptions to reflect the time value of money and the probability of payment between the valuation date and expected date of payments. The significant actuarial assumptions used in this conversion include: life expectancy, cost of living increases, and investment return. The present value of future benefits is then converted to an unfunded accrued liability by subtracting the present value of future employer/employee normal contributions as well as any assets in the system.

Federal Employees' Compensation Act liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds. Interest rate assumptions utilized for discounting were as follows:

2002
5.20% in year 1, 5.20% in year 2, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) were applied to the calculation of projected future benefits. These factors were also used to adjust the methodology's historical payments to current year constant dollars.

The compensation COLAs and CPIMs used in the projections for various charge back years (CBY) were as follows:

CBY	COLA	CPIM
2003	1.80%	4.31%
2004	2.67%	4.01%
2005	2.40%	4.01%
2006+	2.40%	4.01%

The model's resulting projections were analyzed to insure that the estimates were reliable. The analysis was based on two tests: (1) a comparison of the percentage change in the liability amount by agency to the percentage of change in the actual payments, and (2) a comparison of the ratio of the estimated liability to the actual payment of the beginning year calculated for the current projection to the liability-payment ratio calculated for the prior projection.

Note 15. Environmental and Disposal Liabilities:

(Dollars in Thousands)

Public:	FY 2002	FY 2001
Environmental Cleanup Liabilities:		
FAA Environmental Remediation	$ 311,914	$ 325,019
FAA Environmental Cleanup and Decommissioning	262,762	262,762
USCG Environmental Remediation and Cleanup	94,146	102,272
MARAD Environmental Cleanup (PCB, Lead, Oil)	372,500	-
Asset Disposal Liabilities:		
MARAD Scrapping of 115 Non-Retention Vessels	-	320,000
Total Public	$ 1,041,322	$ 1,010,053

Environmental cleanup generally occurs under the Resource Conservation and Recovery Act of 1976 (RCRA), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA or Superfund), or the Toxic Substances Control Act (TSCA). Environmental remediation includes the fuel storage tank program, fuels, solvents, industrial, and chemicals, and other environmental cleanup associated with normal operations or as a result of an accident. Cost estimates for environmental and disposal liabilities are not adjusted for inflation and are subject to revision as a result of changes in technology and environmental laws and regulations.

Environmental and disposal liabilities for FY 2001 have been restated to reflect a reduction of approximately $1.1 billion in the estimate of FAA's environmental cleanup and decommissioning liability.

Note 16. Leases:

ENTITY AS LESSEE:

Capital Leases: (Dollars in Thousands)

Summary of Assets Under Capital Lease by Category:	FY 2002	FY 2001
(1) Land and Buildings	$ 125,991	$ 110,514
(2) Machinery and Equipment	1,152	1,234
(3) Other	-	-
Accumulated Depreciation	(56,392)	(39,946)
Net Assets Under Capital Lease	$ 70,751	$ 71,802

Description of Lease Arrangements: Capital leases cover land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. FAA's capital lease payments are funded annually. FAA and USCG also have capital leases on machinery and equipment.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2003)	$ 13,425	$ 273	$ -	$ 13,698
Year 2 (2004)	13,425	273	-	13,698
Year 3 (2005)	12,768	273	-	13,041
Year 4 (2006)	10,535	187	-	10,722
Year 5 (2007)	10,417	108	-	10,525
After 5 Years (2008+)	43,128	-	-	43,128
Total Future Lease Payments	$ 103,698	$ 1,114	$ -	$ 104,812
Less: Imputed Interest	26,507	209	-	26,716
Executory Costs	-	-	-	-
Net Capital Lease Liability	$ 77,191	$ 905	$ -	$ 78,096

Liabilities Covered by Budgetary Resources	$ -
Liabilities Not Covered by Budgetary Resources	$ 78,096

Operating Leases:

Description of Lease Arrangements: Operating leases include a RSPA lease for the Transportation Safety Institute North Campus, FAA leases for property, aircraft, equipment, and telecommunications, and TSA leases for property.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2003)	$ 63,073	$ -	$ 1,428	$ 64,501
Year 2 (2004)	54,614	-	1,193	55,807
Year 3 (2005)	49,679	-	956	50,635
Year 4 (2006)	45,027	-	686	45,713
Year 5 (2007)	39,762	-	683	40,445
After 5 Years (2008+)	71,796	-	2,820	74,616
Total Future Lease Payments	$ 323,951	$ -	$ 7,766	$ 331,717

ENTITY AS LESSOR:

Capital Leases:

N/A

Operating Leases:

Description of Lease Arrangements FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 for $3 million per year for a 50-year term. Subsequent annual rental payments are adjusted by applying the Implicit Price Deflator for the Gross National Product published by the Department of Commerce. Additionally, the parties may renegotiate the level of lease payments attributable to inflation costs every ten years. Upon lease expiration, the airports and facilities, originally valued at $244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

Future Projected Receipts:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (2003)	$ 12,783	$ 90	$ 5	$ 12,878
Year 2 (2004)	12,733	90	1	12,824
Year 3 (2005)	12,495	90	-	12,585
Year 4 (2006)	12,560	90	-	12,650
Year 5 (2007)	12,452	90	-	12,542
After 5 Years (2008+)	30,784	448	-	31,232
Total Future Operating Lease Receivables	$ 93,807	$ 898	$ 6	$ 94,711

Note 17. Contingencies:

Legal Proceedings. As of September 30, 2002 and 2001, FAA recognized contingent liabilities of $499.8 million and $445.8 million, respectively, for asserted and pending legal claims reasonably possible of loss. Of the yearend contingent liabilities for legal claims of $169.9 million as of September 30, 2002, FAA estimated that $1.7 million would be paid from agency appropriations with the remaining $168.2 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of the Treasury. Of the $189.8 million legal claims liabilities as of September 30, 2001, FAA estimated that $2.1 million would be paid from agency appropriations and $187.7 million would be paid from the Judgment Fund.

As of September 30, 2002 and 2001, Coast Guard had pending or potential lawsuits, administrative actions and claims of 325 and 330, respectively, that could result in liabilities to Coast Guard funds or the Judgment Fund. Claims of 236 and 275, respectively, were against the Oil Spill Liability Trust Fund. This fund exists for the purpose of facilitating rapid oil spill response and administering a compensation program in oil spill situations.

Amount of loss due to litigation and claims for MARAD was estimated at $2.6 million. Of the $2.6 million, $848,000 was probable and could be reasonably estimated and is included in liabilities not covered by budgetary resources.

Grant Programs. The Federal Highway Administration and the Federal Transit Administration have Advance Construction and Full Funding Grant Agreements authorizing states and transit authorities to establish project budgets and incur costs with their own funds in advance of appropriations. Of the over $30 billion authorized under these programs, some portion has been liquidated by the states and transit authorities.

FAA has legal authority to issue Letters of Intent (LOIs) to enter into Airport Improvement Program (AIP) grant obligations; but these LOIs do not create obligations. Through September 30, 2002, FAA issued LOIs covering FY 1988 through FY 2014 totaling $4.3 billion. As of fiscal yearend, FAA had obligated $2.7 billion of this total amount, leaving $1.6 billion unobligated. FAA anticipates obligating $293 million in FY 2003. As of September 30, 2001, LOIs covering FY 1998 through FY 2014 totaled $3.9 billion. Of this amount, FAA had obligated $2.4 billion, leaving $1.5 billion unobligated as of September 30, 2001.

FY 2002 AIP grant authority totaled $3.5 billion, including $1.7 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed $1.4 billion, and $355 million remains available from unused or newly enacted contract authority to those sponsors through FY 2004, or in the case of non-hub primary airport locations, through FY 2005. In FY 2001, AIP grant authority was $3.1 billion, including $1.4 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed $1.1 billion and $298 million remained available from unused or newly enacted contract authority to those sponsors through FY 2003, or in the case of non-hub primary airport locations, through FY 2004.

Contract Options and Negotiations. As of September 30, 2002 and 2001, FAA had $19.9 billion and $17.9 billion, respectively, in unobligated contracts. The terms of these contracts give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

As of September 30, 2002 and 2001, FAA had a total of $42.1 million and $106.4 million, respectively, in commitments (funds reserved for possible future obligations) under unexpired appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of each respective fiscal year.

Return Rights Program. The FAA Return Rights Program pertains to employees who previously accepted transfers to overseas or certain domestic locations for a period of 2 to 4 years, and entitles the employees to a future return move at Government expense. As of September 30, 2002 and 2001, 154 and 202 employees, respectively, were contractually entitled to these "return rights."

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations where commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the U.S. foreign policy. FAA may issue: (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier.

FAA maintains standby non-premium war-risk insurance policies for 38 carriers having approximately 974 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act to include all scheduled domestic air carriers. Under this program, the FAA provided temporary war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. As of September 30, 2001, $121.68 billion of war risk insurance was extended to 74 carriers for a period of 30 days, and coverage has been subsequently extended, typically for 60-day periods. As of September 30, 2002, $114 billion of war risk coverage was extended to 72 carriers until October 16, 2002. The most recent period of coverage is December 16, 2002, to February 13, 2003, in which $112.5 billion of war risk coverage is extended to 71 carriers.

The issuance of temporary war-risk coverage to all scheduled domestic carriers provides necessary insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by the FAA and are assessed per departure. During FY 2002 and 2001, the FAA recognized insurance premium revenue of $74.6 million and $4.6 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage.

In the past, the FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion.

No claims for losses were pending as of September 30, 2002. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating back to 1951), only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. The FAA issued an interim final rule (IFR) on August 1, 2000, that required certain aircraft operators to pay fees for air traffic control and related services provided by the FAA to aircraft that operate in U.S.-controlled airspace but neither take off or land in the U.S. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996, as amended. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. On July 13, 2001, the Court, in its preliminary opinion, ruled in favor of the airlines. The FAA ceased all billing and collection activities under the IFR. In August 2001, the FAA issued a Final Rule on overflight fees, thereby allowing the agency to resume charging and collecting fees. The same group of plaintiffs brought suit against the Final Rule. The FAA filed a motion for reconsideration of the Court's ruling on the IFR. The Court granted this motion on December 28, 2001, allowing the IFR to remain in place. The FAA continued to collect fees throughout FY 2002, while litigation under both the IFR and the Final Rule continued. The financial statements include $27.6 million and $29.3 million in Overflight Fee revenue for the years ended September 30, 2002 and 2001, respectively. While the FAA believes it will prevail, those revenues remain at risk until the litigation has come to a final resolution.

Environmental. The FAA is a party to two major environmental remediation projects in which the extent of liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2002, the amount related to these two sites is $67.7 million. This liability includes the FAA's share of the known remediation cost and the cost to complete the study.

Note 18. Net Cost by Program:

(Dollars in Thousands)

Program Costs	FY 2002	FY 2001
Surface		
Mass Transit	$ 6,912,429	$ 6,784,288
Highway Surface Transportation	7,138,989	6,650,186
National Highway System	5,874,660	5,256,026
Interstate Maintenance	4,583,450	3,980,379
Highway Minimum Guarantee	3,050,915	3,038,069
Bridge Program	3,000,457	2,845,309
Other Highway Programs	1,205,002	2,273,533
Congestion Mitigation and Air Quality	919,250	953,114
High Priority Projects	1,132,525	802,426
Highway Minimum Allocation	94,073	-
Highway Emergency Relief	280,890	724,265
Federal Railroad Administration Grants	1,066,576	554,664
Federal Lands Highways	598,148	442,918
Highway Safety Programs	622,294	434,619
Appalachian Development Highway	318,159	352,550
Highway Planning	504,403	-
DOT Allocated Highway Programs	425,350	-
Highway Research and Development	345,630	278,011
Department of Interior Allocated Highway Programs	280,798	-
Federal Motor Carrier Safety	267,129	201,092
Woodrow Wilson Bridge	196,320	118,612
Other Rail Programs	17,535	11,858
Rail Safety and Operations	96,660	102,050
Alameda Corridor	58,561	-
Bureau of Transportation Statistics	44,538	-
Other Highway Trust Fund Programs	303,297	85,658
Research and Special Programs Administration	129,454	86,982
State Infrastructure Bank	7,840	-
Alaska Railroad	36,315	31,560
Next Generation High Speed Rail	29,361	26,826
Rail Research	20,275	24,574
Surface Transportation Board	20,782	12,702
Total Surface Program Costs	$ 39,582,065	$ 36,072,271

Air		
Air Traffic Services	$ 7,236,665	$ 6,906,967
Airports	2,933,542	2,178,576
Regulation and Certification	923,493	798,688
Aviation Security	1,430,653	160,403
Research and Acquisition	514,862	486,295
Other Federal Aviation Administration Programs	210,086	132,806
Commercial Space	11,361	9,580
Total Air Program Costs	$ 13,260,662	$ 10,673,315
Maritime		
Coast Guard Operating Expenses	$ 3,830,128	$ 3,205,509
Coast Guard Retired Pay	2,247,751	8,527,834
Coast Guard Acquisition and Construction	468,661	327,671
Maritime Guaranteed Loan	134,304	212,855
Maritime Security Program	96,192	98,405
Coast Guard Reserve Training	79,515	78,374
Maritime Ocean Freight Differential Program	54,331	141,006
Maritime Operations and Training	137,848	82,049
Coast Guard Boat Safety	62,036	60,088
Coast Guard Oil Spill Liability	52,370	66,427
Coast Guard Research, Development, Test & Evaluation	19,067	18,421
Coast Guard Alteration of Bridges	10,453	9,151
Coast Guard Environmental Compliance & Restoration	9,619	11,329
Maritime Operating Differential Subsidy	5,088	(27,131)
Maritime Vessel Operations Revolving Fund	(11,931)	(57,060)
Other Coast Guard Programs	1,581	2,947
Other Maritime Programs	92	(1,202)
Total Maritime Program Costs	$ 7,197,105	$ 12,756,673
Cross-Cutting		
Transportation Administrative Service Center	$ 97,783	$ -
Volpe National Transportation Systems Center	4,634	3,285
Transportation Statistics	-	(1)
Total Cross-Cutting Program Costs	$ 102,417	$ 3,284

The Transportation Administrative Systems Center is now being listed under Cross-Cutting Program Costs. In FY 2001 it had been listed as Costs Not Assigned to Programs.

Note 19. Gross Cost and Earned Revenue by Budget Functional Classification:

Gross Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2002:			
054 Defense-Related Activities	$ 486,147	$ 318,668	$ 167,479
304 Pollution Control and Abatement	61,989	-	61,989
401 Ground Transportation	39,860,830	408,219	39,452,611
402 Air Transportation	15,031,441	1,770,779	13,260,662
403 Water Transportation	7,216,731	249,094	6,967,637
407 Other Transportation	655,800	365,491	290,309
808 Other General Government	2,393,443	6,304	2,387,139
Total	$ 65,706,381	$ 3,118,555	$ 62,587,826
FY 2001:			
054 Defense-Related Activities	$ 83,647	$ 348,410	$ (264,763)
304 Pollution Control and Abatement	90,668	12,912	77,756
401 Ground Transportation	36,116,269	130,980	35,985,289
402 Air Transportation	10,866,644	193,331	10,673,313
403 Water Transportation	13,143,625	199,945	12,943,680
407 Other Transportation	423,901	287,225	136,676
451 Community Development	2	-	2
808 Other General Government	2,341,934	701	2,341,233
Total	$ 63,066,690	$ 1,173,504	$ 61,893,186

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2002:			
054 Defense-Related Activities	$ 18,849	$ 318,668	$ (299,819)
304 Pollution Control and Abatement	(14,311)	-	(14,311)
401 Ground Transportation	217,225	87,649	129,576
402 Air Transportation	1,475,092	99,063	1,376,029
403 Water Transportation	1,650,360	219,474	1,430,886
407 Other Transportation	139,088	362,937	(223,849)
808 Other General Government	132	132	-
Total	$ 3,486,435	$ 1,087,923	$ 2,398,512

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2001:			
054 Defense-Related Activities	$ 19,511	$ 348,410	$ (328,899)
304 Pollution Control and Abatement	17,968	-	17,968
401 Ground Transportation	219,062	74,476	144,586
402 Air Transportation	1,326,709	63,219	1,263,490
403 Water Transportation	1,070,325	133,163	937,162
407 Other Transportation	380,321	283,804	96,517
808 Other General Government	25,403	701	24,702
Total	$ 3,059,299	$ 903,773	$ 2,155,526

Note 20. Statement of Budgetary Resources:

		(Dollars in Thousands)
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of September 30, 2002:	$	81,083,840
Available Contract Authority as of September 30, 2002:	$	44,374,187
Available Borrowing Authority as of September 30, 2002:	$	1,545,581

Borrowing Authority pertains to FRA.

Adjustments during FY 2002 to Beginning Balance of Budgetary Resources:

Rescissions	$	(121,595)
Prior Year Recoveries		271,705
Temporarily Not Available		55,769,263
Cancelled Authority		(9,754)
Permanently Not Available		5,127,195
Offsetting Security Fee Collections		1,128,316
Liquidated Contract Authority		28,912,607
Other Adjustments		470,096
Total Adjustments to Budgetary Resources	$	91,547,833

Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

FAA has permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development and Engineering appropriations in order to fully fund special projects that were on-going and spanned several years.

Additional Disclosures:

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

There are no material differences between the information required by SFFAS Number 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2004. The "Budget of the United States Government" for FY 2004 is not final at this time.

Note 21. Incidental Custodial Collections:

Revenue Activity:		(Dollars in Thousands)		
Sources of Cash Collections:		FY 2002		FY 2001
Miscellaneous Receipts	$	20,792	$	26,592
User Fees		16,146		24,009
Fines, Penalties and Forfeitures		8,642		47,609
General Fund Proprietary		3,100		1,238
Refunds, Recoveries & Cancelled Checks & Accounts		7,346		2,155
USCG Registration and Filing Fees		866		1,022
Total Cash Collections	$	56,892	$	102,625
Accrual Adjustment		9,500		5,912
Total Custodial Revenue	$	66,392	$	108,537
Disposition of Collections:				
Transferred to Treasury (General Fund)	$	56,892	$	102,625
(Increase) Decrease in Amounts to be Transferred		9,500		5,912
Net Custodial Revenue Activity	$	-	$	-

Note 22. Dedicated Collections:

(Dollars in Thousands)

Aquatic Resources Trust Fund	FY 2002	FY 2001
Other Assets	$ 61,959	$ 64,966
TOTAL ASSETS	**$ 61,959**	**$ 64,966**
Liabilities Payable	$ 3,251	$ 2,553
Other Liabilities	19,422	25,091
TOTAL LIABILITIES	**$ 22,673**	**$ 27,644**
TOTAL NET POSITION	**$ 39,286**	**$ 37,322**
TOTAL LIABILITIES AND NET POSITION	**$ 61,959**	**$ 64,966**

BEGINNING BALANCES	$ 37,322	$ 33,410
OTHER FINANCING SOURCES	64,000	64,000
TOTAL FINANCING SOURCES	$ 101,322	$ 97,410
NET COST OF OPERATIONS	(62,036)	(60,088)
ENDING BALANCES	**$ 39,286**	**$ 37,322**

Oil Spill Liability Trust Fund	FY 2002	FY 2001
Investments	$ 1,007,378	$ 1,129,248
Other Assets	106,056	60,883
TOTAL ASSETS	**$ 1,113,434**	**$ 1,190,131**
Liabilities Payable	$ 339	$ 964
Other Liabilities	2,511	38
TOTAL LIABILITIES	**$ 2,850**	**$ 1,002**
TOTAL NET POSITION	**$ 1,110,584**	**$ 1,189,129**
TOTAL LIABILITIES AND NET POSITION	**$ 1,113,434**	**$ 1,190,131**

BEGINNING BALANCES	$ 1,189,129	$ 1,275,025
BUDGETARY FINANCING SOURCES	-	73,828
OTHER FINANCING SOURCES	(26,175)	(93,297)
TOTAL FINANCING SOURCES	$ 1,162,954	$ 1,255,556
NET COST OF OPERATIONS	(52,370)	(66,427)
ENDING BALANCES	**$ 1,110,584**	**$ 1,189,129**

Highway Trust Fund and Airport and Airway Trust Fund dedicated collections are described in their stand-alone financial statements.

Note 23. Saint Lawrence Seaway Development Corporation:

Condensed Information:

(Dollars in Thousands)	FY 2002	FY 2001
Cash and Short-Term Time Deposits	$ 14,156	$ 13,724
Long-Term Time Deposits	98	294
Accounts Receivable	93	170
Inventories	262	259
Property, Plant and Equipment	81,626	82,855
Deferred Charges	1,722	1,816
Other Assets	616	531
TOTAL ASSETS	**$ 98,573**	**$ 99,649**
Current Liabilities	$ 1,839	$ 1,830
Actuarial Liabilities	1,722	1,817
TOTAL LIABILITIES	**$ 3,561**	**$ 3,647**
Invested Capital	$ 96,595	$ 97,791
Cumulative Results of Operations	(1,583)	(1,789)
TOTAL NET POSITION	**$ 95,012**	**$ 96,002**
TOTAL LIABILITIES AND NET POSITION	**$ 98,573**	**$ 99,649**

Deferred Maintenance:

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 73,741
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	13,843
MARAD	Vessels, Ready Reserve Force	Condition Assessment Survey	3	34,457
	Real Property, Anchorage	Condition Assessment Survey	4	8,124
	Real Property, Buildings	Condition Assessment Survey	3	33,000
USCG	Aircraft	Condition Assessment Survey	Variable	20,281
	Vessels	Condition Assessment Survey	Variable	18,672
	Shore Facilities	Condition Assessment Survey	Variable	429,411
	Electronics Systems	Condition Assessment Survey	Variable	19,474
			Total	$ 651,003

*Asset Condition Rating Scale:

1 - Excellent
2 - Good
3 - Fair
4 - Poor
5 - Very Poor

**Acceptable Condition is:

FAA Buildings	3 - Fair
FAA Other Structures and Facilities	3 - Fair
MARAD Vessels, Ready Reserve Force	1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Anchorage	3 - Fair - Adequate water depth, shore power, and mooring capabilities.
MARAD Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.
USCG Aircraft	1 - Excellent
USCG Vessels	1 - Excellent
USCG Shore Facilities	1 - Excellent
USCG Electronic Systems	1 - Excellent

Deferred Maintenance is maintenance that was not performed when it should have been or was scheduled to be performed and delayed until a future period. Maintenance is keeping fixed assets in acceptable condition, and includes preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve assets in a condition to provide acceptable service and to achieve expected useful lives.

The Coast Guard continues to use the same methodology which was developed for the FY 2000 report. This includes: 1) the evaluation of the value of planned vessel, aircraft, or electronic systems overhauls and depot-level projects, which were held awaiting funding at fiscal year end; 2) the value of inventory reorders called for by logistics stocking algorithms, which were held awaiting funding at fiscal year enc and 3) the value of broken (repairable) inventory items needing repair which were held awaiting funding at fiscal year end.

Intragovernmental Balances by Trading Partner:

Intragovernmental Assets by Trading Partner: (Dollars in Thousands)

Trading Partner	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Department of the Treasury	$ 29,968,650	$ 31,338,570	$ 257,380	$ 6,691
Department of Defense	-	-	237,709	59,499
U.S. Capitol Police	-	-	16,908	-
Department of State	-	-	5,877	-
Department of Interior	-	-	5,653	-
Department of Veterans Affairs	-	-	3,295	168
Department of Justice	-	-	2,733	-
General Services Administration	-	-	2,027	200
Natl. Aero. and Space Admin.	-	-	1,621	-
Environmental Protection Agency	-	-	1,509	-
Department of Health & Human Serv.	-	-	1,455	-
Securities and Exchange Comm	-	-	1,347	-
Department of Commerce	-	-	704	-
Department of Agriculture	-	-	532	-
Library of Congress	-	-	485	-
Department of Energy	-	-	440	-
U.S. Agency for International Devel.	-	-	278	-
Department of Education	-	-	172	-
Dept. of Housing & Urban Devel.	-	-	125	-
U.S. House of Representatives	-	-	120	-
Fed. Emergency Mgmt. Admin.	-	-	109	-
Broadcasting Board of Governors	-	-	106	-
Department of Labor	-	-	101	-
U.S. Postal Service	-	-	60	-
Other Miscellaneous Agencies	-	-	71,426	25,006
Total	$ 29,968,650	$ 31,338,570	$ 612,172	$ 91,564
Total Intragovernmental Assets	$ 62,010,956			

Intragovernmental Liabilities by Trading Partner: (Dollars in Thousands)

Trading Partner	Accounts Payable	Debt	Other Liabilities
Department of the Treasury	$ 2,684	$ 1,157,090	$ 488,776
Department of Defense	45,780	-	239,600
Department of Labor	26	-	228,377
Office of Personnel Management	1,214	-	65,245
Social Security Administration	1	-	12,533
General Services Administration	13,260	-	(363)
U.S. Capitol Police	-	-	9,876
Department of Agriculture	-	-	7,225
Natl. Aero. and Space Admin.	-	-	6,855
Department of Commerce	25	-	1,010
Department of Interior	1,597	-	825
Department of Energy	65	-	848
Department of Justice	317	-	431
Environmental Protection Agency	-	-	428
Tennessee Valley Authority	353	-	-
Department of State	-	-	296
Fed. Emerg. Mgmt. Admin.	-	-	220
U.S. Postal Service	-	-	88
Department of Health & Human Serv.	137	-	17
National Science Foundation	-	-	9
Other Miscellaneous Agencies	43,411	-	87,657
Total	$ 108,870	$ 1,157,090	$ 1,149,953
Total Intragovernmental Liabilities	$ 2,415,913		

Intragovernmental Earned Revenues and Related Costs: (Dollars in Thousands)

Trading Partner	Intragovernmental Earned Revenue
Department of Defense	$ 660,850
Department of the Treasury	66,384
Environmental Protection Agency	53,918
Department of Veterans Affairs	27,098
U.S. Capitol Police	24,052
Department of Justice	16,106
Department of Health & Human Serv.	14,846
Natl. Aero. and Space Admin.	14,130
General Services Administration	13,361
Department of Commerce	11,636
Department of State	10,349
Department of Energy	9,824
Department of Agriculture	6,559
Social Security Administration	5,263
Fed. Emerg. Mgmt. Admin.	4,348
Department of Education	4,108
Dept. of Housing & Urban Devel.	3,813
Department of Interior	3,805
Securities and Exchange Comm	2,645
Department of Labor	2,174
U.S. Agency for International Devel.	2,151
Office of Personnel Management	1,838
Library of Congress	1,814
U.S. Postal Service	1,753
Federal Deposit Insurance Corp.	1,489
Broadcasting Board of Governors	1,233
Small Business Administration	878
National Institute for Literacy	870
US House of Representatives	735
Federal Trade Commission	653
Natl. Archives & Records Admin.	593
Central Intelligence Agency	63
National Mediation Board	33
Other Miscellaneous Agencies	118,551
Total	$ 1,087,923

Budget Functional Classification	Gross Cost to Generate Intragovernmental Earned Revenue
054 Defense-Related Activities	$ 318,668
401 Ground Transportation	70,181
402 Air Transportation	1,427,986
403 Water Transportation	220,115
407 Other Transportation	474,006
808 Other General Government	4,890
Total	$ 2,515,846

Intragovernmental Non-Exchange Revenue:

(Dollars in Thousands)

Trading Partner	Transfers-In	Transfers-Out
Executive Office of the President	$ 87,500	$ -
Department of the Treasury	113,142	(50,094)
General Services Administration	-	(26,970)
Environmental Protection Agency	-	(15,000)
Department of Interior	-	(6,105)
Department of Defense	23,168	(9,029)
Other Miscellaneous Agencies	20,250	(11,361)
Total	$ 244,060	$ (118,559)

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
NUMBER OF PHYSICAL UNITS

	Units as of			Units as of
Heritage Assets:	09/30/01	Additions	Withdrawals	09/30/02
Personal Property:				
Collections				
Artifacts	17,715	1,293	132	18,876
Display Models	473	1	1	473
Museum	450	1	0	451
Other Collections	98	0	0	98
Total Collections	18,736	1,295	133	19,898
Other Non-Collection Types				
Sunken Vessels	59	0	0	59
Sunken Aircraft	1	0	0	1
Total Non-Collection Types	60	0	0	60
Total Personal Property Heritage Assets	18,796	1,295	133	19,958

	Units as of			Units as of
Heritage Assets:	09/30/01	Additions	Withdrawals	09/30/02
Real Property:				
Buildings and Structures	420	545	61	904
Memorials	2	0	0	2
Recreational Areas	2	0	0	2
Other Historical Areas	24	0	10	14
Total Real Property Heritage Assets	448	545	71	922

Artifacts are those of the U.S. Coast Guard and Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies. Coast Guard artifacts can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms, and display models. The addition of artifacts is the result of gifts to the Coast Guard.

Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs, and ship's name boards. Conditions vary, but much is worn out from decades of use.

Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus, and lighthouse lenses. Buoy equipment tends to be worn out and is usually acquired only when new technology makes it obsolete. Classical lighthouse lenses vary greatly in condition. The condition is normally dependent on how long the item has been out of service and not maintained. Most of the good lenses go to local museums or Coast Guard bases as display items.

Military uniforms are generally donated by retired Coast Guard members, and include clothing as well as insignia and accoutrements. Most clothing is in fair to good condition, particularly full dress items which saw little daily wear.

Display Models are mostly of Coast Guard vessels and aircraft. These are often builders' models. In addition to being accurate and valuable, they are generally in very good condition. Builders' models are acquired by the Coast Guard as part of the contracts with the ship or aircraft builders. The withdrawal of display models was due to wear and tear.

Museum and Other Collections are owned by the Maritime Administration. They are merchant marine artifacts, composed of ships' operating equipment, obtained from obsolete ships. They are inoperative and in need of preservation and restoration. Museum items are on loan to organizations whose purpose is historic preservation, education, and remembrance, open to the public during regularly scheduled hours. Other collections are on loan to public and private entities, the display of which is incidental to maritime affairs, such as county and state buildings, port authorities, pilots associations, public and college libraries, and other organizations.

Non-Collection Type heritage assets are sunken vessels and aircraft owned by the Coast Guard under the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, and the sovereign immunity provisions of Admiralty law. Despite the passage of time or the physical condition of these assets, they remain Government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members who were lost at sea, to prevent the unauthorized handling of explosives or ordnance which may be aboard, and to preserve culturally valuable relics of the USCG's long and rich tradition of service to our nation in harm's way.

Buildings and Structures include Union Station in Washington, D.C. Union Station is an elegant and unique turn-of-the-century rail station in which one finds a wide variety of elaborate, artistic workmanship characteristic of the period. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage which was added by the U.S. Park Service. The Federal Railroad Administration received title to Union Station through appropriated funds and assumption of a mortgage. Mortgage payments are made by Union Station Venture Limited which manages the property. Union Station Redevelopment Corporation, a non-profit group instrumental in the renovation of the station, sublets the operation of the station to Union Station Venture Limited.

As a matter of public law and policy, Coast Guard does not acquire or retain heritage buildings and structures without an operational use. Most real property, even if designated as historical, is acquired for operational use and is transferred to other government agencies or public entities when no longer required for operations. In the majority of cases, therefore, any historical property owned by Coast Guard is multi-use heritage. All multi-use heritage assets are reflected on the balance sheet.

Of the Coast Guard buildings and structures designated as heritage, including memorials, recreational areas and other historical areas, over two-thirds are multi-use heritage. The remaining are historical lighthouses, which are no longer in use and awaiting disposal; their related assets; and a gravesite.

During the past year, Coast Guard performed a comprehensive review of buildings and structures to validate historical classification. In addition to reviewing assets currently classified as heritage and multi-use heritage, civil engineering facilities were also tasked with evaluating other assets, which due to year of construction and/or co-location with a historical lighthouse, could also be reclassified as heritage. This validation resulted in an increase of heritage assets but had no effect on the balance sheet.

Financial information for multi-use heritage assets is presented in the principal statements and notes.

NATIONAL DEFENSE PROPERTY, PLANT, AND EQUIPMENT SUMMARY
NUMBER OF PHYSICAL UNITS AND ACQUISITION COSTS

SEPTEMBER 30, 2002

(Dollars in Thousands)

National Defense Reserve Fleet Vessels	Units	Original Cost	Capital Improvements	Acquisition Total	MARAD Acquisition Cost
Ready Reserve Fleet Vessels	76	$ 859,163	$ 591,078	$ 1,450,241	$ 1,101,458
Retention Vessels	65	244,757	43,022	287,779	232,554
Scrap Ships	133	2,833,730	280,313	3,114,043	571,427
Total	274	$ 3,937,650	$ 914,413	$ 4,852,063	$ 1,905,439

All DOT National Defense Property, Plant, and Equipment (PP&E) is in the Maritime Administration (MARAD). The data continue to be refined. Capital improvements reflect all costs on record, some dating to the late 1970's.

Original cost is the original cost of the assets to MARAD or the cost to the Federal entity that originally purchased the assets and subsequently transferred the assets to MARAD. The MARAD acquisition cost is the value of the assets transferred and/or acquired by MARAD as if they were recorded under FASAB No. 6, Accounting for Property, Plant and Equipment (PP&E). FASAB No. 6 requires the cost of general PP&E transferred from other Federal entities to be the cost recorded by the transferring entity for the PP&E, net of accumulated depreciation or amortization. If the receiving entity cannot ascertain those amounts, the cost of the PP&E shall be its fair value at the time transferred. In this case, fair value is equal to the net book value of the assets as if depreciation took place since the date of the original acquisition.

NONFEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
TRANSPORTATION INVESTMENTS
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
Federal Aid Highways (HTF)	$19,967,116	$ 22,741,808	$ 24,920,221	$ 25,876,082	$ 29,377,231
Other Highway Trust Fund Programs	119,276	124,705	42,269	85,807	211,883
General Fund Programs	173,230	90,587	151,011	44,159	31,616
Appalachian Development System	187,173	137,265	157,219	23,801	146,306
Federal Motor Carrier	0	0	91,822	125,261	149,091
Federal Transit Administration					
Discretionary Grants	$ 1,872,945	$ 1,523,668	$ 1,199,725	$ 721,774	$ 495,322
Formula Grants	1,729,350	2,174,323	2,791,855	3,978,247	4,283,634
Capital Investment Grants	0	248,844	1,071,361	1,902,425	2,371,521
Washington Metro	183,626	161,834	108,518	115,856	89,227
Interstate Transfer Grants	2,693	10,602	836	2,716	8,155
Surface Transportation Nonfederal Physical Property Investments	$24,235,409	$ 27,213,636	$ 30,534,837	$ 32,876,128	$ 37,163,986

Air Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Aviation Administration					
Airport Improvement Program	$ 1,436,541	$ 1,612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542
Air Transportation Nonfederal Physical Property Investments	$ 1,436,541	$ 1,612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542
Total Nonfederal Physical Property Investments	$25,671,950	$ 28,826,503	$ 31,910,130	$ 35,054,704	$ 40,097,528

The **Federal Highway Administration** reimburses States for construction costs on projects related to the Federal Highway System of roads. The main programs in which the States participate are the National Highway System, Interstate Systems, Surface Transportation Program, and Congestion Mitigation/Air Quality Improvement. The States' contribution is ten percent for the Interstate System and twenty percent for most other programs.

The **Federal Transit Administration** provides grants to State and local transit authorities and agencies.

Discretionary grants provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Discretionary grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

Formula grants provide capital assistance to urban and nonurban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly individuals and individuals with disabilities.

Capital investment grants were created in the Transportation Equity Act for the 21st Century (TEA-21) to replace Discretionary grants. They continue to provide capital grants for new fixed guideway systems and extensions to existing fixed guideway systems (new starts), fixed guideway modernization, and bus and bus-related facilities.

Washington Metro provides funding to support the construction of the Washington Metrorail System.

Interstate Transfer Grants provided Federal funding from FY 1976 through FY 1995 to allow States and localities to fund transit capital projects substituted for previously withdrawn segments of the Interstate Highway System.

The **Federal Aviation Administration** (FAA) makes project grants for airport planning and development under the Airport Improvement Program (AIP) to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and State governments, and metropolitan planning authorities.

HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
National Highway Institute Training	$ 2,716	$ 2,540	$ 7,304	$ 3,202	$ 9,146
Federal Transit Administration					
National Transit Institute Training	3,116	3,600[1]	3,790	3,550[2]	3,946[2]
Research and Special Programs Administration					
Hazardous Materials (MAZMAT) Training	3,849	5,014	7,778	7,771	7,763
Surface Transportation Human Capital Investments	$ 9,681	$ 11,154	$ 18,872	$ 14,523	$ 20,855

Maritime Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Maritime Administration					
State Maritime Academies Training[3]	$ 7,900	$ 7,550	$ 7,773	$ 8,257	$ 8,257
Additional Maritime Training	453	463	463	463	463
Maritime Transportation Human Capital Investments	$ 8,353	$ 8,013	$ 8,236	$ 8,720	$ 8,720
Total Human Capital Investments	$ 18,034	$ 19,167	$ 27,108	$ 23,243	$ 29,575

The National Highway Institute develops and conducts various training courses for all aspects of **Federal Highway Administration.** Students are typically from the State and local police, State highway departments, public safety and motor vehicle employees, and U.S. citizens and foreign nationals engaged in highway work of interest to the U.S. Types of courses given and developed are modern developments, technique, management, planning, environmental factors, engineering, safety, construction, and maintenance.

The National Transit Institute of the **Federal Transit Administration** develops and offers training courses to improve transit planning and operations. Technology courses cover such topics as alternative fuels, turnkey project delivery systems, communications-based train controls, and integration of advanced technologies.

The **Research and Special Programs Administration** administers Hazardous Material Training (Hazmat). The purpose of Hazmat Training is to train State and local emergency personnel on the handling of hazardous materials in the event of a hazardous material spill or storage problem.

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[1] Estimate based on enacted budget authority for FY 1997, FY 1998, and FY 1999.
[2] Estimates based on enacted budget authority for FY 1998, FY 1999, FY 2000, and FY 2001, outlayed based on approved outlay rates for the National Transit Institute (5%, 4%, 50%, and 5%).
[3] Does not include funding for the Student Incentive Payment (SIP) Program which produces graduates who are obligated to serve in a reserve component of the United States armed forces.

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2002
(Dollars in Thousands)

Surface Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Highway Administration					
Intelligent Transportation Systems	$ 189,612	$ 286,105	$ 144,734	$ 103,980	$ 124,950
Other Applied Research & Development	123,739	137,588	132,634	118,425	183,142
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	5,966	5,912	5,476	1,931	1,931[4]
Transit University Transportation Center	2,556	2,280	8,971	3,492	8,168
Research Training and Human Resources	24	0	0	0	0
Discretionary/Capital Investment Grants	48	48	24	0	0
Research and Special Programs Administration					
Applied Research and Development					
Research and Technology	$ 1,738	$ 2,540	$ 1,963	$ 3,318	1,608
Pipeline Safety	792	1,780	1,980	1,404	4,000
Hazardous Materials	313	758	1,326	1,366	233
Emergency Transportation	35	204	198	244	137
Surface Transportation Research and Development Investments	$ 324,82	$ 437,215	$ 297,306	$ 234,160	$ 324,169

Air Transportation:	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
Federal Aviation Administration					
Research and Development Plant	$ 11,254	$ 14,290	$ 12,800	$ 46,988	$ 44,480
Applied Research	103,274	118,834	99,777	120,395	59,150
Development	48,237	18,358	7,175	3,419	603
Administration	54,179	36,466	46,219	10,130	3,020
Air Transportation Research and Development Investments	$ 216,944	$ 187,948	$ 165,971	$ 180,932	$ 107,253

[4] Estimate is based on the FY 2001 amount.

Maritime Transportation:

U.S. Coast Guard

Applied Research, Development, Test and Evaluation:					
Marine Safety	$ 9,416	$ 10,069	$ 8,936	$ 8,860	$ 9,171
Comprehensive Law Enforcement	4,228	4,521	4,013	3,978	4,117
Marine Environmental Protection	3,230	3,454	3,065	3,038	3,144
Waterways Management	2,701	2,889	2,563	2,545	2,634
Maritime Transportation Research and Development Investments	$ 19,575	$ 20,933	$ 18,577	$ 18,421	$ 19,066
Total Research and Development Investments	$ 561,342	$ 646,096	$ 481,854	$ 433,513	$ 450,488

The **Federal Highway Administration's** research and development programs are earmarks in the appropriations bills for the fiscal year. Typically these programs are related to safety, pavements, structures, and environment. Intelligent Transportation Systems were created to promote automated highways and vehicles to enhance the national highway system. The output is in accordance with the specifications within the appropriations act.

The **Federal Transit Administration** supports research and development in the following program areas:

Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.

Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.

Research and development activities were funded under the Research Training and Human Resources program until FY 1993. Since FY 1993, these activities have been funded under the Transit Planning and Research Program.

Discretionary Grants funded the National Research Program in FY 1992.

The **Research and Special Programs Administration** funds research and development activities for the following organizations and activities:

The Office of Pipeline Safety is involved in research and development in information systems, risk assessment, mapping, and non-destructive evaluation.

The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.

The Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

The Office of Research and Technology is involved in research and development for the University of Technology and Education.

The **Federal Aviation Administration** (FAA) conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence and wake vortices; aviation medicine, and human factors.

The **U.S. Coast Guard** funds research, development, testing, and evaluation in the following program areas:

Marine Safety research supports the Coast Guard and Departmental goal of safety by eliminating deaths, injuries, and property damage associated with maritime transportation, fishing, and recreational boating. Two major initiatives show great potential to help reduce the number of accidents on U.S. waterways: the development of risk management analytical tools for marine inspection and regulatory missions, and the development of fatigue countermeasures that minimize human error and reduce crew fatigue. The first pinpoints root-cause safety problems from the galaxy of components that can malfunction on complex marine engineering systems. The second addresses the 80% of maritime mishaps in which human error was the direct cause or was a major contributing factor. Other Marine Safety research and development initiatives are focused on more traditional research areas such as: improving the Computer-Assisted Search Planning (CASP) system used in tactical search and rescue (SAR) operations by more accurately applying all information available on wind, currents, survivor characteristics (i.e., life raft or personal flotation device); reducing the threat of shipboard fires by testing and evaluating ship fire safety systems; improving the coordination of Coast Guard operations through the use of new communications systems; and encouraging state-of-the-art marine engineering design through membership in the Ship Structure Committee (SSC), an interagency consortium that coordinates research to enhance marine safety.

Comprehensive Law Enforcement research supports the Coast Guard's performance goal of maritime security and DOT's strategic goal of national security. These research projects evaluate detection capability improvements, including identifying new technology to counter threats to Coast Guard detection and search devices, resulting in increased probability of detecting illegal smuggling and immigration.

Marine Environmental Protection research supports the Coast Guard's performance goal of protection of natural resources and DOT's strategic goal of human and natural environment. Marine Environmental Protection R&D projects focus on pollution prevention and response improvements, including developing predictive models and automated tools to improve spill response, and evaluating in-situ burning as a spill response tool. The Coast Guard R&D program supports pollution response strategies by improving the Coast Guard's ability to mobilize and respond to major oil and hazardous substance discharges, mitigating the effects on the environment from these pollutants, and improving cleanup capabilities. The Federal Oil Pollution Research and Technology Plan maps the coordination of activities among responsible Federal agencies and industry to upgrade spill response technology by developing, testing, and evaluating state-of-the-art training and command and control systems, equipment, and procedures.

Waterways management research supports the Coast Guard and Departmental mobility goal and the Departmental goal of economic growth and trade. Both of these goals rely on establishing an accessible, seamless, efficient, and flexible maritime transportation system. Coast Guard R&D is working to develop computerized tools to more effectively and efficiently manage their Aids to Navigation system.