NOTE 1. SUMMARY OF 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 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. Early implementation was not done for the Statement of Net Cost. OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, has been used to prepare the Statement of Net Cost.

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 2005.

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 20 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

The Department 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 of Transportation 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)
- Federal Transit Administration (FTA)
- Maritime Administration (MARAD)
- National Highway Traffic Safety Administration (NHTSA)
- Office of Inspector General (OIG)
- Pipeline and Hazardous Materials Safety Administration (PHMSA)
- Research and Innovative Technology Administration (RITA—includes Volpe National Transportation System Center)
- Surface Transportation Board (STB)

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 21.

C. BUDGETS AND BUDGETARY ACCOUNTING

The Department of Transportation 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 2005. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within the Department appropriations to incur obligations in support of agency programs. For FY 2005 the Department was

accountable for trust fund appropriations, general fund appropriations, revolving funds, and borrowing authority. The Department 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 with a liability is incurred, without regard to receipt or payment of cash. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds.

E. REVENUES AND OTHER FINANCING SOURCES

The Department 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 and dividends on invested funds, and 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

The Department 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. The Department 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 associated with these loans, 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.

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 year-end include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of repairable, 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. The Department 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 stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

K. PREPAID AND DEFERRED CHARGES

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

L. LIABILITIES

Liabilities represent amounts expected to be paid as the result of a transaction or event that has already occurred. Liabilities covered by budgetary resources are liabilities incurred that 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 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), the Department contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law 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 the Department 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 the allocation of trust fund receipts by the Office of Treasury's Assessment, year-end accruals of accounts and grants payable, accrued workers' compensation, and allowance for doubtful accounts receivable. Acutal results may differ from these estimates.

R. RECLASSIFICATIONS

Certain reclassifications were made to the FY 2004 financial statement presentation to conform with that used in FY 2005.

NOTE 2. NON-ENTITY ASSETS
Dollars in Thousands

As of September 30,		2005		2004
Intragovernmental				
Fund Balance with Treasury	$	7,066	$	(20,029)
Accounts Receivable		2,931		—
Other		—		104
Total Intragovernmental	$	9,997	$	(19,925)
Accounts Receivable		1,637		1,872
Total Non-Entity Assets	$	11,634	$	(18,053)
Total Entity Assets		65,956,912		68,304,062
Total Assets	$	65,968,546	$	68,286,009

NOTE 3. FUND BALANCE WITH TREASURY

Dollars in Thousands

As of September 30,	2005	2004
Fund Balances		
Trust Funds	$ 4,992,309	$ 5,641,157
Revolving Funds	609,041	565,957
Appropriated Funds	22,713,473	22,940,005
Other Fund Types	826,019	574,231
Total Fund Balances	$ 29,140,842	$ 29,721,350
Status of Fund Balance With Treasury		
Unobligated		
Available	$ 8,171,205	$ 7,919,946
Unavailable	1,461,669	1,192,028
Obligated Balance Not Yet Disbursed	19,145,967	20,609,376
Non-Budgetary Fund Balance With Treasury	362,001	—
Total Status of Fund Balance With Treasury	$ 29,140,842	$ 29,721,350

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, 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
As of September 30, 2004					
Intragovernmental Securities					
Marketable	$ 88,269	$ (1,015)	$ 87,254	$ 674	$ 87,928
Non-Marketable					
Par Value	20,103,444	—	20,103,444	—	20,103,444
Market-Based	351,488	(342)	351,146	—	351,146
Subtotal	20,543,201	(1,357)	20,541,844	674	20,542,518
Accrued Interest	75,706	—	75,706	—	75,706
Total Intragovernmental	$ 20,618,907	$ (1,357)	$ 20,617,550	$ 674	$ 20,618,224

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.

NOTE 5. ACCOUNTS RECEIVABLE
Dollars in Thousands

	Gross Amount Due	Allowance for Uncollectable Amounts	FY 2005 Net Amount Due	FY 2004 Net Amount Due
Intragovernmental				
Accounts Receivable	$ 358,878	$ 21	$ 358,857	$ 189,800
Total Intragovernmental	358,878	21	358,857	189,800
Public				
Accounts Receivable	$ 222,861	$ 78,407	$ 144,454	$ 338,925
Accrued Interest	113	—	113	127
Total Public	222,974	78,407	144,567	339,052
Total Receivables	$ 581,852	$ 78,428	$ 503,424	$ 528,852

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 2005		FY 2004
Intragovernmental				
Advances and Prepayments	$	95,627	$	224,038
Undistributed Assets and Payments		—		3,932
Other		719		1,036
Total Intragovernmental	$	96,346	$	229,006
Public				
Advances to the States	$	95,861	$	98,557
Other Advances and Prepayments		62,486		149,397
Other		2,536		669
Total Public	$	160,883	$	248,623

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 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.

Loans Receivable and Related Foreclosed Property, Net

FY 2005

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Foreclosed Allowance	Value of Assets Related to Loans Receivable
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	7,099	—	(22,903)	274,072
Subtotal	688,073	13,552	—	(33,145)	668,480

FY 2004

	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Foreclosed Allowance	Value of Assets Related to Loans Receivable
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss method					
(1) Railroad Rehab. Improvement	$ 30,593	$ 981	$ —	$ —	$ 31,574
Direct Loan Programs (After FY 1991)					
(1) Railroad Rehab. Improvement	$ 333,873	$ 4,539	$ —	$ (24,382)	$ 314,030
(3) TIFIA Loan	190,162	7,738	—	(9,114)	188,786
Subtotal	524,035	12,277	—	(33,495)	502,816

Total Amount of Direct Loans Disbursed (Post-1991)

Direct Loan Programs	FY 2005	FY 2004
(1) Railroad Rehab. Improvement	$ 85,808	$ 222,619
(3) TIFIA Loan	102,087	87,541
Subtotal	$ 187,895	$ 310,160

Dollars in Thousands

Subsidy Expense for Direct Loans by Program and Component

FY 2005

Subsidy Expense for New Direct Loans Disbursed

	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

FY 2004

	Interest Differential	Defaults	Fees & Other Collections	Modifications / Re-Estimates	Total
Direct Loan Programs					
(1) Railroad Rehab. Improvement	$ —	$ —	$ —	$ (16,333)	$ (16,333)
(3) TIFIA Loans	—	462	—	—	462
Subtotal	$ —	$ 462	$ —	$ (16,333)	$ (15,871)

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

FY 2005	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%	5.51%	0.00%	0.00%	5.51%
Subtotal	0.00%	5.51%	0.00%	0.00%	5.51%

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

Beginning Balance, Changes, and Ending Balance	FY 2005	FY 2004
Beginning Balance of the Subsidy Cost Allowance	$ 33,496	$ (138,048)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Fees and Other Collections	(1,238)	(18,333)
Other Subsidy Costs	—	1,238
Total of the Above Subsidy Expense Components	$ (1,238)	$ (17,095)
Adjustments		
Subsidy Allowance Amortization	(15,650)	204,972
Ending Balance of the Subsidy Cost Allowance Before Reestimates	$ 16,608	$ 49,829
Add or Subtract Subsidy Reestimates by Component		
Interest Rate Reestimate	140	(16,333)
Technical/Default Reestimate	17,329	—
Total of the Above Reestimate Components	$ 17,469	$ (16,333)
Ending Balance of the Subsidy Cost Allowance	**$ 34,077**	**$ 33,496**

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

Dollars in Thousands

Defaulted Guaranteed Loans from Post-1991 Guarantees

FY 2005	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Foreclosed Allowance	Value of Assets Related to Loans Receivable
(4) Federal Ship Financing Fund (Title XI)	$ 87,357	$ 2,617	$ 19,004	$ (43,088)	$ 65,890
FY 2004					
(4) Federal Ship Financing Fund (Title XI)	$ 431,967	$ 5,876	$ 7,000	$ (375,146)	$ 69,697

Guaranteed Loans Outstanding

	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(3) TIFIA Loans	$ —	$ —
(4) Federal Ship Financing Fund (Title XI)	3,107,642	3,107,642
(5) OST Minority Business Resource Center	8,600	6,450
(6) Federal Ship (Title XI) Liquidating Fund	13,302	13,302
Subtotal	$ 3,129,544	$ 3,127,394

New Guaranteed Loans Disbursed

FY 2005		
(3) TIFIA Loans	$ —	$ —
(4) Federal Ship Financing Fund (Title XI)	11,969	11,969
(5) OST Minority Business Resource Center	6,200	4,650
Subtotal	$ 18,169	$ 16,619
FY 2004		
(3) TIFIA Loans	$ —	$ —
(4) Federal Ship Financing Fund (Title XI)	176,369	176,369
(5) OST Minority Business Resource Center	6,961	5,221
Subtotal	$ 183,330	$ 181,590

Total Liabilities for Loan Guarantees (Present Value Method)

	FY 2005	FY 2004
Loan Guarantee Programs		
(4) Federal Ship Financing Fund (Title XI)	$ 392,870	$ 378,061
(5) OST Minority Business Resource Center	581	551
Total	$ 393,451	$ 378,612

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 2005	**Defaults Net**	**Fees & Other Collections**	**Other Subsidy Costs**	**Modifications / Re-Estimates**	**Total**
(3) TIFIA Loans	$ —	$ —	$ —	$ —	$ —
(4) Federal Ship Financing Fund (Title XI)	(876)	5,793	9,582	—	14,499
(5) OST Minority Business Resource	131	—	—	(136)	(5)
Subtotal	$ (745)	$ 5,793	$ 9,582	$ (136)	$ 14,494
FY 2004					
(3) TIFIA Loans	$ —	$ —	$ —	$ —	$ —
(4) Federal Ship Financing Fund (Title XI)	3,690	(27,774)	—	(45,097)	(69,181)
(5) OST Minority Business Resource	(181)	—	—	166	(15)
Subtotal	$ 3,509	$ (27,774)	$ —	$ (44,931)	$ (69,196)

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

FY 2005

Loan Guarantee Programs	**Interest Differential**	**Defaults**	**Fees & Other Collections**	**Other**	**Total**
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
(4) Federal Ship Financing Fund (Title XI)	0.00%	5.00%	0.00%	0.00%	5.00%
(5) OST Minority Business Resource	0.00%	2.08%	0.00%	0.00%	2.08%
Subtotal	0.00%	7.08%	0.00%	0.00%	7.08%

Dollars in Thousands

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

	FY 2005	FY 2004
Beginning Balance of the Loan Guarantee Liability	$ 378,612	$ 293,276
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	(745)	(3,509)
Fees and Other Collections	5,793	27,774
Other Subsidy Costs	9,582	—
Total of the Above Subsidy Expense Components	$ 14,630	$ 24,265
Adjustments		
Fees Received	(6,068)	—
Interest Supplements Paid	(12,000)	—
Interest Accumulation on the Liability Balance	18,413	16,140
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ 393,587	$ 333,681
Add or Subtract Subsidy Reestimates by Component		
Technical/Default Reestimate	(136)	44,931
Total of the Above Reestimate Components	$ (136)	$ 44,931
Ending Balance of the Loan Guarantee Liability	$ 393,451	$ 378,612

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 2005 Net	FY 2004 Net
Inventory				
Inventory Held for Current Sale	$ 87,928	$ —	$ 87,928	$ 78,396
Excess, Obsolete and Unserviceable Inventory	18,301	6,339	11,962	12,962
Inventory Held for Repair	414,809	86,148	328,661	321,511
Other	13,632	—	13,632	13,632
Total Inventory	$ 534,670	$ 92,487	$ 442,183	$ 426,501
Operating Materials and Supplies				
Items Held for Use	$ 451,334	$ 21,295	$ 430,039	$ 403,634
Items Held for Reserve for Future Use	66,472	—	66,472	69,644
Excess, Obsolete and Unserviceable Items	71,862	71,862	—	11,619
Items Held for Repair	4,724	3,779	945	2,115
Total Operating Materials & Supplies	$ 594,392	$ 96,936	$ 497,456	$ 487,012
Total Inventory and Related Property			$ 939,639	$ 913,513

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	Acqusition Value	Accumulated Depreciation	FY 2005 Net Book Value	FY 2004 Net Book Value
Land and Improvements		$ 103,176	$ 294	$ 102,882	$ 97,332
Buildings and Structures	Various	4,244,680	2,160,573	2,084,107	2,108,539
Furniture and Fixtures	Various	124,981	84,243	40,738	28,656
Equipment	Various	14,959,696	7,304,412	7,655,284	7,121,918
ADP Software	Various	123,933	96,474	27,459	51,772
Electronics	6-10 years	738	730	8	14
Assets Under Capital Lease	Various	125,923	80,732	45,191	54,116
Leasehold Improvements	Various	55,014	23,441	31,573	33,874
Aircraft	11-20 years	401,614	263,143	138,471	150,309
Ships and Vessels	Over 20 years	1,738,934	1,117,017	621,917	693,760
Small Boats	Various	24,888	24,239	649	953
Other Vehicles	1-5 years	27	27	—	—
Construction in Progress		4,565,239	—	4,565,239	5,037,358
Property Not in Use		7,706	3,006	4,700	11,335
Other Micellaneous Property		9,373	2,199	7,174	5,423
Total		$ 26,485,922	$ 11,160,530	$ 15,325,392	$ 15,395,359

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 Supplemental Stewardship Information.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Dollars in Thousands

	FY 2005	FY 2004
Intragovernmental		
Debt	$ —	$ 363,583
Other Liabilities	477,063	569,782
Total Intragovernmental	$ 477,063	$ 933,365
Accounts Payable	$ 44	$ 44
Federal Employee and Veterans' Benefits Payable	1,007,303	1,018,541
Environmental and Disposal Liabilities	1,003,585	1,135,163
Other Liabilities	1,011,512	980,690
Total Liabilities Not Covered by Budgetary Resources	$ 3,499,507	$ 4,067,803
Total Liabilities Covered by Budgetary Resources	9,372,831	9,340,146
Total Liabilities	$ 12,872,338	$ 13,407,949

NOTE 11. DEBT
Dollars in Thousands

	FY 2004 Ending Balance	Net Change During Fiscal Year	FY 2005 Ending Balance
Intragovernmental Debt			
Debt to the Treasury	$ 1,147,529	$ (197,876)	$ 949,653
Debt to the Federal Financing Bank	3,077	(194)	2,883
Total Intragovernmental	$ 1,150,606	$ (198,070)	$ 952,536

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), for MARAD Title XI guaranteed loans, and for the FAA Aircraft Purchase Loan Guarantee Program.

NOTE 12. OTHER LIABILITIES
Dollars in Thousands

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

FY 2004

	Non-Current	Current	FY 2004 Total
Intragovernmental			
Advances and Prepayments	$ 2,635,418	$ 238,309	$ 2,873,727
Accrued Pay and Benefits	1,243	40,112	41,355
Undisbursed Loans	166,915	148	167,063
FECA Billings	121,895	96,248	218,143
Uncleared Disbursements and Collections	—	1,002	1,002
Deposit Funds	—	6,233	6,233
Other Accrued Liabilities	356,460	4,322	360,782
Total Intragovernmental	$ 3,281,931	$ 386,374	$ 3,668,305
Public			
Other Accrued Unbilled Payments	$ —	$ 60,705	$ 60,705
Accrued Pay and Benefits	557,084	216,800	773,884
Legal Claims	215	26,190	26,405
Deferred Credits	51,518	—	51,518
Capital Leases	46,909	13,663	60,572
Advances and Prepayments	1,534	37,105	38,639
Uncleared Disbursements and Collections	229	(3,771)	(3,542)
Deposit Funds	—	16,933	16,933
Other Accrued Liabilities	144,347	119,632	263,979
Total Public	$ 801,836	$ 487,257	$ 1,289,093

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 13. 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 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 20, 2005 and 2004 are summarized as follows:

	FY 2005	FY 2004
Highway Trust Fund	$ 2,274,780	$ 2,195,580
Federal Transit Administration	1,281,550	1,541,381
Federal Aviation Administration	507,590	435,879
Federal Highway Administration (non-trust fund)	17,908	—
Federal Railroad Administration	4,900	7,600
Total Grant Accrual	$ 4,086,728	$ 4,180,440

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES
Dollars in Thousands

	FY 2005	FY 2004
Public		
Environmental Cleanup Liabilities		
FAA Environmental Remediation	$ 596,536	$ 366,762
FAA Environmental Cleanup and Decommissioning	—	239,499
MARAD Environmental Cleanup (PCB, Lead, Oil)	407,049	528,902
Total Public	$ 1,003,585	$ 1,135,163

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.

NOTE 15. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

CONTINGENCIES

Hurricane Katrina and Rita Disaster Relief. In September 2005, Hurricanes Katrina and Rita 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. Congress may be providing supplemental appropriations to aid in the rebuilding efforts. As of September 30, 2005 DOT obligated $290 million of which $161 million will reimbursed to the DOT from FEMA. For FY 2006, DOT has obligated $233 million of which $.126 million will be reimbursed to DOT from FEMA.

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, 2005 and 2004, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $65.1 million and $76.7 million, respectively. FAA 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 30, 2005 and 2004, FHWA has pre-authorized $40 billion and $36 billion, respectively, under these arrangements; however, no liability is reflected in the Highway Trust Fund financial statements at September 30, 2005 and 2004, for these arrangements.

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 June 30, 2005, approximately $2.183 billion 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 June 30, 2005, for these agreements.

Contract Options and Negotiations. As of September 30, 2005 and 2004, FAA had contract options of $10 billion and $10.9 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 1,433 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, 2005 and gave the Secretary of Transportation discretion to further extend coverage through December 31, 2005. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. There are 77 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 2005 and FY 2004, FAA recognized insurance premium revenue of $157.5 million and $145.6 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."

Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion. No claims for losses were pending as of September 30, 2005, or 2004. 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 funded.

Environmental. FAA is a party to two major environmental remediation projects in which the extent of the liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2005, and 2004, the amount related to these two sites is $50.3 million and $49.3 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

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 90%.

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, 2005, FAA issued letters of intent covering FY 1988 through FY 2015 totaling $4.7 billion. As of September 30, 2005, FAA had obligated $3.6 billion of this total amount leaving $1.2 billion unobligated.

Through September 30, 2004, FAA issued letters of intent covering FY 1988 through FY 2014 totaling $4.7 billion. As of September 30, 2004, FAA had obligated $3.3 billion of this total amount, leaving $1.4 billion unobligated.

OTHER DISCLOSURES

Overflight User Fees. FAA aviation overflight user fees were the subject of litigation for several years. As a result, FAA suspended these billings in April 2003 and had no collections during fiscal year 2004. The litigation ended in the latter part of FY 2004, and FAA resumed billing in FY 2005. Aviation overflight user fee revenue was $109.7 million in FY 2005. Also, in FY 2005, the FAA Adminstrator appointed an Aviation Rulemaking Committee. The Committee is studying FAA's fee-setting procedures with a view to making recommendations in FY 2006 as to how procedures might be improved and the fees updated. Depending on the outcome of the Committee's deliberations and the Administrator's assessment of its recommendations, the fee structure may change accordingly.

NOTE 16. NET COST BY PROGRAM
Dollars in Thousands

	FY 2005	FY 2004
PROGRAM COSTS		
SURFACE		
Highway Surface Transportation	$ 7,496,099	$ 7,256,287
Mass Transit	8,007,313	8,195,431
National Highway System	7,149,319	7,116,070
Interstate Maintenance	4,109,000	3,933,214
Bridge Program	3,986,213	3,498,203
Highway Minimum Guarantee	2,302,346	2,516,100
Other Highway Trust Fund Programs	1,523,654	1,572,855
Other Highway Programs	399,239	217,537
High Priority Projects	1,102,491	1,183,664
Federal Railroad Administration Grants	1,267,104	1,187,760
Congestion Mitigation and Air Quality	810,589	937,166
Highway Safety Programs	463,792	780,926
Appalachian Development Highway	291,269	261,943
DOT Allocated Highway Programs	700,362	23,144
Department of Interior Allocated Highway Programs	98,252	401,112
Federal Lands Highways	314,338	221,599
Federal Motor Carrier Safety	381,217	396,829
Highway Reasearch and Development	566,411	816,813
Pipeline and Hazardous Materials Safety Administration	121,542	120,869
Research and Innovative Technology Administration	8,424	35,810
Rail Safety and Operations	139,509	117,490
Highway Planning	140,420	142,232
Highway Emergency Relief	800,782	177,015
Other Rail Programs	10,816	31,014
Rail Research and Development	46,112	24,978
Next Generation High Speed Rail	19,357	36,213
Alaska Railroad	31,831	22,599
Surface Transportation Board	21,609	20,478
Alameda Corridor	—	41,728
Total Surface Program Costs	$ 42,309,410	$ 41,287,079
AIR		
Air Traffic Services	$ 8,931,418	$ 8,079,011
Airports	3,711,927	2,977,068
Aviation Security	1,075,118	—
Regulation and Certification	—	939,728
Other Federal Aviation Administration Programs	296,560	185,660
Commercial Space	14,073	12,527
Total Air Program Costs	$ 14,029,096	$ 12,193,994

NOTE 16. NET COST BY PROGRAM (CONT.)
Dollars in Thousands

	FY 2005	FY 2004
MARITIME		
Maritime Operations and Training	$ 54,872	$ (7,845)
Maritime Guaranteed Loan	(14,403)	10,793
Maritime Security Program	98,484	98,580
Maritime Ocean Freight Differential Program	105,503	147,558
Maritime Vessel Operations Revolving Fund	26,788	(18,066)
Maritime Operating Differential Subsidy	517	194
Maritime Operating Ship Disposal	14,332	—
Other Maritime Programs	(7,179)	5,947
Total Maritime Program Costs	$ 278,914	$ 237,161
CROSS-CUTTING		
Office of the Secretary Working Capital Fund	$ 3,999	$ (2,274)
Volpe National Transportation Systems Center	4,729	3,020
Total Cross-Cutting Program Costs	$ 8,728	$ 746

In order to provide more accurate reporting, FHWA changed the manner in which it allocated costs to the Highway Trust Fund programs in FY 2004. Such changes involved the method of categorizing projects within programs and a revision to the allocation of the grant accrual to each program. The “Other Highway Trust Fund Programs” category is comprised of small miscellaneous projects.

NOTE 17. GROSS COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION
Dollars in Thousands

FY 2005

	Gross Cost	Earned Revenue	Net Cost
Gross Cost and Earned Revenue by Budget Functional Classification			
054 Defense-Related Activities	$ 99,048	$ —	$ 99,048
401 Ground Transportation	42,345,414	165,970	42,179,444
402 Air Transportation	14,618,959	589,863	14,029,096
403 Water Transportation	636,167	456,301	179,866
407 Other Transportation	778,127	576,559	201,568
808 Other General Government	195,199	21,327	173,872
Total	$ 58,672,914	$ 1,810,020	$ 56,862,894
Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification			
401 Ground Transportation	$ 581,361	$ 10,041	$ 571,320
402 Air Transportation	1,999,237	133,073	1,866,164
403 Water Transportation	150,505	448,796	(298,291)
407 Other Transportation	102,500	587,398	(484,898)
Total	$ 2,833,603	$ 1,179,308	$ 1,654,295

FY 2004

	Gross Cost	Earned Revenue	Net Cost
Gross Cost and Earned Revenue by Budget Functional Classification			
054 Defense-Related Activities	$ 99,119	$ —	$ 99,119
401 Ground Transportation	41,479,699	313,489	41,166,210
402 Air Transportation	12,506,942	312,948	12,193,994
403 Water Transportation	399,930	261,888	138,042
407 Other Transportation	857,669	677,027	180,642
808 Other General Government	283,540	7,334	276,206
Total	$ 55,626,899	$ 1,572,686	$ 54,054,213
Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification			
401 Ground Transportation	$ 553,081	$ (1,075)	$ 554,156
402 Air Transportation	2,380,081	84,246	2,295,835
403 Water Transportation	22,047	260,710	(238,663)
407 Other Transportation	99,526	670,378	(570,852)
808 Other General Government	110,076	7,334	102,742
Total	$ 3,164,811	$ 1,021,593	$ 2,143,218

NOTE 18. STATEMENT OF CHANGES IN NET POSITION

Dollars in Thousands

PRIOR PERIOD ADJUSTMENTS

Prior Period Adjustments for FY 2005 and FY 2004 are primarily due to MARAD for correction of an error for the Ocean Freight Differential appropriation.

NON-EXCHANGE REVENUE

	FY 2005	FY 2004
Highway Trust Fund		
Receipts		
Excise Taxes and Other Non-Exchange Revenue (transferred from the general fund)		
Gasoline	$ 23,420,989	$ 18,244,158
Diesel and Special Motor Fuels	9,551,359	8,935,465
Trucks	4,549,657	3,237,017
Gasohol	1,797,493	5,716,127
Fines and Penalties	14,070	16,457
IMPT Revenue	—	25
Total Taxes	$ 39,333,568	$ 36,149,249
Less: Transfers to Land and Water Conservation Fund		
Transfers to General Fund	(1,000)	(1,000)
Transfers to Aquatic Reserve	(113,994)	(111,350)
Gross Taxes	(320,127)	(311,639)
	$ 38,898,447	$ 35,725,260
Less: Refunds of Taxes (reimbursed to general fund)		
Gasoline	(308,508)	(305,286)
Gasohol	(17,063)	(27,751)
Diesel	(639,083)	(625,821)
Special Motor Fuel	(4,454)	(1,342)
Gas to make Gasohol	(11,500)	(22,865)
Diesel Fuel Bus Use	(26,246)	(31,423)
Total Refunds of Taxes	$ (1,006,854)	$ (1,014,488)
Total Excise Taxes	$ 37,891,593	$ 34,710,772
Other Non-Exchange Revenue	10,035	13,556
Net Non-Exchange Revenue	$ 37,901,628	$ 34,724,328

NOTE 18. STATEMENT OF CHANGES IN NET POSITION (CONT.)
Dollars in Thousands

		FY 2005		FY 2004
Federal Aviation Administration				
Taxes and Other Non-Exchange Revenue				
Passenger Ticket	$	7,007,134	$	6,554,599
International Departure		1,922,368		1,455,529
Fuel (Air)		926,860		774,150
Waybill		460,563		498,871
Investment Income		439,793		446,956
Gasoline		43,934		—
Tax Refunds and Credits		(100,628)		(55,596)
Net Non-Exchange Revenue	$	10,700,024	$	9,674,509
Other Miscellaneous Net Non-Exchange Revenue		1,179		(1,462)
Total Non-Exchange Revenue	$	48,602,831	$	44,397,375

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, 2005, plus an estimate of tax collections expected for quarters ended June 30, 2005 and September 30, 2005. Actual tax collection data for the two quarters ended June 30, 2005 and September 30, 2005 will not be available from the IRS until December 2005 and March 2006, respectively.

MOTOR VEHICLE TAX EVASION (MTFE) ISSUES

Federal Highway Administration is addressing actions to be taken about the possible effects of anticipated future demands, events and trends related to MFTE, generally accepted to cost the trust fund approximately $1 billion or more annually. MFTE-related monies have been spent by the Internal Revenue Service (IRS) to improve MFTE enforcement and determine the necessary program management changes needed. Working with the IRS, FHWA will develop a written oversight plan to identify future actions to oversee the development and implementation of highway use tax evasion activity. During fiscal year 2005, expenditures for the Highway Trust Fund (HTF) exceeded revenues by approximately $6.4 billion. The HTF equity (Corpus) available as of September 30, 2005 is $10.8 billion. However, Congress has authorized appropriations in excess of curent available trust fund assets that amounts to $.9 billion after considering amounts already transferred to the HTF agencies. FHWA is continuing to analyze the impact that SAFETEA-LU will have on the trust fund.

NOTE 19. STATEMENT OF BUDGETARY RESOURCES

Dollars in Thousands

		FY 2005		FY 2004 (Restated)
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:	$	69,765,896	$	67,244,353
Available Contract Authority as of end of fiscal year	$	38,783,649	$	31,532,182
Available Borrowing Authority as of end of fiscal year	$	20,607	$	—
Adjustments during fiscal year to Beginning Balance of Budgetary Resources				
Rescissions	$	(9,068)	$	(496)
Prior Year Recoveries		519,964		92,160
Temporarily Not Available		(60,947)		(199)
Cancelled Authority		(5,190)		1,965
Permanently Not Available		(762,764)		276,691
Other Adjustments		43,401		(39,040)
Total Adjustments to Budgetary Resources	$	(274,604)	$	331,081

Significant adjustments were needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2004 for the Federal Highway Administration's (FHWA) Highway Trust Fund (HTF). The error was discovered by the management after the publication of its financial statements in November, 2004. The adjustments principally related to a SF 132 *Apportionment and Reapportionment Schedule* received in October 2004 relating to FY 2004 activity. Accordingly, adjustments have been made to correct these errors resulting in a net increase in "Total Budgetary Resources" and "Total Status of Budgetary Resources" of $2.97 billion. In addition an error was discovered in unobligated balances and budget authority temporarily not available pursuant to public law which had been brought forward on FHWA's Apportionment and Reapportionment Schedule since at least FY 2002. This correction resulted in a net decrease to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of $2.54 billion at September 30, 2004. A new SF 132 has been issued, including corrected balances to reflect the proper amount of carried forward budget authority, and approved by OMB.

Significant adjustments were also needed to the amounts previously reported on the Statement of Budgetary Resources at September 30, 2004 for the FHWA's Non-Budgetary Financing Accounts for the Transportation Infrastructure Finance and Innovation Act (TIFIA) Loan Program. The error was discovered by management after the publication of its financial statements in November, 2004. The adjustments principally related to a journal entry that obligated balances and reduced unapportioned authority and borrowing authority as of September 30, 2004. This correction resulted in a net increase to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of $.2 billion

The next table on the following page details specific line items being restated on the Combined Statement of Budgetary Resources.

NOTE 19. STATEMENT OF BUDGETARY RESOURCES (CONT.)
Dollars in Thousands

		2004 Originally Stated		Effect of Restatement		2004 As Restated
Budgetary Resources (Selected Components)						
Borrowing Authority	$	1,923,602	$	172,661	$	2,096,263
Contract Authority		43,489,033		2,742,508		46,231,541
Net Transfers		(216,487)		241,722		25,235
Unobligated balance – beginning of period		38,336,603		(2,543,098)		35,793,505
Permanently Not Available		(45,323,853)		(15,028)		(45,338,881)
Status of Budgetary Resources (Selected Components)						
Obligations Incurred – Direct	$	64,756,645	$	(965,192)	$	63,791,453
Unobligaed balance available		14,840,959		241,722		15,082,681
Unobligated balance not available		23,391,134		1,322,235		24,713,369

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATONS

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.

The Federal-Aid Highway Act of 1956, as amended by subsequent legislation, established the Highway Trust Fund (HTF) as a mechanism for financing the accelerated highway program. It is a user-supported fund, with the revenues of the HTF identified for financing highways, and the taxes dedicated to the HTF paid by the users of highways. The HTF Corpus is a utility account that receives no budgetary resources. Excise and user taxes are collected by the Treasury and deposited to the HTF Corpus. Deposits not needed immediately for payments are invested by the Treasury's Bureau of Public Debt (BPD) in non-interest bearing public debt securities. As funds are needed for payments, HTF Corpus investments are liquidated and funds are transferred to FHWA for payment of obligations. Given the nature of the HTF Corpus activity, the budgetary resources relating to "HTF Corpus" account is not reflected in the DOT Statement of Budgetary Resources (SBR) at September 30, 2004; however, such budgetary resources are reflected in the "Budget of the United States Government".

There are other differences between information required by SFFAS No. 7 and the amounts in the amounts described as actual "actual" FY 2004 "Budget of the United States Government" aggregating approximately $1 billion for which management is researching with Treasury. Adjustments were posted to the unobligated balance carried forward at the beginning of FY 2004 as part of the restatement of the FY 2004 Budgetary SBR. This adjustment resulted in differences of $2.5 billion to the unobligated balance at the beginning of period and $2.3 billion to the unobligated balances end of period that were less than what was reported in the 2004 actual column of the FY 2006 Budget of the United States Government. In addition, material differences exists between the fiscal year 2004 Statement of Budgetary Resources and the fiscal year 2004 President's Budget "Actual" column for borrowing authority, unobligated balances not available, obligated balances end of period and outlays of approximatley $ 1.2 billion, $ 1.3 billion and $ .2 billion, respectively.

NOTE 19. STATEMENT OF BUDGETARY RESOURCES (CONT.)

Certain errors related to the preparation of FACTS II reporting for the period ending September 30, 2004 resulted in erroneous reporting of balances in the FY 2004 actual column of the President's Budget that have resulted in material differences from the DOT consolidated financial statements. The reporting errors were confined to the FACTS II reporting and did not result in any material adjustments to the FY 2005 unobligated balance carried forward line on the FY 2005 SBR with the exception of amounts related to the restatement of the 2004 SBR as described in the above table.

For FY 2006, the enacted budget of the United States has not been finalized. The President's Budget of the United States for FY 2007 will not be published until February 2006, 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 2005 in the FY 2007 Budget of the United States. The information will be published on OMB's website located at www.whitehouse.gov/omb.

NOTE 20. INCIDENTAL CUSTODIAL COLLECTIONS
Dollars in Thousands

Dollars in Thousands		FY 2005		FY 2004
Revenue Activity				
Sources of Cash Collections				
Miscellaneous Receipts	$	20,758	$	19,157
Fines, Penalties, and Forfeitures		—		11,022
Total Cash Collections	$	20,758	$	30,179
Total Custodial Revenue	$	20,758	$	30,179
Disposition of Collections				
Transferred to Treasury (General Fund)	$	20,758	$	30,179
Net Custodial Revenue Activity	$	—	$	—

NOTE 21. SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION

Dollars in Thousands

	FY 2005	FY 2004
Condensed Information:		
Cash and Short-Term Time Deposits	$ 15,594	$ 14,084
Long-Term Time Deposits	882	1,210
Accounts Receivable	79	82
Inventories	249	246
Property, Plant and Equipment	76,835	78,329
Deferred Charges	2,716	2,234
Other Assets	602	538
TOTAL ASSETS	$ 96,957	$ 96,723
Current Liabilities	$ 2,820	$ 2,428
Actuarial Liabilities	2,716	2,234
TOTAL LIABILITIES	$ 5,536	$ 4,662
Invested Capital	$ 91,818	$ 93,313
Cumulative Results of Operations	(397)	(1,252)
TOTAL NET POSITION	$ 91,421	$ 92,061
TOTAL LIABILITIES AND NET POSITION	$ 96,957	$ 96,723