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), 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 Circular No. A-136, "Financial Reporting Requirements," has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Effective FY 2007, the Statement of Financing was changed from a basic statement to a footnote disclosure and is reflected in Note 24 – Reconciliation of Net Cost of Operations to Budget. 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 July 2007.

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 (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 - 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)

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 26.

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 July 2007. 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 2007, 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.

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. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securities with the public and are not considered intragovernmental investments.

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 date. 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 statements. 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.

R. Reclassifications

Certain reclassifications were made to the FY 2006 financial statement presentation to conform to that used in FY 2007. The FY 2006 Reconciliation of Net Cost of Operations to Budget (formerly the Statement of Financing) was reclassified to conform to the FY 2007 presentation.

S. Parent/Child Allocations

FHWA adjusted the beginning balances of cumulative results of operations by $60.5 million due to a change in accounting principle. 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. As a result, U.S. Army Corps of Engineers and U.S. Forest Service beginning balances are reflected in "Changes to Accounting Principles" on the Statement of Changes to Net Position. For FY 2006, two recipient agencies, U.S. Army Corps of Engineers and U.S. Forest Service, were excluded from all financial statements (except the Statement of Budgetary Resources) and related footnotes; as an exception allowed them to include the allocation activity on their financial statements if it was deemed material to the child agency.

T. Prior Period Adjustments and Restatements

Federal Aviation Administration Construction in Process (CIP)

DOT has restated certain balances within Property, Plant and Equipment (PP&E, net) as of September 30, 2006, to correct the effects of untimely recognition of expenses related to Construction in Progress (CIP) activity that did not meet FAA's capitalization requirements and the untimely capitalization of completed assets. The restatement reduces the balance of PP&E, net by $954 million and also reclassifies $1,696 million within PP&E from CIP to other PP&E categories. The effect of this correction is also reflected as a $974 million reduction to the beginning balance of cumulative results of operations on the FY 2006 Statement of Changes in Net Position and a $317.8 million decrease to Air Transportation total net costs as shown on the FY 2006 Statement of Net Cost. The restatement is also reflected in Note 24, Reconciliation of Net Cost of Operations to Budget (formally the Statement of Financing). The effect of the restatement in Note 24 agrees to the decrease in total net costs in the amount of $317.8 million.

Federal Transit Administration Grant Accrual

DOT has restated the FY2006 DOT Consolidated Financial Statements as of September 30, 2006, to correct the effects

of the grant accrual in the Mass Transit Account within FTA's programs. A review of the application of the methodology used to calculate the grant accrual revealed that, due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million. As a result, the balances of other funds were increased by $571 million. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and is summarized in a table reflected in Note 25.

Federal Transit Administration Earmarked Funds
DOT has restated balances on the Statement of Changes in Net Position as of September 30, 2006, to correct the effects of the misclassifications of earmarked funds in the Mass Transit Account within FTA's programs. A review of the presentation of earmarked and other funds in the Statement of Changes in Net Position in accordance with FASAB 27, revealed that the amounts presented were not properly classified in accordance with the standard and the amounts reported included corrections of reporting errors from FY2005 and prior that were presented as FY2006 activity.
As a result, beginning cumulative results of operations was decreased by $343.3 million and beginning unexpended appropriations was increased by $343.3 million; the ending balances of earmarked and other funds were reduced by $9.4 million and increased by $9.4 million, respectively. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and is summarized in a table reflected in Note 25.

NOTE 2. NON-ENTITY ASSETS

Dollars in Thousands

As of September 30,	FY 2007	Restated FY 2006
Intragovernmental		
Fund Balance with Treasury	$ (268)	$ 186
Accounts Receivable	75	-
Total Intragovernmental	(193)	186
Accounts Receivable	121	39
Total Non-Entity Assets	(72)	225
Total Entity Assets	61,831,910	64,111,347
Total Assets	$ 61,831,838	$ 64,111,572

DOT has restated and reduced PP&E, net as of September 30, 2006 by $954 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The effects of this correction include a reduction to Construction in Progress, net in the amount of $2,593.7 million, comprised of $897.4 million non-capital transactions charged to expense and $1,696.3 million of completed assets reclassified from Construction in Progress to other general property, plant and equipment categories. Accumulated depreciation was increased by $56.6 million for the effects of this correction.

NOTE 3. FUND BALANCE WITH TREASURY
Dollars in Thousands

As of September 30,	FY 2007 TOTAL	FY 2006 TOTAL
Fund Balances		
Trust Funds	$ 5,593,882	$ 7,883,395
Revolving Funds	643,114	591,806
General Funds	16,871,467	18,930,510
Other Fund Types	284,007	287,197
Total	$ 23,392,470	$ 27,692,908
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 5,055,441	$ 4,248,737
Unavailable	1,537,890	1,403,548
Obligated Balance Not Yet Disbursed	16,465,645	21,715,828
Non-Budgetary FBWT	333,494	324,795
Total	$ 23,392,470	$ 27,692,908

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.

NOTE 4. INVESTMENTS
Dollars in Thousands

As of September 30, 2007		Cost		Amortized (Premium) Discount		Investments (Net)		Other Adjustments		Market Value Disclosure
Intragovernmental Securities										
Marketable	$	35,300	$	244	$	35,544	$	(615)	$	34,929
Non-Marketable										
Par Value		20,135,487		-		20,135,487		-		20,135,487
Market-Based		886,403		-		886,403		-		886,403
Subtotal	$	21,057,190	$	244	$	21,057,434	$	(615)	$	21,056,819
Accrued Interest		87,264		-		87,264		-		87,264
Total Intragovernmental Securities	$	21,144,454	$	244	$	21,144,698	$	(615)	$	21,144,083
Securities with the Public										
Marketable	$	75,252	$	483	$	75,735	$	(1,650)	$	74,085
Total Securites with the Public	$	75,252	$	483	$	75,735	$	(1,650)	$	74,085
As of September 30, 2006										
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

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. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securites with the public and are not considered intragovernmental investments.

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 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.

NOTE 5. ACCOUNTS RECEIVABLE

Dollars in Thousands

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
As of September 30, 2007			
Intragovernmental			
Accounts Receivable	$ 509,692	$ -	$ 509,692
Total Intragovernmental	$ 509,692	$ -	$ 509,692
Public			
Accounts Receivable	$ 123,422	$ (9,345)	$ 114,077
Accrued Interest	41	-	41
Total Public	$ 123,463	$ (9,345)	$ 114,118
Total Receivables	$ 633,155	$ (9,345)	$ 623,810
As of September 30, 2006			
Intragovernmental			
Accounts Receivable	$ 212,616	$ -	$ 212,616
Total Intragovernmental	$ 212,616	$ -	$ 212,616
Public			
Accounts Receivable	$ 172,686	$ (69,315)	$ 103,371
Total Public	$ 172,686	$ (69,315)	$ 103,371
Total Receivables	$ 385,302	$ (69,315)	$ 315,987

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

	FY 2007	FY 2006
Intragovernmental		
Advances and Prepayments	$ 1,739	$ 37,946
Other	714	-
Total Intragovernmental	$ 2,453	$ 37,946
Public		
Advances to the States	$ 98,861	$ 98,401
Other Advances and Prepayments	112,029	96,550
Other	154	555
Total Public	$ 211,044	$ 195,506

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 (TIFIA) Loan Program
4. Federal Ship Financing Fund (Title XI)
5. OST Minority Business Resource Center Guaranteed Loan Program
6. Federal Ship Liquidating Fund (Title XI)

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 2007 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 Program	$ 17,479	$ 90	$ -	$ -	$ 17,569
Subtotal	$ 17,479	$ 90	$ -	$ -	$ 17,569
After FY 1991					
1. Railroad Rehab. Improvement Program	$ 497,166	$ -	$ -	$ 9,889	$ 507,055
3. TIFIA Loan	377,058	-	-	(39,998)	337,060
Subtotal	$ 874,224	$ -	$ -	$ (30,109)	$ 844,115

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 Program	$ 21,900	$ 82	$ -	$ -	$ 21,982
Subtotal	$ 21,900	$ 82	$ -	$ -	$ 21,982
After FY 1991					
1. Railroad Rehab. Improvement Program	$ 449,320	$ -	$ -	$ 9,471	$ 458,791
3. TIFIA Loan	117,950	-	-	(8,901)	109,049
Subtotal	$ 567,270	$ -	$ -	$ 570	$ 567,840

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

Dollars in Thousands

Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2007	FY 2006
Direct Loan Programs		
1. Railroad Rehab. Improvement Program	$ 99,832	$ 79,249
2. Amtrak Loans	-	-
3. TIFIA Loan	246,033	43,683
Subtotal	$ 345,865	$ 122,932

Subsidy Expense for Direct Loans by Program and Component

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Modifications/ Re-Estimates	Total
Subsidy Expense for New Direct Loans Disbursed					
Direct Loan Programs					
1. Railroad Rehab Improv	$ -	$ -	$ 1,786	$ (1,745)	$ 41
3. TIFIA Loans	-	27,576	-	-	27,576
Subtotal	$ -	$ 27,576	$ 1,786	$ (1,745)	$ 27,617

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Modifications/ Re-Estimates	Total
Subsidy Expense for New Direct Loans Disbursed					
Direct Loan Programs					
3. TIFIA Loans	$ -	$ 3,101	$ 218	$ (11,821)	$ (8,502)
Subtotal	$ -	$ 3,101	$ 218	$ (11,821)	$ (8,502)

Modifications and Re-estimates

FY 2007	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehab Improv	$ -	$ -	$ 1,567	$ 1,567
3. TIFIA Loans	2,959	1,328	7,099	11,386
Subtotal	$ 2,959	$ 1,328	$ 8,666	$ 12,953

FY 2006	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehab Improv	$ -	$ -	$ 12,473	$ 12,473
3. TIFIA Loans	-	(510)	(11,311)	(11,821)
Subtotal	$ -	$ (510)	$ 1,162	$ 652

Total Direct Loan Subsidy Expense

	FY 2007	FY 2006
Direct Loan Programs		
1. Railroad Rehab Improv	$ 1,608	$ 12,473
3. TIFIA Loans	2,959	(20,323)
Subtotal	$ 4,567	$ (7,850)

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

Dollars in Thousands

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

	FY 2007 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
1. Railroad Rehab Improv	0.00%	3.46%	-3.46%	0.00%	0.00%
2. Amtrak Loans	0.00%	0.00%	0.00%	0.00%	0.00%
3. TIFIA Loans	0.17%	1.09%	0.00%	0.00%	1.26%
Subtotal	0.17%	4.55%	-3.46%	0.00%	1.26%

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

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning Balance of the Subsidy Cost Allowance	$ (570)	$ 34,077
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Fees and Other Collections	-	157
Other Subsidy Costs	29,362	(4,078)
Total of the Above Subsidy Expense Components	$ 29,362	$ (3,921)
Adjustments		
Loan Modifications	3,207	-
Fees Received	(55)	-
Subsidy Allowance Amortization	(8,518)	(6,432)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 23,426	$ 23,724
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	6,683	(24,294)
Total of the Above Reestimate Components	$ 6,683	$ (24,294)
Ending Balance of the Subsidy Cost Allowance	$ 30,109	$ (570)

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY 2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
4. Fed Ship Financing Fund (Title XI)	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201
Total	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201

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. Fed Ship Financing Fund (Title XI)	$ 7,713	$ 144	$ 19,000	$ 1,500	$ 28,357
Total	$ 7,713	$ 144	$ 19,000	$ 1,500	$ 28,357

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

Dollars in Thousands

Guaranteed Loans Outstanding

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. Fed Ship Financing Fund (Title XI)	$ 2,687,186	$ 2,936,187
5. OST Minority Business Res	3,915	2,936
6. Fed Ship Liquidating Fund (Title XI)	2,204	6,781
Subtotal	$ 2,693,305	$ 2,945,904

New Guaranteed Loans Disbursed

	FY 2007	
5. OST Minority Business Resource Center	$ 3,415	$ 2,651
Subtotal	$ 3,415	$ 2,651

	FY 2006	
4. Fed Ship Financing Fund (Title XI)	$ 139,731	$ 139,731
5. OST Minority Business Resource Center	2,515	1,886
Subtotal	$ 142,246	$ 141,617

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

	FY 2007 Liabilities for Post-1991 Guarantees, Present Value	FY 2006 Liabilities for Post-1991 Guarantees, Present Value
Loan Guarantee Programs		
4. Fed Ship Financing Fund (Title XI)	$ 336,410	$ 345,341
5. OST Minority Business Res	216	523
Total	$ 336,626	$ 345,864

NOTE 7. 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 2007 Loan Guarantee Programs	Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Modifications/ Re-Estimates	Total
4. Fed Ship Financing Fund (Title XI)	$ -	$ 891	$ 774	$ 20,499	$ (31,096)	$ (8,932)
5. OST Minority Business Resource	62	-	-	-	-	62
Subtotal	$ 62	$ 891	$ 774	$ 20,499	$ (31,096)	$ (8,870)
FY 2006 Loan Guarantee Programs						
4. Fed Ship Financing Fund (Title XI)	$ -	$ (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)

Modifications and Re-estimates

Loan Guarantee Programs	FY 2007 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
4. Fed Ship Financing Fund (Title XI)	$ -	$ -	$ 31,096	$ 31,096
5. OST Minority Business Resource	-	12,992	(15,208)	(2,216)
Subtotal	$ -	$ 12,992	$ 15,888	$ 28,880

	FY 2006 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
4. Fed Ship Financing Fund (Title XI)	$ -	$ -	$ (106,654)	$ (106,654)
Subtotal	$ -	$ -	$ (106,654)	$ (106,654)

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	FY 2007	FY 2006
4. Fed Ship Financing Fund (Title XI)	$ 22,164	$ (154,183)
5. OST Minority Business Resource	(2,154)	(77)
Subtotal	$ 20,010	$ (154,260)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

	FY 2007 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Loan Guarantee Programs					
4. Fed Ship Financing Fund (Title XI)	0.00%	12.05%	-4.88%	0.00%	7.17%
5. OST Minority Business Res	0.00%	0.00%	0.00%	0.00%	0.00%
Subtotal	0.00%	12.05%	-4.88%	0.00%	7.17%

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

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

Beginning Balance, Changes, and Ending Balance	FY 2007	FY 2006
Beginning Balance of the Loan Guarantee Liability	$ 345,864	$ 393,451
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Default Costs (net of recoveries)	571	(3,455)
Fees and Other Collections	774	(12,707)
Other Subsidy Costs	3,299	75,210
Total of the Above Subsidy Expense Components	$ 4,643	$ 59,048
Adjustments:		
Interest Accumulation on the Liability Balance	17,216	19
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ 367,724	$ 452,518
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(31,098)	(106,654)
Total of the Above Reestimate Components	$ (31,098)	$ (106,654)
Ending Balance of the Loan Guarantee Liability	$ 336,626	$ 345,864

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. 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 Departmentwide.

NOTE 8. INVENTORY AND RELATED PROPERTY

Dollars in Thousands

	Cost	Allowance for Loss	Net
As of September 30, 2007			
Inventory:			
Inventory Held for Current Sale	$ 82,975	$ (6,631)	$ 76,344
Inventory Held for Repair	466,346	(95,600)	370,746
Other	35,992	(17,996)	17,996
Total Inventory	$ 585,313	$ (120,227)	$ 465,086
Operating Materials and Supplies:			
Items Held for Use	$ 233,470	$ (3,923)	$ 229,547
Items Held in Reserve for Future Use	69,998	-	69,998
Excess, Obsolete and Unserviceable Items	480	(480)	-
Items Held for Repair	38,385	(17,256)	21,129
Total Operating Materials & Supplies	$ 342,333	$ (21,659)	$ 320,674
Total Inventory and Related Property			$ 785,760
As of September 30, 2006			
Inventory:			
Inventory Held for Current Sale	$ 69,960	$ (6,031)	$ 63,929
Excess, Obsolete and Unserviceable Inventory	47,607	(5,814)	41,793
Inventory Held for Repair	376,366	(87,615)	288,751
Other	224,652	(35,774)	188,878
Total Inventory	$ 718,585	$ (135,234)	$ 583,351
Operating Materials and Supplies:			
Items Held for Use	$ 229,098	$ (3,061)	$ 226,037
Items Held in Reserve for Future Use	69,414	-	69,414
Excess, Obsolete and Unserviceable Items	758	(758)	-
Items Held for Repair	33,558	(14,866)	18,692
Total Operating Materials & Supplies	$ 332,828	$ (18,685)	$ 314,143
Total Inventory and Related Property			$ 897,494

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.

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT
Dollars in Thousands

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	Book Value
As of September 30, 2007				
Land and Improvements		$ 208,742	$ (89,679)	$ 119,063
Buildings and Structures	Various	4,823,882	(2,485,100)	2,338,782
Furniture and Fixtures	Various	-	-	-
Equipment	Various	17,664,815	(9,052,689)	8,612,126
ADP Software	Various	208,130	(180,104)	28,026
Electronics	6-10	738	(738)	-
Assets Under Capital Lease	Various	166,387	(111,373)	55,014
Leasehold Improvements	Various	67,494	(35,541)	31,953
Aircraft	11-20	401,614	(297,508)	104,106
Ships and Vessels	>20	1,656,764	(1,176,540)	480,224
Small Boats	Various	17,564	(14,712)	2,852
Construction in Progress		2,892,154	-	2,892,154
Property Not in Use		93,593	(74,003)	19,590
Other Misc. Property		1,390	(1,390)	-
Total		$ 28,203,267	$ (13,519,377)	$ 14,683,890
As of September 30, 2006 (Restated)				
Land and Improvements		$ 113,482	$ (393)	$ 113,089
Buildings and Structures	Various	4,592,936	(2,332,213)	2,260,723
Furniture and Fixtures	Various	55,112	(25,827)	29,285
Equipment	Various	17,243,773	(8,087,372)	9,156,401
ADP Software	Various	163,967	(143,688)	20,279
Electronics	6-10	2,720	(2,626)	94
Assets Under Capital Lease	Various	127,439	(89,181)	38,258
Leasehold Improvements	Various	59,933	(29,491)	30,442
Aircraft	11-20	401,614	(280,758)	120,856
Ships and Vessels	>20	1,653,368	(1,110,010)	543,358
Small Boats	Various	15,648	(14,240)	1,408
Construction in Progress		2,148,066	-	2,148,066
Property Not in Use		117,050	(86,598)	30,452
Other Misc. Property		73,097	(64,046)	9,051
Total		$ 26,768,205	$ (12,266,443)	$ 14,501,762

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 the Required Supplementary Information.

DOT has restated and reduced PP&E, net as of September 30, 2006 by $954.0 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The effects of this correction include a reduction to Construction in Progress, net in the amount of $2,593.7 million, comprised of $897.7 million non-capital transactions charged to expense and $1,696.3 million of completed assets reclassified from Construction in Progress to other general property, plant and equipment categories. Accumulated depreciation was increased by $56.6 million for the effects of this correction.

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 shore-side 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.

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES
Dollars in Thousands

Intragovernmental				Restated
		FY 2007		FY 2006
Debt	$	1,726	$	4,841
Other Liabilities		440,686		356,460
Total Intragovernmental	$	442,412	$	361,301
Federal Employee and Veterans' Benefits Payable	$	946,408	$	950,466
Environmental and Disposal Liabilities		852,366		953,635
Other Liabilities		782,120		922,089
Total Liabilities Not Covered by Budgetary Resources	$	3,023,306	$	3,187,491
Total Liabilities Covered by Budgetary Resources		11,051,917		9,924,453
Total Liabilities	$	14,075,223	$	13,111,944

As discussed in Notes 1.T, 14, 19, and 20, the FY 2006 grant accrual liabilities were restated. Due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million in the DOT consolidated financial statements. FTA's grants primarily affect local governments and transit authorities.

NOTE 12. DEBT
Dollars in Thousands

	FY 2006 Beginning Balance	FY 2006 Net Borrowing Activity	FY 2006 Ending Balance	FY 2007 Net Borrowing Activity	FY 2007 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$ 949,653	$ (112,973)	$ 836,680	$ 201,623	$ 1,038,303
Debt to the Fed Financing Bank	2,883	(206)	2,677	(219)	2,458
Total Intragovernmental Debt	$ 952,536	$ (113,179)	$ 839,357	$ 201,404	$ 1,040,761

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.

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES
Dollars in Thousands

	FY 2007	FY 2006
Public		
Environmental Cleanup Liabilities		
FAA Environmental Remediation	$ 316,748	$ 573,263
FAA Environmental Cleanup and Decommissioning	250,138	-
MARAD Environmental Cleanup (PCB, Lead, Oil)	285,480	380,372
Total Public	$ 852,366	$ 953,635

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.

NOTE 14. GRANT ACCRUAL
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 entity 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 Administrations at September 30, 2007 and September 30, 2006 are summarized as follows:

	FY 2007	RESTATED FY 2006
Highway Trust Fund	$ 4,144,949	$ 3,556,098
Federal Transit Administration	707,996	865,851
Federal Aviation Administration	653,790	549,758
Federal Highway Administration (non-trust fund)	-	34
Federal Railroad Administration	11,896	3,815
Pipeline Hazardous Materials Safety Administration	7,657	-
Total Grant Accrual	$ 5,526,288	$ 4,975,556

DOT has restated and reduced the grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology for the Federal Transit Administration. FTA's grants primarily affect local governments and transit authorities.

NOTE 15. OTHER LIABILITIES
Dollars in Thousands

	Non-Current	Current	FY 2007 Total
As of September 30, 2007			
Intragovernmental			
Advances and Prepayments	$ (79,321)	$ 2,911,830	$ 2,832,509
Accrued Pay and Benefits	2,533	83,810	86,343
FECA Billings	126,127	88,660	214,787
Uncleared Disbursements and Collections	(544)	(8,441)	(8,985)
Deferred Credits	34,972	-	34,972
Deposit Funds	(294)	(427)	(721)
Other Accrued Liabilities	228,243	30,930	259,173
Total Intragovernmental	$ 311,716	$ 3,106,362	$ 3,418,078
Public:			
Other Accrued Unbilled Payments	$ 11	$ 1,752	$ 1,763
Accrued Pay and Benefits	160,135	568,817	728,952
Legal Claims	2,431	14,205	16,636
Deferred Credits	129,891	-	129,891
Capital Leases	57,612	14,499	72,111
Advances and Prepayments	31,420	142,852	174,272
Uncleared Disbursements and Collections	3,588	128	3,716
Deposit Funds	-	844	844
Other Custodial Liability	(2)	26,796	26,794
Other Accrued Liabilities	89,833	64,599	154,432
Total Public	$ 474,919	$ 834,492	$ 1,309,411

		Non-Current		Current		FY 2006 Total
As of September 30, 2006						
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

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.

NOTE 16. CAPITAL LEASES
Dollars in Thousands

ENTITY AS LESSEE

Capital Leases

	FY 2007	Restated FY 2006
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$ 166,387	$ 127,439
Accumulated Amortization	(111,373)	(89,181)
Net Assets Under Capital Lease	$ 55,014	$ 38,258

Future Payments Due

Fiscal Year	Land & Buildings
Year 1 (2008)	$ 14,230
Year 2 (2009)	13,945
Year 3 (2010)	13,280
Year 4 (2011)	12,267
Year 5 (2012)	8,270
After 5 Years (2013+)	59,577
Total Future Lease Payments	$ 121,569
Less: Imputed Interest	49,458
Net Capital Lease Liability	$ 72,111

Operating Leases
Future Payments Due

Fiscal Year	Land, Buildings, Machinery & Other
Year 1 (2008)	$ 105,170
Year 2 (2009)	98,527
Year 3 (2010)	91,968
Year 4 (2011)	78,783
Year 5 (2012)	65,963
After 5 Years (2013+)	130,098
Total Future Lease Payments	$ 570,509

NOTE 17. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

Contingencies

Legal Claims

As of September 30, 2007 and 2006, DOT's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $33.1 million and $27.9 million, respectively. DOT does not have material amounts of known unasserted claims.

There are legal actions pending against the HTF Agencies in Federal courts in which claims have been asserted that may be based on action taken by the Agencies. Management intends to vigorously contest such claims. Management believes, based on information provided by legal counsel, that losses, if any, for these cases would not have a material impact on the financial statements and no loss accrual has been made for these cases outstanding as of September 30, 2007 and 2006 due to this fact.

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 30, 2007 and 2006, FHWA has pre-authorized $46.2 billion and $44.8 billion, respectively under these arrangements; however no liability is reflected in the Highway Trust Fund financial statements at September 30, 2007 and 2006.

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, 2007 and September 30, 2006 approximately $3.9 billion and $2.7 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, 2007 and September 30, 2006 for these agreements.

Contract Options and Negotiations

As of September 30, 2007 and 2006, FAA had contract options of $3.51 billion and $3.35 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 40 air carriers having approximately 1,643 aircraft available for Department of Defense and for 9 carriers available for 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 required FAA to extend policies in effect on July 19, 2002 and to add hull loss and passenger and third party war risk liability insurance for those policies.

Subsequent acts ending with the Revised Continuing Appropriations Resolution, 2007, P.L. 110-5, ultimately extended the mandatory provision of insurance through September 30, 2007, expanded the authority of the DOT to include war and terrorism insurance for aircraft and aircraft engine manufacturers, extended the potential $100 million third party liability limitation for air carriers through September 30, 2007, and expanded it to include aircraft and aircraft engine manufacturers. On September 1, 2007, the Secretary of Transportation extended coverage through December 31, 2007. During this year there were 77 FAA premium war-risk policies. Insured air carriers 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 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 2007 and FY 2006, FAA recognized insurance premium revenue of $171 million and $168.4 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."

FAA airline war risk insurance policies normally establish a maximum liability for claims associated with a single war risk event. The maximum liability for both hull loss and liability, per occurrence, is $4 billion. No claims for losses were pending as of September 30, 2007, or 2006. 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 in 1951, the FAA has intermittently insured air carrier operations on both a premium and non-premium basis. During its history, the Aviation Insurance Program has only paid four claims, all involving only minor dollar amounts. 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% with the exception of noise program implementation, which is 80%. For remaining airports (small primary, relievers, and general aviation airports), FAA's share of eligible costs is 95%.

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, 2007, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.6 billion. As of September 30, 2007, FAA had obligated $4.3 billion of this total amount leaving $1.3 billion unobligated. 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.

Other Disclosures

Environmental Liabilities

MARAD faces liability primarily by virtue of the actions of its predecessor, the War Shipping Administration, for its share of liability for remediation under the Comprehensive Environmental Response Compensation Liabilities Act (CERCLA) at various sites. MARAD is currently unable to quantify its liability in this area.

NOTE 18. EARMARKED FUNDS

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 embrace highway safety.   Overall, there are 73 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.

Earmarked funds from the Facilities and Equipment fund are used to purchase or construct property, plant and equipment (PP&E). When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and therefore are classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure. In addition, this note presents only the earmarked funds that retain available financing sources. As such, the balances in the PP&E fund, though funded from the Facilities and Equipment earmarked fund are reported as other funds and therefore are excluded.

Federal Highway Administration Non Trust Funds

Several small miscellaneous programs comprise this portion of earmarked funds in the Federal Highway Administration.

Federal Transit Administration (Mass Transit)

In FY-2005 and prior, FTA programs were funded 80% through the Mass Transit account and 20% 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 for these years is considered earmarked but not reported as part of the HTF.

SAFETEA-LU legislation (P.L. 109-59) changed the way FTA programs are funded. Beginning in FY-2006, FTA formula and bus appropriation (69X8350) is funded 100% by the Mass Transit account and is reported as part of the HTF.

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 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 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 P.L. 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 P.L. 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 P.L. 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 over flight 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)

As FTA had a significant amount (greater than 50%) of earmarked funds in its general appropriation fund accounts, the majority of these are reported as earmarked.

Maritime Administration

War Risk Insurance Fund - Insurance premium

Special Study, Services & Project Funs - 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% intergovernmental flow

X-8304 - Funding comes from the Bureau of Public Debt as a transfer of funds, 100% intragovernmental flow

X-8548 -Investment at Treasury from a gift that earns interest twice a year, 100% 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 no changes in legislation as of September 30, 2007 that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance.

		Highway Trust Fund		Airport & Airway Trust Fund & Other FAA Programs		Mass Transit		All Other Funds		FY 2007 Total Earmarked
Balance Sheet as of September 30, 2007										
Fund Balance with Treasury	$	3,209,239	$	3,526,513	$	3,542,996	$	420,401	$	10,699,149
Investments, Net		12,204,544		8,904,357		-		35,818		21,144,719
Accounts Receivable, Net		46,987		3,228,518		15,646		8,213		3,299,364
Property, Plant & Equipment		95,744		2,850,676		-		40,668		2,987,088
Other		192,639		-		1,322		23,130		217,091
Total Assets	$	15,749,153	$	18,510,064	$	3,559,964	$	528,230	$	38,347,411
Liabilities	$	310,363	$	5,765,678	$	4,564	$	150,090	$	6,230,695
Grants Accrual		4,144,949		-		198,160		7,657		4,350,766
Unexpended Appropriations		-		1,097,039		49,232		66,918		1,213,189
Cumulative Results of Operations		11,293,841		11,647,347		3,308,008		303,565		26,552,761
Total Liabilities and Net Position	$	15,749,153	$	18,510,064	$	3,559,964	$	528,230	$	38,347,411
Statement of Net Cost For the Period Ended September 30, 2007										
Program Costs	$	39,942,210	$	13,865,542	$	1,779,049	$	139,148	$	55,725,949
Less Earned Revenue		108,695		459,574		56,279		49,060		673,608
Net Program Costs		39,833,515		13,405,968		1,722,770		90,088		55,052,341
Costs Not Attibutable to Programs		-		-		-		102,279		102,279
Net Cost of Operations	$	39,833,515	$	13,405,968	$	1,722,770	$	192,367	$	55,154,620
Statement of Changes in Net Position For the Period Ended September 30, 2007										
Beginning Net Position	$	11,871,590	$	13,202,371	$	5,290,939	$	362,078	$	30,726,978
Adjustments: Significant Accounting Changes		60,461		-		-		-		60,461
Budgetary Financing Sources		39,160,532		14,921,115		(210,929)		199,379		54,070,097
Other Financing Sources		34,773		(1,973,132)		-		1,393		(1,936,966)
Net Cost of Operations		39,833,515		13,405,968		1,722,770		192,367		55,154,620
Change in Net Position		(638,210)		(457,985)		(1,933,699)		8,405		(2,961,028)
Net Position End of Period	$	11,293,841	$	12,744,386	$	3,357,240	$	370,483	$	27,765,950

		Highway Trust Fund		Airport & Airway Trust Fund & Other FAA Programs		Mass Transit		All Other Funds		RESTATED FY 2006 Total Earmarked
Balance Sheet as September 30, 2006										
Fund Balance with Treasury	$	4,431,555	$	3,243,150	$	5,835,254	$	445,251	$	13,955,210
Investments, Net		10,997,655		8,674,729		-		37,413		19,709,797
Accounts Receivable, Net		38,564		2,470,079		14,889		11,824		2,535,356
Property, Plant & Equipment		101,070		-		-		4,275		105,345
Other		191,346		3,455,833		4,843		12,034		3,664,056
Total Assets	$	15,760,190	$	17,843,791	$	5,854,986	$	510,797	$	39,969,764
Liabilities	$	332,502	$	4,641,420	$	560,451	$	148,719	$	5,683,092
Grants Accrual		3,556,098		-		3,596		-		3,559,694
Unexpended Appropriation		-		426,474		101,455		84,449		612,378
Cumulative Results of Operations		11,871,590		12,775,897		5,189,484		277,629		30,114,600
Total Liabilities and Net Position	$	15,760,190	$	17,843,791	$	5,854,986	$	510,797	$	39,969,764
Statement of Net Cost For the Period Ended September 30, 2006										
Program Costs	$	37,203,191	$	13,670,431	$	3,687,832	$	61,261	$	54,622,715
Less Earned Revenue		61,846		640,182		$59,163		213,430		974,621
Net Program Costs		37,141,345		13,030,249		3,628,669		(152,169)		53,648,094
Costs Not Attibutable to Programs		-		-		-		107,801		107,801
Net Cost of Operations	$	37,141,345	$	13,030,249	$	3,628,669	$	(44,368)	$	53,755,895
Statement of Changes in Net Position For the Period Ended September 30, 2006										
Beginning Net Position	$	10,231,428	$	13,632,292	$	8,828,929	$	127,618	$	32,820,267
Budgetary Financing Sources		38,752,831		13,201,179		90,679		190,045		52,234,734
Other Financing Sources		28,676		(600,851)		-		47		(572,128)
Net Cost of Operations		37,141,345		13,030,249		3,628,669		(44,368)		53,755,895
Change in Net Position		1,640,162		(429,921)		(3,537,990)		234,460		(2,093,289)
Net Position End of Period	$	11,871,590	$	13,202,371	$	5,290,939	$	362,078	$	30,726,978

NOTE 19. NET COST BY PROGRAM
Dollars in Thousands

		FY 2007		Restated FY 2006
Program Costs				
Surface				
Federal Aid Highway Program	$	34,489,150	$	33,552,312
Mass Transit Program		8,853,727		8,857,304
Other Surface Transportation Program		4,042,429		3,546,222
Total Surface Program Costs	$	47,385,306	$	45,955,838
Air				
Air Traffic Organization	$	9,680,476	$	9,297,439
Airports		3,923,605		3,851,902
Aviation Safety		1,012,749		943,242
Other Federal Aviation Administration Programs		186,856		27,585
Commercial Space		10,768		15,249
Total Air Program Costs	$	14,814,454	$	14,135,417
Maritime				
Maritime Operations and Training	$	104,865	$	149,242
Maritime Guaranteed Loan		-		(58,940)
Maritime Security Program		-		154,700
Maritime Ocean Freight Differential Program		272,766		161,088
Maritime Vessel Operations Revolving Fund		6,344		31,144
Maritime Operating Differential Subsidy		2,595		220
Maritime Operating Ship Disposal		18,339		21,201
Other Maritime Programs		165,818		(1,130)
Total Maritime Program Costs	$	570,727	$	457,525
Cross-Cutting				
Office of the Secretary Working Capital Fund	$	223	$	5,127
Volpe National Transportation Systems Center		11,225		2,228
Total Cross-Cutting Program Costs	$	11,448	$	7,355

FAA has restated its FY 2006 financial statements to correct the effect of untimely processing of transactions associated with capital projects. As a result, net cost as reported on the FY 2006 Consolidated Statement of Net Cost was decreased by $317.8 million, within the Air Transportation Program.

FTA has restated and reduced their grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology, thereby reducing the FY 2006 Consolidated Statement of Net Cost.

NOTE 20. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES
Dollars in Thousands

	FY 2007	Restated FY 2006
Surface Transportation		
Federal-Aid Highway Program		
Intragovernmental Costs	$ 243,314	$ 251,703
Public Costs	34,329,482	33,329,236
Total Program Costs	34,572,796	33,580,939
Intragovernmental Earned Revenue	26,824	8,263
Public Earned Revenues	56,822	20,364
Total Program Earned Revenue	83,646	28,627
Net Program Cost	$ 34,489,150	$ 33,552,312
Mass Transit Program		
Intragovernmental Costs	$ 12,037	$ 3,344
Public Costs	8,892,451	8,897,847
Total Program Costs	8,904,488	8,901,191
Intragovernmental Earned Revenue	49,783	54,301
Public Earned Revenues	978	(10,413)
Total Program Earned Revenue	50,761	43,888
Net Program Cost	$ 8,853,727	$ 8,857,303
Other Surface Transportation Programs		
Intragovernmental Costs	$ 293,537	$ 223,100
Public Costs	3,878,513	3,641,373
Total Program Costs	4,172,050	3,864,473
Intragovernmental Earned Revenue	44,554	70,354
Public Earned Revenues	85,067	247,896
Total Program Earned Revenue	129,621	318,250
Net Program Cost	$ 4,042,429	$ 3,546,223
Total Net Cost - Surface Transportation	$ 47,385,306	$ 45,955,838
Air Transportation		
Intragovernmental Costs	$ 2,274,991	$ 2,158,889
Public Costs	12,988,477	12,624,505
Total Program Costs	15,263,468	14,783,394
Intragovernmental Earned Revenue	127,256	331,294
Public Earned Revenues	321,758	316,683
Total Program Earned Revenue	449,014	647,977
Net Program Cost	$ 14,814,454	$ 14,135,417

	FY 2007	Restated FY 2006
Maritime Transportation		
Intragovernmental Costs	$ 173,064	$ 104,578
Public Costs	586,739	625,876
Total Program Costs	759,803	730,454
Intragovernmental Earned Revenue	183,089	272,108
Public Earned Revenues	5,987	821
Total Program Earned Revenue	189,076	272,929
Net Program Cost	$ 570,727	$ 457,525
Cross-Cutting Programs		
Intragovernmental Costs	$ 25,177	$ 9,812
Public Costs	486,347	457,491
Total Program Costs	511,524	467,303
Intragovernmental Earned Revenue	492,603	454,722
Public Earned Revenues	7,473	5,226
Total Program Earned Revenue	500,076	459,948
Net Program Cost	$11,448	$ 7,355
Costs Not Assigned to Programs	$ 388,392	$ 390,464
Less Earned Revenues Not Attributed to Programs	30,295	30,986
Net Cost of Operations	$ 63,140,032	$ 60,915,613

As discussed in notes 1.T, 9, 18, 19 and 24, FAA has restated its FY 2006 financial statements to correct the effect of untimely processing of transactions associated with capital projects. As a result, net cost as reported on the FY 2006 Consolidated Statement of Net Cost was decreased by $317.8 million, within the Air Transportation Program.

FTA has restated and reduced their grant accrual as of September 30, 2006 by $571.3 million to reflect the correction of grant accrual methodology thereby reducing the FY 2006 Consolidated Statement of Net Cost.

NOTE 21. STATEMENT OF CHANGES IN NET POSITION

Dollars in Thousands

Non-Exchange Revenue

Highway Trust Fund **Excise Taxes and Other NonExchange Revenue** (transferred from the general fund)	**FY 2007**	**FY 2006**
Gasoline	$ 25,418,957	$ 24,667,951
Diesel and Special Motor Fuels	9,916,020	9,906,181
Trucks	5,302,320	5,510,705
Fines and Penalties	16,869	10,961
Total Taxes	$ 40,654,166	$ 40,095,798
Less: Transfers	(468,003)	(448,313)
Gross Taxes	$ 40,186,163	$ 39,647,485
Less: Refunds of Taxes (reimbursed to general fund)	(1,047,659)	(883,155)
Total Excise Taxes	$ 39,138,504	$ 38,764,330
Other Non-Exchange Revenue	19,980	16,028
Net Non-Exchange Revenue	$ 39,158,484	$ 38,780,358
Federal Aviation Administration		
Taxes and Other Non-Exchange Revenue		
Passenger Ticket	$ 8,376,680	$ 7,423,271
International Departure	2,136,257	1,993,697
Fuel (Air)	850,454	419,439
Waybill	574,404	478,614
Investment Income	502,937	483,363
Tax Refunds and Credits	(67,229)	(112,909)
Other	64	16,234
Net Non-Exchange Revenue	$ 12,373,567	$ 10,701,709
Other Miscellaneous Net Non Exchange Revenue	1,222	11,968
Total Non-Exchange Revenue	$ 51,533,273	$ 49,494,035

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

NOTE 22. STATEMENT OF BUDGETARY RESOURCES

Dollars in Thousands

	FY 2007	FY 2006
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of September 30, 2007:	$ 75,809,242	$ 65,612,056
Available Contract Authority as September 30,2007	$ 17,995,498	$ 21,935,692
Available Borrowing Authority as of September 30, 2007	$232,807	$30,383
Undelivered Orders as of September 30, 2007	$ 72,184,302	$ 67,588,782

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 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.

With the exception of the following, there are no material differences between the amounts reported in the Combined Statement of Budgetary Resources (SBR) for FY 2006 and the actual amounts reported in the President's Budget of the United States for FY 2008. Budget authority on the SBR contains $3.4 billion of expired funds that is not presented in the President's budget. Also obligations incurred on the SBR includes $78 million of expired funds and $93.3 million of reimbursable and revolving funds that are not presented in the President's budget. The SBR obligated beginning balance of the year is $117 million less than the related amount reported in the President's budget while obligations incurred during the year are more by $117 million. This is the result of prior year obligations being recorded as current year business in the President's budget. The unobligated balance brought forward at the beginning of the year on the SBR is $134 million greater than the President's budget due to recording errors on the transfers between some of the HTF childrens' accounts. The budget authority for FY 2006 in the SBR is less than that in the President's budget by $16 million which is attributed to the recalculation of the FY 2004 minimum grantee program.

The FY 2009 President's Budget with actual numbers for FY 2007 will be published in February 2008.

NOTE 23. INCIDENTAL CUSTODIAL COLLECTIONS
Dollars in Thousands

	FY 2007	FY 2006
Revenue Activity		
Sources of Cash Collections:		
Miscellaneous Receipts	$ 28,332	$ 19,096
Fines, Penalties and Forfeitures	4,498	5,903
Total Cash Collections	$ 32,830	$ 24,999
Total Custodial Revenue	$ 32,830	$ 24,999
Disposition of Collections		
Transferred to Treasury (General Fund)	$ 32,830	$ 24,999
Net Custodial Revenue Activity	$ -	$ -

NOTE 24. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET
Dollars in Thousands

	FY 2007	Restated FY 2006
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 75,809,242	$ 65,612,056
Less: Spending Authority from Offsetting Collections and Recoveries	9,099,273	4,562,405
Obligations Net of Offsetting Collections and Recoveries	66,709,969	61,049,651
Less: Distributed Offsetting Receipts	(46,779)	(236,451)
Net Obligations	$ 66,663,190	$ 60,813,200
Other Resources		
Transfers In/Out Without Reimbursement (+/-)	$ 2,812	$ (139,471)
Imputed Financing From Costs Absorbed by Others	605,189	562,277
Other Resources (+/-)	-	(7,880)
Net Other Resources Used to Finance Activities	608,001	414,926
Total Resources Used to Finance Activities	$ 67,271,191	$ 61,228,126
Resources Used to Finance Items Not Part of the Net Cost of Operations		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered but not yet Provided	$ 4,018,636	$ (160,786)
Resources That Fund Expenses Recognized in Prior Periods	283,949	329,220
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations		
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(115,714)	(401,841)
Other/Change in Unfilled Customer Orders	(461,855)	(318,451)
Anticipated Resources not yet realized	256,787	
Resources That Finance the Acquisition of Assets	1,395,553	1,842,344
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(40,672)	146,662
Total Resources Used to Finance Items Not Part of the Net Cost Of Operations	$ 5,336,684	$ 1,437,148
Total Resources Used to Finance the Net Cost of Operations	$ 61,934,507	$ 59,790,978

	FY 2007	Restated FY 2006
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in Annual Leave Liability	$ 10,696	$ 22,237
Upward/Downward Reestimates of Credit Subsidy Expense (+/-)	(1,818)	(118,923)
Increase in exchange revenue receivable from the public	(43,314)	(14,679)
Change in Other Liabilities (+/-)	25,584	10,758
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ (8,852)	$ (100,607)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,279,474	967,604
Revaluation of Assets or Liabilities (+/-)	(17,179)	(1,959)
Other Expenses and Adjustments not Otherwise Classified Above (+/-)	(47,918)	259,597
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$ 1,214,377	$ 1,225,242
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	$ 1,205,525	$ 1,124,635
Net Cost of Operations	$ 63,140,032	$ 60,915,613

The reconciliation of Net Cost of Operations to Budget is intended to be a bridge between the entity's budgetary and financial (proprietary) accounting. This reconciliation first identifies total resources used by an entity during the period (budgetary and other) and then makes adjustments to the resources based upon how they were used to finance net obligations or cost. The budgetary information used to calculate net obligations (the first four lines) must be presented on a combined basis to enable a direct tie to the Statement of Budgetary Resources. The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of operations by setting forth the items that reconcile the two amounts. The budgetary net obligations and the proprietary net cost of operations are different in that (1) the net cost of operations may be financed by non-budgetary resources; (2) the budgetary and non-budgetary resources used by an agency may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the period.

NOTE 25. RESTATEMENTS
Dollars in Thousands

DOT has restated and reduced PP&E, net on the Balance Sheet as of September 30, 2006 by $954 million to reflect the correction of untimely processing of transactions related to FAA capital projects. The correction results from $2,594 million in downward reclassifications of Construction in Progress, net. Non-capital transactions of $898 million were reclassified from Construction in Progress to expense and completed assets of $1,696 million were reclassified from Construction in Progress to other general property, plant and equipment categories. Associated with the increase in completed assets, accumulated depreciation increased by $56 million.

The Federal Transit Administration has restated certain balances within the statement of changes in Net Positon, as also discussed in notes 1.T, 2, 11, 14, 18, 19, 20 and 21. A review of the presentation of earmarked and other funds in the Statement of Changes in Net Position in accordance with FASAB 27, revealed that prior year amounts presented were not properly classified in accordance with the standard and the amounts reported included corrections of reporting errors from FY2005 and prior that were presented as FY2006 activity. In addition, due to funding changes enacted in the Surface Transportation Act SAFTEA-LU, the grant accrual for FTA was overstated by $571 million in the DOT consolidated financial statements. As a result, the balances of earmarked and other funds were reduced by $9.4 million and increased by $373 million, respectively. The restatement is reflected on the Consolidated Balance Sheet, the Consolidated Statement of Net Cost and the Consolidated Statement of Changes in Net Position and summarized in the chart below.

	2006	Effect of Restatement	2006 as Restated
Balance Sheet:			
General Property, Plant & Equipment, net	15,455,811	(954,049)	14,501,762
Total Assets	$ 65,065,621	$ (954,049)	$ 64,111,572
Grant Accrual	5,546,895	(571,339)	4,975,556
Total Liabilities	$ 13,683,282	$ (571,338)	$ 13,111,944
Net Position	51,382,339	(382,711)	50,999,628
Total Liabilities and Net Position	$ 65,065,621	$ (954,049)	$ 64,111,572
Statement of Net Cost:			
Net Cost of Operations	$ 61,804,745	$ (889,132)	$ 60,915,613
Statement of Changes in Net Position			
Cumulative Results of Operations			
Ending Cumulative Results of Operations - Earmarked	$ 30,053,924	$ 60,676	$ 30,114,600
Ending Cumulative Results of Operations - All Other Funds	$ 12,846,384	$ (380,636)	$ 12,465,748
Unexpended Appropriations			
Total Unexpended Appropriations - Earmarked	$682,501	$ (70,123)	$ 612,378
Total Unexpended Appropriations - All Other Funds	$ 7,799,530	$ 7,372	$ 7,806,902
Net Position			
Net Position - Earmarked	$ 30,736,425	$ (9,447)	$ 30,726,978
Net Position - All Other Funds	$ 20,645,914	$ (373,264)	$ 20,272,650

NOTE 26. SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Dollars in Thousands

Condensed Information

	FY 2007	FY 2006
Cash and Short-Term Time Deposits	$ 15,430	$ 15,967
Long-Term Time Deposits	980	392
Accounts Receivable	115	82
Inventories	253	256
Other Current Assets	6	2
Property, Plant and Equipment	74,578	76,074
Deferred Charges	3,478	3,086
Other Assets	599	516
TOTAL ASSETS	$ 95,439	$ 96,375
Current Liabilities	$ 2,577	$ 3,034
Actuarial Liabilities	3,478	3,086
TOTAL LIABILITIES	$ 6,055	$ 6,120
Invested Capital	$ 89,617	$ 91,065
Cumulative Results of Operations	(233)	(810)
TOTAL NET POSITION	$ 89,384	$ 90,255
TOTAL LIABILITIES AND NET POSITION	$ 95,439	$ 96,375