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, Title IV of the Government Management Reform Act of 1994. 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 Circular No. A-136, Financial Reporting Requirements, has been used to prepare the Balance Sheet, 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.

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 2006.

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 23 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, which is recognized by the American Institute of Certified Public Accountants as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act 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 - includes OST Working Capital Fund)
- Federal Aviation Administration (FAA)
- 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)
- Surface Transportation Board (STB)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Research and Innovative Technology Administration (RITA—includes Volpe National Transportation System Center)

In November 2004, President Bush signed into law the Norman Y. Mineta Research and Special Program Improvement Act to be enacted in February 2005. This new law split Research and Special Programs Administration (RSPA) who ceases to exist into two different entities, Research and Innovative Technology Administration (RITA) and Pipeline and Hazardous Materials Safety Administration (PHMSA).

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 24.

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 2006. 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 2006, 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.

DOT accounted for revenues and other financing sources for earmarked funds separately from other funds. This new method was adopted in accordance with the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards (SFFAS) No. 27, Identifying and Reporting Earmarked Funds, which became effective October 1, 2005. This new standard amended SFFAS No. 7, Revenue and Other Financing Sources, by: (1) elaborating the special accountability needs associated with dedicated collections; (2) separating dedicated collections into two categories—earmarked funds and fiduciary activity; and (3) defining and providing accounting and reporting guidance for earmarked funds.

In accordance with SFFAS No. 27, DOT did not restate the prior period columns of the consolidated financial statements and related notes. See Note 18 for specific required disclosures related to the DOT's earmarked 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, 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.

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 Information section and the Required Supplementary Stewardship Reporting section of this statement. See Note 10 for specific required disclosures related to Stewardship Heritage Assets.

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. An example of an unfunded liability is actuarial liabilities for future Federal Employees' Compensation Act payments. The Government, acting in its sovereign capacity, can abrogate liabilities arising from other than contracts.

M. 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.

N. 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 OST Working Capital Fund, 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.

O. 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.

P. Comparative Data

Comparative data for the prior year have been presented for the principal financial statements and their related notes.

Q. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the Office of Treasury's Assessment (OTA), (b) yearend accruals of accounts and grants payable, (c) accrued workers' compensation, and (d) allowance for doubtful accounts receivable. Actual results may differ from these estimates.

R. Reclassifications

Certain reclassifications were made to the FY 2005 financial statement presentation to conform with that used in FY 2006.

S. Parent/Child Allocations

According to OMB Circular No. A-136, effective FY 2007 the parent must report all budgetary and proprietary activity of the child account in its financial statements, whether material to the parent or not. For FY 2006, DOT implemented this requirement early as agreed upon by its child agencies and reported all budgetary and proprietary activity in its financial statements, except for the proprietary activity related to the funds allocated to the U.S. Army Corps of Engineers and U.S. Forest Service.

As of September 30,	2006	2005
Intragovernmental		
Fund Balance with Treasury	$ 186	$ 7,066
Accounts Receivable	—	2,931
Total Intragovernmental	186	9,997
Accounts Receivable	39	1,637
Total Non-Entity Assets	225	11,634
Total Entity Assets	65,065,396	65,956,912
Total Assets	$ 65,065,621	$ 65,968,546

FUND BALANCE WITH TREASURY

Dollars in Thousands

As of September 30,		2006		2005
Fund Balances				
Trust Funds	$	7,883,395	$	4,992,309
Revolving Funds		591,806		609,041
Appropriated Funds		18,930,510		22,713,473
Other Fund Types		287,197		826,019
Total Fund Balances	$	27,692,908	$	29,140,842
Status of Fund Balance With Treasury				
Unobligated				
Available	$	4,248,737	$	8,171,205
Unavailable		1,403,548		1,461,669
Obligated Balance Not Yet Disbursed		21,715,828		19,145,967
Non-Budgetary Fund Balance With Treasury		324,795		362,001
Total Status of Fund Balance With Treasury	$	27,692,908	$	29,140,842

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.

As of September 30, 2006	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	$ 152,616	$ 2,037	$ 154,653	$ (3,233)	$ 151,420
Non-Marketable					
Par Value	18,890,967	—	18,890,967	—	18,890,967
Market-Based	698,055	(1,388)	696,667	—	696,667
Subtotal	19,741,638	649	19,742,287	(3,233)	19,739,054
Accrued Interest	85,097	—	85,097	—	85,097
Total Intragovernmental	$ 19,826,735	$ 649	$ 19,827,384	$ (3,233)	$ 19,824,151

As of September 30, 2005	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	$ 65,850	$ (799)	$ 65,051	$ (635)	$ 64,416
Non-Marketable					
Par Value	18,318,001	—	18,318,001	—	18,318,001
Market-Based	528,116	(663)	527,453	—	527,453
Subtotal	18,911,967	(1,462)	18,910,505	(635)	18,909,870
Accrued Interest	91,129	—	91,129	—	91,129
Total Intragovernmental	$ 19,003,096	$ (1,462)	$ 19,001,634	$ (635)	$ 19,000,999

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 Debt 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.

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for Government purposes. Treasury securities are issued to the DOT as evidence of its receipts. Treasury securities are an asset to the DOT and a liability to the U.S. Treasury. Because the DOT and the U.S. Treasury are both parts

INVESTMENTS (CONT.)

Dollars in Thousands

of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

Treasury securities provide the DOT with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the DOT requires redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

	Gross Amount Due	Allowance for Uncollectable Amounts	FY 2006 Net Amount Due	FY 2005 Net Amount Due
Intragovernmental				
Accounts Receivable	$ 212,616	$ —	$ 212,616	$ 358,857
Total Intragovernmental	212,616	—	212,616	358,857
Public				
Accounts Receivable	$ 172,686	$ 69,315	$ 103,371	$ 144,454
Accrued Interest	—	—	—	113
Total Public	172,686	69,315	103,371	144,567
Total Receivables	$ 385,302	$ 69,315	$ 315,987	$ 503,424

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.

OTHER ASSETS

Dollars in Thousands

		FY 2006		FY 2005
Intragovernmental				
Advances and Prepayments	$	37,946	$	95,627
Other		—		719
Total Intragovernmental	$	37,946	$	96,346
Public				
Advances to the States	$	98,401	$	95,861
Other Advances and Prepayments		96,550		62,486
Other		555		2,536
Total Public	$	195,506	$	160,883

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. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

Dollars in Thousands

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

1. Railroad Rehabilitation Improvement Program
2. Amtrak Loans
3. Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
4. Federal Ship Financing Fund (Title XI)
5. OST Minority Business Resource Center Guaranteed Loan Program
6. Federal Ship (Title XI) Liquidating Fund

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, Net

FY 2006

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss method					
(1) Railroad Rehab. Improvement	$ 21,900	$ 82	$ —	$ —	$ 21,982
Direct Loan Programs (After FY 1991)					
(1) Railroad Rehab. Improvement	$ 449,320	$ —	$ —	$ 9,471	$ 458,791
(3) TIFIA Loan	117,950	—	—	(8,901)	109,049
Subtotal	$ 567,270	$ —	$ —	$ 570	$ 567,840

FY 2005

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss method					
(1) Railroad Rehab. Improvement	$ 26,078	$ —	$ —	$ —	$ 26,078
Direct Loan Programs (After FY 1991)					
(1) Railroad Rehab. Improvement	$ 398,197	$ 6,453	$ —	$ (10,242)	$ 394,408
(3) TIFIA Loan	289,876	8,031	—	(22,835)	274,072
Subtotal	688,073	14,484	—	(34,077)	668,480

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	FY 2006	FY 2005
(1) Railroad Rehab. Improvement	$ 79,249	$ 85,808
(3) TIFIA Loan	43,683	102,087
Subtotal	$ 122,932	$ 187,895

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

Subsidy Expense for Direct Loans by Program and Component

FY 2006

Subsidy Expense for New Direct Loans Disbursed

	Interest Differential	Defaults	Fees & Other Collections	Modifications / Re-Estimates	Total
Direct Loan Programs					
(3) TIFIA Loans	—	3,101	218	(11,821)	(8,502)
Subtotal	$ —	$ 3,101	$ 218	$ (11,821)	$ (8,502)

FY 2005

	Interest Differential	Defaults	Fees & Other Collections	Modifications / Re-Estimates	Total
Direct Loan Programs					
(1) Railroad Rehab. Improvement	$ —	$ —	$ —	$ 14,585	$ 14,585
(3) TIFIA Loans	—	6,926	—	2,884	9,810
Subtotal	$ —	$ 6,926	$ —	$ 17,469	$ 24,395

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

FY 2006	Interest Differential	Defaults	Fees & Other Collections	Other	Total
Direct Loan Programs					
(1) Railroad Rehab. Improvement	0.00%	0.00%	0.00%	0.00%	0.00%
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	0.00%	0.00%	0.00%	0.00%	0.00%

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

Beginning Balance, Changes, and Ending Balance	FY 2006	FY 2005
Beginning Balance of the Subsidy Cost Allowance	$ 34,077	$ 33,496
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Fees and Other Collections	157	(1,238)
Other Subsidy Costs	(4,078)	—
Total of the Above Subsidy Expense Components	$ (3,921)	$ (1,238)
Adjustments		
Subsidy Allowance Amortization	(6,432)	(15,650)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 23,724	$ 16,608
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	(510)	140
Technical/Default Reestimate	(23,784)	17,329
Total of the Above Reestimate Components	$ (24,294)	$ 17,469
Ending Balance of the Subsidy Cost Allowance	**$ (570)**	**$ 34,077**

. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

Defaulted Guaranteed Loans from Post-1991 Guarantees

FY 2006	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
(4) Federal Ship (Title XI) Financing Fund	$ 7,713	$ 144	$ 19,000	$ 1,500	$ 28,357
FY 2005					
(4) Federal Ship (Title XI) Financing Fund	$ 87,357	$ 2,617	$ 19,004	$ (43,088)	$ 65,890

Guaranteed Loans Outstanding

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(4) Federal Ship (Title XI) Financing Fund	2,936,187	2,936,187
(5) OST Minority Business Resource Center	5,011	4,015
(6) Federal Ship (Title XI) Liquidating Fund	6,781	6,781
Subtotal	$ 2,947,979	$ 2,946,983

New Guaranteed Loans Disbursed

FY 2006		
(4) Federal Ship (Title XI) Financing Fund	139,731	139,731
(5) OST Minority Business Resource Center	2,515	1,886
Subtotal	$ 142,246	$ 141,617
FY 2005		
(4) Federal Ship (Title XI) Financing Fund	11,969	11,969
(5) OST Minority Business Resource Center	6,200	4,650
Subtotal	$ 18,169	$ 16,619

Liability for Loan Guarantees (Present Value Method Post-1991 Guarantees)

Loan Guarantee Programs	FY 2006 Total Liabilities for Loan Guarantees	FY 2005 Total Liabilities for Loan Guarantees
(4) Federal Ship (Title XI) Financing Fund	$ 345,341	$ 392,870
(5) OST Minority Business Resource Center	523	581
Total	$ 345,864	$ 393,451

. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

Subsidy Expense for Loan guarantees by Program and Component

Subsidy Expense for New Loan Guarantees Disbursed

FY 2006	Defaults Net	Fees & Other Collections	Other Subsidy Costs	Modifications / Re-Estimates	Total
(4) Federal Ship (Title XI) Financing Fund	(3,378)	(12,707)	75,210	(106,654)	(47,529)
(5) OST Minority Business Resource	(77)	—	—	—	(77)
Subtotal	$ (3,455)	$ (12,707)	$ 75,210	$ (106,654)	$ (47,606)
FY 2005					
(4) Federal Ship (Title XI) Financing Fund	(876)	5,793	9,582	—	14,499
(5) OST Minority Business Resource	131	—	—	(136)	(5)
Subtotal	$ (745)	$ 5,793	$ 9,582	$ (136)	$ 14,494

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

FY 2006

	Interest Differential	Defaults	Fees & Other Collections	Other	Total
Loan Guarantee Programs					
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
(4) Federal Ship (Title XI) Financing Fund	0.00%	12.52%	(4.88)%	0.00%	7.64%
(5) OST Minority Business Resource	0.00%	1.85%	0.00%	0.00%	1.85%
Subtotal	0.00%	14.37%	(4.88)%	0.00%	9.49%

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)

Dollars in Thousands

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

Beginning Balance, Changes, and Ending Balance		FY 2006		FY 2005
Beginning Balance of the Loan Guarantee Liability	$	393,451	$	378,612
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component				
Default Costs (net of recoveries)		(3,455)		(745)
Fees and Other Collections		(12,707)		5,793
Other Subsidy Costs		75,210		9,582
Total of the Above Subsidy Expense Components	$	59,048	$	14,630
Adjustments				
Fees Received		—		(6,068)
Interest Supplements Paid		—		(12,000)
Interest Accumulation on the Liability Balance		19		18,413
Ending Balance of the Loan Guarantee Liability Before Reestimates	$	452,518	$	393,587
Add or Subtract Subsidy Reestimates by Component				
Technical/Default Reestimate		(106,654)		(136)
Total of the Above Reestimate Components	$	(106,654)	$	(136)
Ending Balance of the Loan Guarantee Liability	$	345,864	$	393,451

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 loan 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. DOT calculated the allowance for pre-1992 using the allowance for loss method.

Administrative costs could not be determined and disclosed because DOT has not fully implemented cost accounting Department-wide.

NOTE 8. INVENTORY AND RELATED PROPERTY

Dollars in Thousands	Cost	Allowance for Loss	FY 2006 Net	FY 2005 Net
Inventory				
Inventory Held for Current Sale	$ 69,960	$ 6,031	$ 63,929	$ 87,928
Excess, Obsolete and Unserviceable Inventory	47,607	5,814	41,793	11,962
Inventory Held for Repair	376,366	87,615	288,751	328,661
Other	224,652	35,774	188,878	13,632
Total Inventory	$ 718,585	$ 135,234	$ 583,351	$ 442,183
Operating Materials and Supplies				
Items Held for Use	$ 229,098	$ 3,061	$ 226,037	$ 430,039
Items Held for Reserve for Future Use	69,414	—	69,414	66,472
Excess, Obsolete and Unserviceable Items	758	758	—	—
Items Held for Repair	33,558	14,866	18,692	945
Total Operating Materials & Supplies	$ 332,828	$ 18,685	$ 314,143	$ 497,456
Total Inventory and Related Property			$ 897,494	$ 939,639

All DOT inventory is in FAA and the OST Working Capital Fund. Valuation methods used include moving weighted average, standard price/specific identification, and last acquisition price.

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

GENERAL PROPERTY, PLANT AND EQUIPMENT

Dollars in Thousands

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation	FY 2006 Net Book Value	FY 2005 Net Book Value
Land and Improvements		$ 113,482	$ 393	$ 113,089	$ 102,882
Buildings and Structures	Various	4,388,151	2,307,250	2,080,901	2,084,107
Furniture and Fixtures	Various	55,112	25,827	29,285	40,738
Equipment	Various	15,752,755	8,055,763	7,696,992	7,655,284
ADP Software	Various	163,967	143,688	20,279	27,459
Electronics	6-10 years	2,720	2,626	94	8
Assets Under Capital Lease	Various	127,024	89,181	37,843	45,191
Leasehold Improvements	Various	59,933	29,491	30,442	31,573
Aircraft	11-20 years	401,614	280,758	120,856	138,471
Ships and Vessels	Over 20 years	1,653,368	1,110,010	543,358	621,917
Small Boats	Various	15,648	14,240	1,408	649
Construction in Progress		4,741,761	—	4,741,761	4,565,239
Property Not in Use		117,050	86,598	30,452	4,700
Other Miscellaneous Property		73,097	64,046	9,051	7,174
Total		$ 27,665,682	$ 12,209,871	$ 15,455,811	$ 15,325,392

Depreciation is computed using the straight line method. 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 Supplementary Information.

NOTE 10. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

STEWARDSHIP MISSION

Implied within the Maritime Administration's mission is the promotion of the Nation's rich maritime heritage. One aspect of this entails the collection, maintenance and distribution of maritime artifacts removed from MARAD ships prior to their disposal. These artifacts are sought for public display in museums, aboard memorial ships, and in facilities used by government organizations and issued on a long-term loan basis for this purpose.

Washington's Union Station support's DOT's mobility mission, facilitating the movement of intercity and commuter rail passengers through the Washington DC metropolitan area.

STEWARDSHIP POLICY

The Maritime Administration has established a list of artifact-type items that are typically found aboard agency-owned ships. As ships are assigned to a non-retention status in preparation for disposal, artifact items are collected, inventoried, photographed and relocated to secure shoreside storage facilities. This resulting inventory of artifacts is made available for long-term loan to qualified organizations for public display purposes. Qualified organizations have access to the artifact inventory via Web-based system. The artifact loan process is also managed on-line via this system. The program also supports required National Historical Preservation Act processing prior to vessel disposal. Funding for the maintenance of heritage items is typically the responsibility of the organization requesting the loan. As all items are durable and restorable, disposal is not a consideration.

The Federal Railroad Administration has an oversight role in the management of Washington Union Station. FRA received title through legislation, and sublets the property to Union Station Venture Limited which manages the property.

Net book value of multi-use heritage assets is included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplementary Information. The condition of the stewardship assets is included in the Deferred Maintenance section of the Required Supplementary Information.

Dollars in Thousands

	FY 2006	FY 2005
Intragovernmental		
Debt	$ 4,841	$ —
Other Liabilities	356,460	477,063
Total Intragovernmental	$ 361,301	$ 477,063
Accounts Payable	$ —	$ 44
Federal Employee and Veterans' Benefits Payable	950,466	1,007,303
Environmental and Disposal Liabilities	953,634	1,003,585
Other Liabilities	922,089	1,011,512
Total Liabilities Not Covered by Budgetary Resources	$ 3,187,490	$ 3,499,507
Total Liabilities Covered by Budgetary Resources	10,495,792	9,372,831
Total Liabilities	$ 13,693,282	$ 12,872,338

Dollars in Thousands

	FY 2005 Ending Balance	Net Change During Fiscal Year	FY 2006 Ending Balance
Intragovernmental Debt			
Debt to the Treasury	$ 949,653	$ (112,973)	$ 836,680
Debt to the Federal Financing Bank	2,883	(206)	2,677
Total Intragovernmental	$ 952,536	$ (113,179)	$ 839,357

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, for FHWA direct loans under the Transportation Infrastructure Finance and Innovation Act (TIFIA), and for MARAD Title XI guaranteed loans.

Dollars in Thousands

FY 2006

	Non-Current	Current	FY 2006 Total
Intragovernmental			
Advances and Prepayments	$ —	$ 2,797,414	$ 2,797,414
Accrued Pay and Benefits	993	52,546	53,539
FECA Billings	121,877	91,572	213,449
Uncleared Disbursements and Collections	—	(26,967)	(26,967)
Deferred Credits	—	2,199	2,199
Deposit Funds	—	(2,437)	(2,437)
Other Accrued Liabilities	164,702	10,992	175,694
Total Intragovernmental	$ 287,572	$ 2,925,319	$ 3,212,891
Public			
Other Accrued Unbilled Payments	$ —	$ 11,772	$ 11,772
Accrued Pay and Benefits	182,330	686,968	869,298
Legal Claims	3,281	8,001	11,282
Deferred Credits	115,175	74,675	189,850
Capital Leases	34,199	8,607	42,806
Advances and Prepayments	—	105,554	105,554
Uncleared Disbursements and Collections	—	6,548	6,548
Deposit Funds	(3,950)	3,139	(811)
Other Custodial Liability	—	57,902	57,902
Other Accrued Liabilities	88,991	25,990	114,981
Total Public	$ 420,026	$ 989,156	$ 1,409,182

FY 2005

	Non-Current	Current	FY 2005 Total
Intragovernmental			
Advances and Prepayments	$ —	$ 2,689,272	$ 2,689,272
Accrued Pay and Benefits	—	45,902	45,902
Undisbursed Loans	152,634	—	152,634
FECA Billings	118,311	92,178	210,489
Uncleared Disbursements and Collections	—	(35,698)	(35,698)
Deposit Funds	—	9,094	9,094
Other Accrued Liabilities	2,125	304,746	306,871
Total Intragovernmental	$ 273,070	$ 3,105,494	$ 3,378,564
Public			
Other Accrued Unbilled Payments	$ —	$ 81,143	$ 81,143
Accrued Pay and Benefits	134,055	721,692	855,747
Legal Claims	470	6,588	7,058
Deferred Credits	27,903	1,766	29,669
Capital Leases	42,597	8,193	50,790
Advances and Prepayments	—	258,418	258,418
Uncleared Disbursements and Collections	—	(7,495)	(7,495)
Deposit Funds	(2)	2,145	2,143
Other Custodial Liability	231	8,457	8,688
Other Accrued Liabilities	331,577	23,678	355,255
Total Public	$ 536,831	$ 1,104,585	$ 1,641,416

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.

Dollars in Thousands

Grant liabilities are accrued in two categories. The first category is grant related requests for payments that had been billed to an agency as of September 30, but had not yet been paid. The second category is for the grant related costs incurred, but not yet reported (IBNR). IBNR represents an estimate of amounts due to grantees for their expenditures made through September 30, for which payment requests have not been received from grantees as of September 30.

Grant accruals, by Operating Administration, at September 30, 2006 and 2005, are summarized as follows:

	FY 2006	FY 2005
Highway Trust Fund	$ 3,556,098	$ 2,274,780
Federal Transit Administration	1,437,190	1,281,550
Federal Aviation Administration	549,758	507,590
Federal Highway Administration (non-trust fund)	34	17,908
Federal Railroad Administration	3,815	4,900
Total Grant Accrual	**$ 5,546,895**	**$ 4,086,728**

Dollars in Thousands

	FY 2006	FY 2005
Public		
Environmental Cleanup Liabilities		
FAA Environmental Remediation	$ 573,263	$ 596,536
MARAD Environmental Cleanup (PCB, Lead, Oil)	380,371	407,049
Total Public	**$ 953,634**	**$ 1,003,585**

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.

The current law requires all non-retention ships to be disposed of by the end of FY 2006. If an extension of this requirement is not granted and/or foreign scrapping is not available, then MARAD could realize a substantial increase in this unfunded environmental liabilities.

Dollars in Thousands

Capital Leases

Summary of Assets Under Capital Lease by Category		
Land and Buildings	$	127,024
Accumulated Amortization		(89,181)
Net Assets Under Capital Lease	$	37,843

Capital Leases—Future Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
Year 1(2007)	$ 11,541	$ —	$ 11,541
Year 2 (2008)	9,948	—	9,948
Year 3 (2009)	9,656	—	9,656
Year 4 (2010)	8,978	—	8,978
Year 5 (2011)	7,951	—	7,951
After 5 Years (2012+)	16,945	—	16,945
Total Future Lease Payments	$ 65,019	$ —	$ 65,019
Less			
Imputed Interest	22,213	—	22,213
Net Capital Lease Liability	$ 42,806	$ —	$ 42,806
Liabilities Not Covered by Budgetary Resources			$ 42,806

Operating Leases—Future Payments Due

Fiscal Year	Land and Buildings	Machinery and Equipment	Total
Year 1(2007)	$ 112,589	$ 20,250	$ 132,839
Year 2 (2008)	89,328	20,250	109,578
Year 3 (2009)	75,843	20,250	96,093
Year 4 (2010)	61,915	16,750	78,665
Year 5 (2011)	50,166	16,750	66,916
After 5 Years (2012+)	244,871	33,500	278,371
Total Future Lease Payments	$ 634,712	$ 127,750	$ 762,462

NOTE 17. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

Contingencies

Hurricane Disaster Relief. In September 2005, Hurricanes Katrina, Rita, and Wilma significantly affected certain sections with the states of Louisiana, Florida, Mississippi, Texas and Alabama.

Currently DOT in conjunction with other Federal entities is assessing the estimated financial impact of the affected areas. As of September 30, 2006, DOT obligated $1.83 billion of which $389 million will reimbursed to the DOT from FEMA.

During FY 2006 Congress, through Public Law 109-148, appropriated an additional $2.75 billion for bridge and road repair. These funds cover certain transit and travel costs used in evacuating and relocating displaced persons; a Ready Reserve Fleet of ships used for temporary housing, relief and recovery; airfield and terminal repairs; restoration of FAA facilities; pipeline inspection; emergency work to restore essential traffic and minimize damage, and protect remaining facilities and; repair and rebuild railroad infrastructure in a safe manner.

Legal Claims. As of September 30, 2006 and 2005, DOT's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $27.9 million and $65.1 million, respectively. DOT does not have material amounts of known unasserted claims.

Grant Programs. FHWA pre-authorizes States to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the States for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the States can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. For the fiscal year ended September, 2006 and 2005, FHWA has pre-authorized $45 billion and $40 billion, respectively, under these arrangements; however, no liability is reflected in the Highway Trust Fund financial statements at September, 2006 and 2005.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2006 and 2005, approximately $1.4 billion and $2.2 billion respectively in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2006, for these agreements.

Contract Options and Negotiations. As of September 30, 2006 and 2005, FAA had contract options of $3.35 billion and $10 billion, respectively. These contract options 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.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which 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, to the extent practical.

FAA maintains standby non-premium war-risk insurance policies for 37 air carriers having approximately 1,634 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the Air Transportation Safety and System Stabilization Act (Public Law 107-42) expanded premium insurance program authority to permit insurance of domestic operations. Under this program, FAA initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 (and subsequent amendments) required FAA to extend policies in effect on July 19, 2002, until August 31, 2006. The Secretary of Transportation has extended coverage through December 31, 2006 as allowed by Public Law 108-11. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. During this year there were 75 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from $100 million to $4 billion.

Current war risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress. During FY 2006 and FY 2005, FAA recognized insurance premium revenue of $168.4 million and $157.5 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the FAA's Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

The maximum liability for both hull loss and liability, per occurrence, is $4 billion. No claims for losses were pending as of September 30, 2006, or 2005. In the past, FAA has insured a small number of air carrier operations and established a maximum liability for losing one aircraft. Since the inception of the Aviation 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.

Commitments

Grant Programs. FAA's Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements related to enhancing airport safety, capacity, security and environmental concerns. FAA's share of eligible costs for large and medium primary hub airports is 75 percent with the exception of noise program implementation, which is 80 percent. For remaining airports (small primary, relievers, and general aviation airports), FAA's share of eligible costs is 95 percent.

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2006, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.3 billion. As of September 30, 2006, FAA had obligated $3.8 billion of this total amount leaving $1.5 billion unobligated.

Through September 30, 2005, FAA issued letters of intent covering FY 1988 through FY 2017 totaling $4.7 billion. As of September 30, 2005, FAA had obligated $3.6 billion of this total amount, leaving $1.1 billion unobligated.

Dollars in Thousands

Highway Trust Funds

The Highway Trust Fund is comprised of the Highway Corpus Trust Fund and certain accounts of the Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Transit Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. The use of the fund has also been expanded to brace highway safety. The HTF prepares financial statements in accordance with generally accepted accounting principles and the form and content requirements specified by the Office of Management and Budget's Financial reporting Requirements No. A-136. Financial reports are also used to monitor and control budgetary resources, which are prepared from the same books and records. Overall, there are 64 earmarked funds in the HTF.

Federal Aviation Administration Trust Funds

Aviation Insurance Revolving Fund (AIRF) was authorized under Public Law Title 49 of the U.S. Code to provide insurance coverage for aircraft operations that are deemed essential to the foreign policy interests of the United States when commercial insurance is unavailable on reasonable terms. The AIRF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Aviation User Fees (AUF) was authorized by the Federal Aviation Reauthorization Act of 1996 and Title 49 U.S. Code 45301, as amended by Public Law 104-264, to establish a fee schedule and collection process for air traffic control and related services provided to aircraft, other than military and civilian aircraft of the U.S. government or a foreign government, that neither take off nor land in the United States. The AUF is a separate fund within FAA's accounting structure and included as part of FAA's consolidated financial statements.

Airport and Airway Trust Fund (AATF) was authorized by the Airport and Airway Revenue Act of 1970 to provide funding for the Federal commitment to the nations aviation system and typically includes annual funding for four distinct areas; Operations, Grant in Aid for Airports, Facilities and Equipment and Research, Engineering and Development. The activity within each area is reported by fund group within FAA's accounting structure and included as part of FAA's consolidated financial statements. The AATF is managed by the Bureau of Public Debt (BPD) for FAA and receipts are unavailable until appropriated by the U. S. Congress. AATF funds are invested in government securities by BPD which are liquidated and transferred to authorized funds as needed. The unavailable or unappropriated funds in AATF, referred to as Corpus, are also included as part of FAA's consolidated financial statements.

Federal Highway Administration Non-Trust Funds

Trust funds are accounts established by law to hold receipts collected by the Federal Government earmarked for financing special purposes and programs. Examples of receipts are specific taxes and revenue. Earmarked funds are tracked separately to ensure expenditures do not exceed available revenues. The use of earmaked fund receipts are authorized by Congress.

Federal Transit Administration (Mass Transit)

Fiscal Year 2005 and prior, FTA programs were funded 80 percent through the Mass Transit account and 20 percent through Treasury General Receipt (Fund) account. During these prior years, FTA's formula programs were paid out of general fund accounts combined with financing sources transferred in without reimbursement from expenditure transfers from an FTA conduit Trust Fund account (69X8350). The Mass Transit account is considered earmarked funds as described in FASAB SFFAS 27, *Identifying and Reporting Earmarked Funds*.

SAFETEA-LU legislation (Public Law 109-59) changed the way FTA programs are funded. Beginning in FY 2006, FTA formula and bus appropriation (69X8350) is funded 100 percent by the Mass Transit account and is reported in the HTF financial statements as earmarked funds. The administrative, capital investment and research accounts are funded 100 percent by the Treasury General Receipt account and is reported as non-HTF activity in the financial statements.

Maritime Administration

War Risk Insurance Fund. MARAD is authorize to insure against loss or damage from marine war risks until commercial insurance can be obtained on reasonable terms and conditions. This insurance includes war risk hull and disbursement interim insurance, war risk protection and indemnity interim insurance, second seaman's war risk interim insurance and war risk cargo insurance standby program.

Special Study, Services & Project Fund. All payments for work or services performed or to be performed under the Act shall be deposited in this separate accounts which may be used to pay directly the costs of such work or services.

Gifts and Bequests Fund. The Secretary is authorized to accept, hold, administer and gifts and bequests of property, both real and personal for the purpose of aiding or facilitating the work of Department of Transportation.

Office of the Secretary

X-5423 - Emergency Air Service post 911 travel; X-8304—Emergency Air Service post 911 travel; X-8548—Investment at Treasury from a gift that earns interest twice a year.

Pipeline and Hazardous Material Safety Administration

The pipeline funds are used to oversee the safety, security, and environmental protection of pipeline through analysis of data, damage prevention, education and training, enforcement of regulations and standards, research and development, grants for State pipeline safety programs, and emergency planning and response to accidents. PHMSA reports this as a Special Fund. Collections are deposited to an Unappropriated Receipt Account and funds are drawn down as needed during the year up to the limitation established by Congress. The authority is established by Public Law 109-115.

Trust Fund provides funding for pipeline to provide regulations, proposed and final rulemakings, pipeline statistics, report accidents/incidents and corrective action orders. PHMSA reports this fund as a Special Fund. The authority is established by Public Law 109-115.

Emergency Preparedness Grants funds are used to establish a national registration program for shippers and carriers of hazardous materials. These fees finance emergency preparedness planning and training grants, development of a training curriculum for emergency responders, and technical assistance to States, political subdivisions, and Indian tribes. This fund is reported as a Special Fund. The authority is established by Public Law 109-115.

Sources of Earmarked Funds

Highway Trust Funds. The funding needed to support the HTF programs and activities are financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. Annual appropriations are the authority to collect these tax revenues to support programs as authorized by law. A small portion of the financing revenues are provided by offsetting collections for work performed under a reimbursable agreement. Taxes are recognized as revenues at the time they are deposited in the Highway Trust Fund Corpus account.

Aviation Insurance Revolving Fund. FAA collects insurance premiums from participating carriers that finance a continuing cycle of operations. These revenues are inflows of resources to the government.

Aviation User Fees. FAA collects overflight user fees for providing air traffic control services. These revenues are inflows of resources to the government.

Airport and Airway Trust Fund. Funding currently comes from several aviation related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills and aviation fuels. These revenues are inflows of resources to the government.

Federal Highway Administration Non Trust Funds. Source of funding is from receipts that come in from various public sources. The level of funding is not known. These receipts are the sole source of funding for miscellaneous trust funds.

Federal Transit Administration (Mass Transit). FTA had a significant amount (greater than 50 percent) of its earmarked funds in the FTA general fund accounts. To properly comply with FASAB 27, FTA management decided to report the majority of the funds in their general fund appropriation accounts as earmarked funds.

Maritime Administration. War Risk Insurance Fund—Insurance premium; Special Study, Services & Project Fund—Fee for performing work or service; Gift and Bequests Fund—Donation.

Office of the Secretary. X-5423—Funding comes from FAA as a transfer of funds, 100 percent intragovernmental flow; X-8304—Funding comes from the Bureau of Public Debt as a transfer of funds, 100 percent intragovernmental flow; X-8548—Investment at Treasury from a gift that earns interest twice a year, 100 percnet resources to the Government.

Pipeline and Hazardous Material Safety Administration. Pipeline—Financing is a result of user fees; Trust Fund—Funds are appropriated and received from the BPD Trust fund; EP Grants—Financing is obtained from registration fees.

There were not changes in legislation as of September 30, 2006, that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance.

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Dollars in Thousands

Balance Sheet	Highway Trust Fund	FAA Programs	Airport and Airway Trust Fund	Mass Transit	All Other Funds	Fy 2006 Consolidated Total
Assets						
Fund Balance with Treasury	$ 4,431,555	$ 2,597,692	$ 645,458	$ 5,858,113	$ 445,251	$ 13,978,069
Investments, Net	10,997,655	707,190	7,967,539	—	37,413	19,709,797
Accounts Receivable, Net	38,564	2,470,079	—	15,064	11,824	2,535,531
Property, Plant & Equipment	101,070	—	—	—	4,275	105,345
Other	191,346	3,455,833	—	8,445	12,034	3,667,658
Total Assets	$ 15,760,190	$ 9,230,794	$ 8,612,997	$ 5,881,622	$ 510,797	$ 39,996,400
Liabilities and Net Position						
AATF Due to FAA	$ —	$ —	$ 2,214,186	$ —	$ —	$ 2,214,186
Liabilities	3,888,600	2,427,234	—	581,236	148,719	7,045,789
Unexpected Appropriation	—	426,474	—	171,578	84,449	682,501
Cumulative Results of Operations	11,871,590	6,377,086	6,398,811	5,128,808	277,629	30,053,924
Total Liabilities and Net Position	$ 15,760,190	$ 9,230,794	$ 8,612,997	$ 5,881,622	$ 510,797	$ 39,996,400
Statement of Net Cost						
Program Costs	$ 37,203,191	$ 2,066,167	$ 11,604,263	$ 3,694,562	$ 169,062	$ 54,737,245
Less: Earned Revenue	61,846	640,181	—	59,163	213,430	974,620
Net Program Costs	37,141,345	1,425,986	11,604,263	3,635,399	(44,368)	53,762,625
Net Cost of Operations	$ 37,141,345	$ 1,425,986	$ 11,604,263	$ 3,635,399	$ (44,368)	$ 53,762,625
Statement of Changes in Net Position						
Beginning Net Position	$ 10,231,428	$ 6,314,719	$ 7,317,573	$ 8,844,979	$ 127,618	$ 32,836,317
Budgetary Financing Sources	38,752,831	2,515,678	10,685,501	90,666	190,045	52,234,721
Other Financing Sources	28,676	(600,851)	—	140	47	(571,988)
Net Cost of Operations	37,141,345	1,425,986	11,604,263	3,635,399	(44,368)	53,762,625
Net Position End of Period	$ 11,871,590	$ 6,803,560	$ 6,398,811	$ 5,300,386	$ 362,078	$ 30,736,425

NOTE 19. NET COST BY PROGRAM
Dollars in Thousands

	FY 2006	FY 2005
PROGRAM COSTS		
SURFACE		
Federal Aid Highway Program	$ 33,552,312	$ 31,163,144
Mass Transit Program	9,428,642	8,078,973
Other Surface Transportation Program	3,546,222	3,067,293
Total Surface Program Costs	$ 45,527,176	$ 42,309,410
AIR		
Air Traffic Services	$ 9,615,233	$ 8,931,418
Airports	3,851,902	3,711,927
Aviation Safety	943,242	1,075,118
Other Federal Aviation Administration Programs	27,585	296,560
Commercial Space	15,249	14,073
Total Air Program Costs	$ 14,453,211	$ 14,029,096
MARITIME		
Maritime Operations and Training	$ 149,242	$ 54,872
Maritime Guaranteed Loan	(58,940)	(14,403)
Maritime Security Program	154,700	98,484
Maritime Ocean Freight Differential Program	161,088	105,503
Maritime Vessel Operations Revolving Fund	31,144	26,788
Maritime Operating Differential Subsidy	220	517
Maritime Operating Ship Disposal	21,201	14,332
Other Maritime Programs	(1,130)	(7,179)
Total Maritime Program Costs	$ 457,525	$ 278,914
CROSS-CUTTING		
Office of the Secretary Working Capital Fund	$ 5,127	$ 3,999
Volpe National Transportation Systems Center	2,228	4,729
Total Cross-Cutting Program Costs	$ 7,355	$ 8,728

	FY 2006	FY 2005
Surface Transportation		
Federal-Aid Highway Program		
Intragovernmental Gross Costs	$ 251,703	$ 240,562
Less: Intragovernmental Earned Revenue	8,263	17,502
Intragovernmental Net Costs	243,440	223,060
Gross Costs with the Public	33,329,236	30,978,622
Less: Earned Revenues from the Public	20,364	38,538
Net Costs with the Public	33,308,872	30,940,084
Total Net Cost	$ 33,552,312	$ 31,163,144
Mass Transit Program		
Intragovernmental Gross Costs	$ 3,344	$ 91,817
Less: Intragovernmental Earned Revenue	54,301	37,977
Intragovernmental Net Costs	(50,957)	53,840
Gross Costs with the Public	9,469,186	8,026,289
Less: Earned Revenues from the Public	(10,413)	1,156
Net Costs with the Public	9,479,599	8,025,133
Total Net Cost	$ 9,428,642	$ 8,078,973
Other Surface Transportation Programs		
Intragovernmental Gross Costs	$ 223,100	$ 284,932
Less: Intragovernmental Earned Revenue	70,354	(4,185)
Intragovernmental Net Costs	152,746	289,117
Gross Costs with the Public	3,641,373	2,897,695
Less: Earned Revenues from the Public	247,897	119,519
Net Costs with the Public	3,393,476	2,778,176
Total Net Cost	$ 3,546,222	$ 3,067,293
Total Net Cost—Surface Transportation	$ 46,527,176	$ 42,309,410
Air Transportation		
Intragovernmental Gross Costs	$ 2,227,253	$ 1,999,237
Less: Intragovernmental Earned Revenue	331,294	133,073
Intragovernmental Net Costs	1,895,959	1,866,164
Gross Costs with the Public	12,873,935	12,619,722
Less: Earned Revenues from the Public	316,683	456,790
Net Costs with the Public	12,557,252	12,162,932
Total Net Cost	$ 14,453,211	$ 14,029,096

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Dollars in Thousands

Maritime Transportation		
Intragovernmental Gross Costs	$ 104,578	$ 150,505
Less: Intragovernmental Earned Revenue	272,108	448,796
Intragovernmental Net Costs	(167,530)	(298,291)
Gross Costs with the Public	625,876	584,710
Less: Earned Revenues from the Public	821	7,505
Net Costs with the Public	625,055	577,205
Total Net Cost	$ 457,525	$ 278,914
Cross-Cutting Programs		
Intragovernmental Gross Costs	$ 9,812	$ 37,492
Less: Intragovernmental Earned Revenue	454,722	521,327
Intragovernmental Net Costs	(444,910)	(483,835)
Gross Costs with the Public	457,491	499,420
Less: Earned Revenues from the Public	5,226	6,857
Net Costs with the Public	452,265	492,563
Total Net Cost	$ 7,355	$ 8,728
Costs Not Assigned to Programs	390,464	261,911
Less: Earned Revenues Not Attributed to Programs	30,985	25,165
Net Cost of Operations	**$ 61,804,745**	**$ 56,862,894**

Dollars in Thousands

NON-EXCHANGE REVENUE

	FY 2006	FY 2005
Highway Trust Fund		
Excise Taxes and Other Non-Exchange Revenue (transferred from the Treasury general fund)		
Gasoline	$ 24,667,951	$ 23,420,989
Diesel and Special Motor Fuels	9,906,181	9,551,359
Trucks	5,510,705	4,549,657
Gasohol	—	1,797,493
Fines and Penalties	10,961	14,070
Total Taxes	$ 40,095,798	$ 39,333,568
Less: Transfers	(448,313)	(435,121)
Gross Taxes	$ 39,647,485	$ 38,898,447
Less: Refunds of Taxes (reimbursed to Treasury general fund)	(883,155)	(1,006,854)
Total Excise Taxes	$ 38,764,330	$ 37,891,593
Other Non-Exchange Revenue	16,028	10,035
Net Non-Exchange Revenue	$ 38,780,358	$ 37,901,628
Federal Aviation Administration		
Taxes and Other Non-Exchange Revenue		
Passenger Ticket	$ 7,423,271	$ 7,007,134
International Departure	1,993,697	1,922,368
Fuel (Air)	402,436	926,860
Waybill	478,614	460,563
Investment Income	483,363	439,793
Gasoline	17,003	43,934
Tax Refunds and Credits	(112,909)	(100,628)
Other	16,234	—
Net Non-Exchange Revenue	$ 10,701,709	$ 10,700,024
Other Miscellaneous Net Non-Exchange Revenue	11,968	1,179
Total Non-Exchange Revenue	$ 49,494,035	$ 48,602,831

The financial statements of DOT for the Highway Trust Fund and the Airport and Airway Trust Fund reflect actual tax collections for the six months ended March 31, 2006, plus an estimate of tax collections expected for quarters ended June 30, 2006, and September 30, 2006. Actual tax collection data for the two quarters ended June 30, 2006, and September 30, 2006 will not be available from the IRS until December 2006 and March 2007 respectively.

Dollars in Thousands

		FY 2006		FY 2005
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B, and exempt from apportionment as of end of fiscal year:	$	65,612,056	$	69,765,896
Available Contract Authority as of end of fiscal year	$	21,935,692	$	38,783,649
Available Borrowing Authority as of end of fiscal year	$	30,383	$	20,607
Undelivered Orders as of end of fiscal year	$	67,588,782	$	68,081,990
Adjustments during fiscal year to Beginning Balance of Budgetary Resources				
Rescissions		—		(9,068)
Prior Year Recoveries		—		519,964
Temporarily Not Available		—		(60,947)
Cancelled Authority		—		(5,190)
Permanently Not Available		—		(762,764)
Other Adjustments		—		43,401
Total Adjustments to Budgetary Resources	$	—	$	(274,604)

The amounts reported for undelivered orders only includes balances obligated for goods and services not delivered and does not include prepayments.

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 year until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available.

For FY 2007, the enacted budget of the United States has not been finalized. The President's Budget of the United States for FY 2008 will not be published until February 2007, therefore, DOT is unable to confirm if differences exist between the information required by SFFAS No. 7 and the amounts described as "actual" for FY 2006 in the FY 2008 Budget of the United States. The information will be published on OMB's Web site located at www.whitehouse.gov/omb.

Budget authority on the FY 2005 Combined Statement of Budgetary Resources includes expired funds of $2.8 million that are not presented in the Budget of the United States Government for the FAA. Also, obligations incurred on the FY 2005 Combined Statement of Budgetary Resources includes $77 million of expired funds and $762 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, DOT's FY 2005 Combined Statement of Budgetary Resources differs from FY 2005 "actuals" reported in the appendix of the FY 2007 Budget of the United States Government.

DOLLARS IN THOUSANDS

Dollars in Thousands	FY 2006	FY 2005
Revenue Activity		
Sources of Cash Collections		
Miscellaneous Receipts	$ 19,096	$ 20,758
Fines, Penalties, and Forfeitures	5,903	—
Total Cash Collections	$ 24,999	$ 20,758
Total Custodial Revenue	$ 24,999	$ 20,758
Disposition of Collections		
Transferred to Treasury (General Fund)	$ 24,999	$ 20,758
Net Custodial Revenue Activity	$ —	$ —

Dollars in Thousands

Condensed Information:	FY 2006	FY 2005
Cash and Short-Term Time Deposits	$ 15,967	$ 15,594
Long-Term Time Deposits	392	882
Accounts Receivable	82	79
Inventories	256	249
Other Current Assets	2	—
Property, Plant and Equipment	76,074	76,835
Deferred Charges	3,086	2,716
Other Assets	516	602
TOTAL ASSETS	$ 96,375	$ 96,957
Current Liabilities	$ 3,034	$ 2,820
Actuarial Liabilities	3,086	2,716
TOTAL LIABILITIES	$ 6,120	$ 5,536
Invested Capital	$ 91,065	$ 91,818
Cumulative Results of Operations	(810)	(397)
TOTAL NET POSITION	$ 90,255	$ 91,421
TOTAL LIABILITIES AND NET POSITION	$ 96,375	$ 96,957