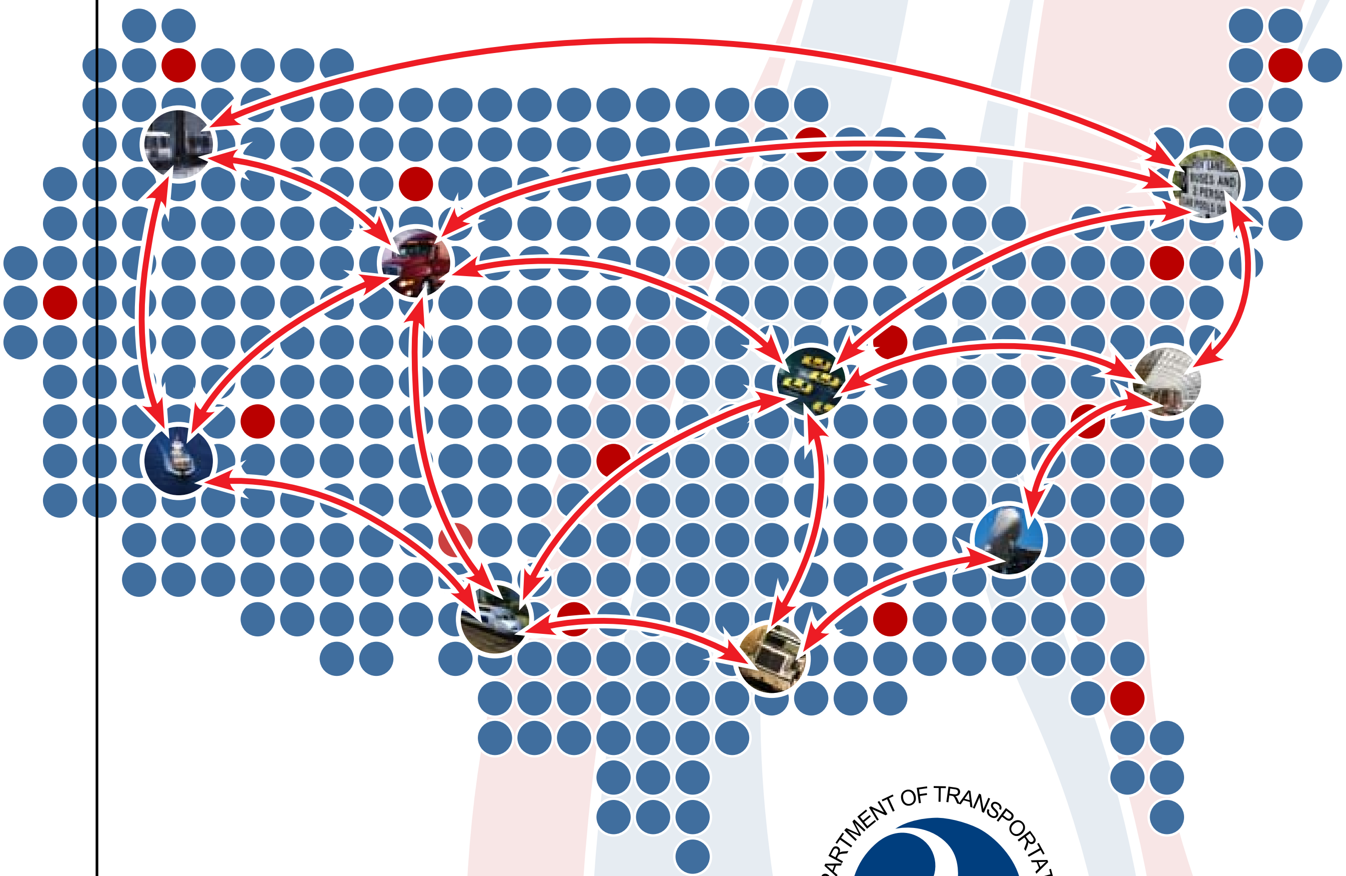
FINANCIAL REPORT



Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: ACTION: Quality Control Review of Audited Consolidated Financial Statements for Fiscal Years 2008 and 2007, DOT
Report Number: QC-2009-009

Date: November 14, 2008

From: Calvin L. Scovel III
Inspector General

Calvin L. Scovel III

Reply to Attn. of: JA–20

To: The Secretary

I respectfully submit the Office of Inspector General's (OIG) Quality Control Review report on the Department of Transportation's (DOT) audited Consolidated Financial Statements for Fiscal Years (FY) 2008 and 2007.

The audit of DOT's Consolidated Financial Statements as of and for the year ended September 30, 2008, was completed by KPMG LLP, of Washington, D.C. (see Attachment), under contract to OIG. We performed a quality control review of the audit work to ensure that it complied with applicable standards. These standards include the Chief Financial Officers Act, as amended; Generally Accepted Government Auditing Standards; and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

KPMG concluded that the consolidated financial statements present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2008, and its net costs, changes in net position, and budgetary resources, for the year then ended, in conformity with U.S. generally accepted accounting principles. OIG audited last year's DOT consolidated financial statements, and we also expressed an unqualified opinion on those statements.[1]

We congratulate the Department for reaching a significant milestone this year. The DOT consolidated financial statements have been audited since FY 1996, and DOT this year received the best outcome yet - an unqualified (clean) audit opinion

[1] Report on Consolidated Financial Statements for FY 2007 and FY 2006, Department of Transportation, Report Number FI-2008-011, November 13, 2007.

with no internal control material weaknesses. This signals to the public that the Department is maintaining a mature and reliable financial environment to account for its available financial resources of nearly $134 billion.

This would not have occurred without your emphasis and personal commitment to improving financial management practices, along with that of your senior leadership team, including the departmental Chief Financial Officer and the Acting Federal Aviation Administrator. This commitment enabled the Department to sustain clean audit opinions in the last 2 years and make significant progress toward improving a long-standing concern associated with the Federal Aviation Administration's (FAA) Property, Plant, and Equipment Account.

The Department must, however, remain vigilant in sustaining good financial management operations to ensure effective use of financial resources in an environment of uncertain financial markets, volatile fuel prices, rising deficits, and a softening economy. This environment presents a special challenge to the Highway Trust Fund and Aviation Trust Fund revenue receipts, which financed more than 70 percent of DOT's operating costs. The following summarizes the key financial management challenges that the Department continues to face.

Improving Financial Reporting

The Department needs to sustain clean audit opinions with no material weaknesses, continue enhancing its financial management oversight, and improve the quality of its financial information throughout the year. Several of the significant deficiencies reported by KPMG - use of journal entries, analysis of proprietary and budgetary account relationships, calculating grant accruals, eliminating intradepartmental activity, and implementing managerial cost accounting capabilities - have been reported as internal control deficiencies for several years, especially for the DOT Operating Administrations funded by the Highway Trust Fund. DOT needs to continue working to correct these internal control deficiencies to ensure that financial records accurately reflect operational results to support management decisions in today's tight financial environment. Correcting these long-standing deficiencies will also bring DOT into full compliance with Federal Financial Management Improvement Act (FFMIA) requirements.

Implementing New CIP Processes

The Department needs to ensure that FAA remains vigilant and continues to implement new policies and procedures in accounting for Property, Plant, and Equipment, especially Construction in Progress (CIP) transactions. The significant deficiency associated with accounting for FAA Property, Plant, and

Equipment, including the CIP account, was reported as a material weakness in the last three consecutive years and resulted in a qualified opinion on the DOT consolidated financial statements in FY 2006. Similarly, DOT slipped to a qualified opinion in FY 2000 because of a material weakness in accounting for FAA Property, Plant, and Equipment. On both occasions, DOT and FAA had to execute expensive corrective action plans to improve accounting for Property, Plant, and Equipment, and to get back to an unqualified audit opinion.

Effectively Managing the Highway Trust Fund Resources

The Highway Trust Fund (HTF) is the primary source for financing highway construction projects; it experienced a solvency problem during FY 2008. In August, the Department worked closely with Congress to have $8 billion transferred from the General Fund to help alleviate fund shortages. While the Department is researching alternative funding sources, it also needs to ensure effective use of available funds. As of September 30, 2008, DOT reported a total of $80 billion in outstanding obligations, most of which were associated with HTF-related grants. KPMG estimated that about $300 million of these obligations were no longer needed and should have been released (de-obligated) for other use. In today's budget environment in which highway investment needs exceed available resources, allowing unneeded obligations to sit idle leaves fewer funds available for expanding and preserving National Highway System infrastructure.

KPMG FY 2008 Audit Report

KPMG reported seven internal control significant deficiencies, none of which were believed to be material weaknesses, and four instances of potential or known noncompliance with laws and regulations:

Significant Deficiencies

1. Journal Entries and Account Relationships
2. Property, Plant, and Equipment, including the Construction in Progress Account
3. Grant Accruals
4. Exchange Revenue
5. Financial Reporting
6. Undelivered Orders
7. Information Technology Controls over Financial Systems and Applications

Noncompliance with Laws and Regulations

1. Antideficiency Act
2. Federal Financial Management Improvement Act of 1996
3. Federal Managers' Financial Integrity Act of 1982
4. Improper Payments Information Act of 2002

KPMG made 25 recommendations for corrective action; we agree with all and, therefore, are making no additional recommendations. DOT officials concurred with the significant deficiencies and potential or known instances of noncompliance, and committed to developing a detailed action plan to address the findings contained in the report no later than December 29, 2008. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow-up. Please provide us with actual amounts de-obligated as a result of actions taken in response to the "Undelivered Orders" significant deficiency by June 30, 2009.

In our opinion, the audit work performed by KPMG complied with applicable standards.

We appreciate the cooperation and assistance of DOT and KPMG representatives. If we can answer any questions, please call me at (202) 366-1959; David Dobbs, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427; or Rebecca Leng, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

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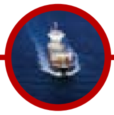

KPMG

KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditors' Report

Secretary and Inspector General
U.S. Department of Transportation:

We have audited the accompanying consolidated balance sheet of the U.S. Department of Transportation (DOT) as of September 30, 2008, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our audit, we also considered the DOT's internal controls over financial reporting and tested the DOT's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. The accompanying consolidated financial statements of the DOT as of, and for the year ended, September 30, 2007 were audited by other auditors whose report thereon dated November 9, 2007, expressed an unqualified opinion on those statements.

Summary

As stated in our opinion on the consolidated financial statements, we concluded that the U.S. Department of Transportation's consolidated financial statements as of and for the year ended September 30, 2008 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles. As discussed in our opinion, the DOT changed its method of accounting for and reporting of heritage assets to adopt changes in accounting standards in fiscal year 2008, and reports certain significant estimates in its excise tax revenues.

Our consideration of internal control over financial reporting resulted in the following conditions being identified as significant deficiencies:

A. Journal Entries and Account Relationships

B. Property, Plant, and Equipment, including the Construction in Progress Account

C. Grant Accruals

D. Exchange Revenue

E. Financial Reporting

F. Undelivered Orders

G. Information Technology Controls over Financial Systems and Applications

However, none of the significant deficiencies are believed to be material weaknesses.

The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed the following instances of actual or potential noncompliance or other matters that are required to be reported under *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

H. Anti-Deficiency Act

I. Federal Financial Management Improvement Act of 1996

J. Federal Managers' Financial Integrity Act of 1982

K. Improper Payments Information Act of 2002

The following sections discuss our opinion on the DOT's fiscal year 2008 consolidated financial statements; our consideration of the DOT's internal controls over financial reporting; our tests of the DOT's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of the U.S. Department of Transportation as of September 30, 2008, and the related consolidated statements of net cost and changes in net position, and the combined statement of budgetary resources for the year then ended.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the U.S. Department of Transportation as of September 30, 2008, and its net costs, changes in net position, and budgetary resources, for the year then ended, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 1 and 9, the DOT changed its method of accounting for and reporting heritage assets in fiscal year 2008 to adopt the provisions of the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards No. 29, *Heritage Assets and Stewardship Land*.

As discussed in Notes 1 and 20, the consolidated financial statements reflect actual excise tax revenues deposited in the Highway Trust Fund and the Airport and Airway Trust Fund through June 30, 2008 and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2008.

The information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections is not a required part of the consolidated financial statements, but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The information in the Other Accompanying Information section is presented for purposes of additional analysis and are not required as part of the consolidated financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

Our consideration of the internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the DOT's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the DOT's consolidated financial statements that is more than inconsequential will not be prevented or detected by the DOT's internal control. A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the DOT's internal control.

In our fiscal year 2008 audit, we consider the deficiencies described in Exhibit I to be significant deficiencies in internal control over financial reporting. However, we believe that none of the significant deficiencies described in Exhibit I are material weaknesses. Exhibit III presents the status of prior year significant deficiencies.

We noted certain additional matters that we will report to management of the DOT in a separate letter.

Compliance and Other Matters

The results of certain of our tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996* (FFMIA), disclosed two potential and one other instances of noncompliance that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04, and are described in Exhibit II.

The results of our other tests of compliance as described in the Responsibilities section of this report, exclusive of those referred to in FFMIA, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed instances, described in Exhibit II, where the DOT did not substantially comply with applicable Federal accounting standards.

The results of our tests of FFMIA disclosed no instances in which the DOT did not substantially comply with the Federal financial management systems requirements, and the United States Government Standard General Ledger at the transaction level.

Exhibit III presents the status of prior year instances of non-compliance.

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Responsibilities

Management's Responsibilities. Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control; and complying with laws, regulations, contracts, and grant agreements applicable to the DOT.

Auditors' Responsibilities. Our responsibility is to express an opinion on the fiscal year 2008 consolidated financial statements of the DOT based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DOT's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In planning and performing our audit, we considered the DOT's internal control over financial reporting by obtaining an understanding of the DOT's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*. The objective of our audit was not to express an opinion on the effectiveness of the DOT's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the DOT's internal control over financial reporting.

As part of obtaining reasonable assurance about whether the DOT's fiscal year 2008 consolidated financial statements are free of material misstatement, we performed tests of the DOT's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the DOT. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

The DOT's response to the findings identified in our audit is presented in Exhibit IV. We did not audit the DOT's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the DOT's management, the DOT Office of Inspector General (OIG), OMB, the U.S. Government Accountability Office, and the U.S. Congress and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 12, 2008

SIGNIFICANT DEFICIENCIES

A. Journal Entries and Account Relationships

Background/Criteria: From fiscal year (FY) 2003 until FY 2006, the DOT OIG reported that material weaknesses existed in internal controls over financial management and reporting activities in the DOT, specifically in the Highway Trust Fund (HTF) agencies. In FY 2007, the HTF agencies implemented significant improvements in internal controls over financial management and reporting activities. In the FY 2007 audit report, the DOT OIG identified deficiencies in controls, as required by the DOT Financial Management Policies Manual and other DOT guidance, over journal entries and analysis of proprietary and budgetary account relationships as a significant deficiency.

Conditions: We noted the following internal control weaknesses in the DOT's use of journal entries and analysis of proprietary and budgetary account relationships.

Use of Journal Entries

We reviewed 389 journal entries processed by the HTF agencies and 6 other operating administrations (OAs) for the year ended September 30, 2008, and we noted 67 instances in which these entries could have been avoided by following existing DOT policies and procedures. Specifically, these entries could have been entered using one of the modules within Delphi, the DOT's core accounting system, or by using standardized posting models. Further, we noted that the DOT lacks a consistent journal entry numbering scheme and journal entry nomenclature that ensures the journal entries were sequentially numbered.

Analysis of Proprietary and Budgetary Account Relationships

During our review of account relationship tests as of and for the year ended September 30, 2008 for the same agencies listed above, we noted the following exceptions related to analyzing, resolving, or explaining the variances identified by the account relationship tests:

- Some variances did not appear to be properly researched, researched timely or have timely corrective action documented and taken. While the DOT reduced the total amount of out-of-balance conditions by approximately $3.4 billion during FY 2008, there are significant variances that remain unresolved from year-to-year and quarter-to-quarter. At the end of the first, second, and third quarters of FY 2008, journal entries were posted to balance certain proprietary and budgetary accounts without completely researching the related variance. These entries were reversed at the beginning of the next quarter in order to continue the research. As of September 30, 2008, management believed the variances to be immaterial, and did not record journal entries to balance the proprietary and budgetary accounts.
- DOT's policy of obtaining analysis and support for all variances above $500 thousand is not consistently being completed in a timely manner.
- The current account relationship tool used by DOT personnel has limitations and does not allow for the accurate analysis of certain account relationships.

In July 2008, the DOT formed a dedicated team of experienced accountants to focus on improving the timeliness, accuracy, and comprehensiveness of the account reconciliations. As a result, the team's improvement efforts were only partially completed as of year-end.

Cause: The DOT Office of Financial Management developed a consistent and comprehensive set of proprietary and budgetary account relationship tests for all DOT agencies to use beginning with the quarter ended June 30, 2007. However, certain of DOT's OAs have not adequately implemented the related policies and procedures over the analysis and resolution of variances identified between proprietary and budgetary accounts. In addition, the policies and procedures did not establish a firm due date for the resolution of any variances identified.

Finally, the resources dedicated to the effort of researching and resolving differences in the proprietary and budgetary account relationships vary during the year, and increased substantially in the months prior to year-end.

Effect: Failure to research and resolve proprietary and budgetary account variances increases the risk that quarterly or the year-end financial statements may be misstated or not properly supported.

Recommendations: We recommend that the DOT:

1. Enforce existing policies and procedures to reduce the use of manual journal entries, especially in instances when the entry should have been processed through the Delphi modules or by using standardized posting models.
2. Develop effective policies and procedures to ensure that journal entries are sequentially numbered.
3. Revise the existing policies to include a firm due date for the timely resolution of variances and to require a thorough review and resolution of variances prior to posting "balancing" journal entries to the general ledger.
4. Follow the existing and revised policies and procedures to review and document the resolution of account relationship variances at the accounting fund level on a monthly basis.
5. Review each OA's analysis in order to ensure compliance with the existing policies and procedures and to ensure that transactions posted to the general ledger are accurate.

B. Property, Plant, and Equipment, including the Construction in Progress Account

Background/Criteria: The Federal Aviation Administration (FAA) constructs significant capital assets, such as radar, navigational, communications, and other technology equipment that is used to operate the United States National Airspace System. The FAA's property, plant and equipment (PP&E) portfolio totals approximately $13.8 billion, including construction in progress (CIP) of approximately $2.3 billion as of September 30, 2008. From FY 2005 through FY 2007, the DOT OIG reported that FAA had a material weakness in internal controls over the timely processing of PP&E transactions and related accounts.

Conditions: During FY 2008, we noted:

- Weaknesses in the controls over the additions and adjustment to fixed assets (excluding CIP) at the FAA regional level.
- Weaknesses in the controls over the additions to CIP at the headquarters and regional level.
- Weaknesses in the controls over FAA's quarterly PP&E accrual.
- A lack of adherence to policies and procedures by program offices to ensure the timely removal of fixed assets from the accounting system upon retirement.
- Improper expensing during FY 2008 of CIP projects.
- Improper up-front coding of a headquarters project as capital when the project met the criteria for expense coding.
- Improper classification of CIP projects as of September 30, 2008.
- Correction of asset useful life, date placed in service, and/or asset cost during FY 2008, due to input errors in the prior year.

The issues noted above resulted in actual and projected errors totaling $130 million.

Cause/Effect: Weaknesses noted during FY 2008 are the result of newly developed policies and procedures not operating effectively or not being implemented throughout the FAA. If FAA is unable to correct these conditions, the CIP, PP&E and related financial statement balances may be misstated.

Recommendations: We recommend that the DOT:

6. Continue to work with personnel in the FAA to resolve the weaknesses identified above. During our audit, we communicated seven recommendations to FAA management, including improving existing policies and procedures, ensuring supporting documentation is maintained and available, implementing a three-year rolling inventory, strengthening communication and reporting within the FAA, continuing to review the useful life and date placed in service of capitalized assets, continuing to automate transactions, and continuing training of and communication with FAA's accounting offices.

C. Grant Accruals

Background/Conditions: For year-end reporting, the DOT, specifically the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), and the FAA, calculates and records an estimated liability for the amount of work performed by its grantees (including their contractors) but not yet billed to or reimbursed by DOT. The DOT Financial Management Policies Manual requires that estimated accruals should be carefully analyzed and compared with subsequent actual numbers to ensure the accrual process is continuously refined to improve accuracy. Further, the DOT Financial Management Policies Manual requires that accruals be made as accurate as possible based on actual events.

During FY 2008, these OAs did not receive sufficient information from their grantees in order to either evaluate the accuracy and reliability of the accrual estimated as of September 30, 2007 or update their estimates for FY 2008. As a result, the grant accrual is not based on current sufficient information provided by grantees.

Cause: Personnel in these OAs do not have effective processes in place to receive the appropriate information from their grantees in order to perform appropriate analyses of the accuracy of the prior year's accruals or to update their estimates for the current year. The OAs are hampered in their efforts by the *Paperwork Reduction Act*, which limits the amount of information that agencies of the Federal government may request from state and local government entities, who are the vast majority of the DOT's grantees.

Effect: Application of a grant accrual methodology without a proper comparison of estimates to subsequent actual results and consideration of current year information may result in improperly accruing expenses and accounts payable, and the associated liability and expense reported on the Balance Sheet and Statement of Net Cost may be misstated.

Recommendations: We recommend that the DOT:

7. Enhance its internal controls over the development of its grant accrual methodology to ensure that information submitted from selected grantees used in the development of the methodology constitutes sufficient and appropriate evidence on which to base the grant accrual estimate.
8. Update its policies and procedures to obtain and review appropriate information from each of its grantees and utilize the information therein to compare to the DOT's prior year grant accrual estimate in order to refine the DOT's current year grant accrual estimate.

D. Exchange Revenue

Background/Criteria: The DOT reported approximately $1.7 billion in earned revenue in FY 2008 resulting from the sale of goods and services to other Federal agencies and to the public. The DOT Financial Management Policies Manual requires that revenues are recorded when earned and expenses are recorded when incurred (goods are received and services performed even though the receipt of the revenue or the payment of the expense may take place, in whole or part, in another accounting period).

Conditions: During FY 2008, the DOT was in the process of reviewing a number of prior year transactions based on errors in one of the accounting modules in Delphi and in the processing of certain prior year reimbursable revenue agreements. During our audit, we noted approximately 17% of the transactions sampled were recorded in the wrong fiscal year.

Cause: Partly due to the current corrective action efforts and partly due to breakdowns in internal controls, the OAs are not following existing policies and procedures requiring them to recognize revenue in the appropriate period.

Effect: The errors noted in our audit resulted in a net overstatement in FY 2008 of $17.4 million, and projected to a net revenue overstatement in FY 2008 of $268.5 million. Management did not adjust for these errors as they deemed the actual and projected overstatement to be immaterial to the financial statements taken as a whole.

Recommendations: We recommend that the DOT:

9. Continue its current cleanup efforts for prior revenue transactions, and complete such efforts as quickly as possible.
10. Ensure that existing policies are consistently followed to ensure revenue is recognized in the appropriate period.

E. Financial Reporting

Background/Criteria: Financial reporting in the Federal environment is a complicated and evolving process. In addition, the complex and varied operations of the DOT and its 13 OAs makes consolidated reporting, under standards issued by the Federal Accounting Standards Advisory Board (FASAB) and OMB, a challenge for the Department.

Conditions: During our FY 2008 audit, we noted several areas for improvement in the DOT's financial reporting process, including:

- Classification and reporting of DOT's environmental liabilities and lease expenses;
- Eliminations of intra-departmental activity; and
- Implementation of Statement of Federal Financial Accounting Standards (SFFAS) No. 29, *Heritage Assets and Stewardship Land*.

We also noted deficiencies in the disclosure of the credit reform and loan guarantee information and in the calculation of the subsidy cost and loan guarantee allowances. Specifically, we noted the subsidy cost model for the FHWA Transportation Infrastructure Finance and Innovative Act program had not been formally evaluated or updated, and relied upon outdated data from 2002 and 2005.

Further, we noted that nine OAs are not in compliance with the requirements of SFFAS No. 4, *Managerial Cost Accounting Concepts & Standards for the Federal Government*. Specifically, we noted that a formal managerial cost accounting system that captures and reports the full costs of programmatic activity has not been implemented at those OAs. These nine OAs are the FHWA, the Maritime Administration (MARAD), the Office of the Secretary of Transportation, the National Highway Traffic Safety Administration, the Federal Railroad Administration, the Research and Innovative Technology Administration, the Federal Motor Carrier Safety Administration, the Pipeline and Hazardous Materials Safety Administration, and the Surface Transportation Board. Without a proper cost accounting system, these OAs are unable to properly track and present their costs in accordance with the requirements of SFFAS No. 4, and the DOT is unable to produce a Statement of Net Cost by its strategic goals.

Cause: The DOT has limited resources in the office of the DOT CFO, which makes compliance with FASAB standards and OMB guidance difficult.

Effect: Without sufficient resources and processes in place, the DOT's financial statements may be incomplete or misstated.

Recommendations: We recommend that the DOT:

11. Ensure sufficient resources and processes are in place to enable timely and accurate financial reporting.
12. Provide more frequent training on technical accounting topics for DOT's accountants.
13. Enhance and improve the DOT's policies and procedures over financial reporting to ensure consistent treatment of accounting transactions among the DOT's OAs, and provide more opportunities for sharing best practices among the OAs on how to account for similar transactions.
14. More fully integrate the OA's accounting service provider, the Enterprise Service Center, and the OA's accountants into the DOT CFO's quarterly and year-end compilation and financial reporting process.
15. Improve the ability of DOT's core financial system to report DOT's financial statements and notes on a consolidated and combined basis with limited manual intervention.
16. Continue its efforts to implement managerial cost accounting processes.

F. Undelivered Orders

Background/Criteria: In carrying out its mission, the DOT signs contracts or agreements for the purchase of goods and services from other Federal agencies and the public, and for the execution of grant agreements with state and local governments and other grantees. As of September 30, 2008, the DOT reported $80.3 billion in obligations. The DOT Financial Management Policies Manual requires that OAs should monitor their open obligations to ensure that existing obligations are valid.

Condition: During our audit, we noted that the DOT did not consistently de-obligate funds in a timely manner and could not support all balances recorded at June 30, 2008, resulting in an overstatement of the DOT's undelivered orders (UDOs). Further, we noted that the subsidiary ledger used by FHWA personnel to monitor and manage active grants did not agree to the amounts reported in grant obligations in Delphi. Finally, partly as a result of conversion to Delphi in 2003 and partly due to DOT's current business process, approximately $187 million of generic obligations not associated with a specific purchase order ("null undelivered orders") remain recorded. When payments or activity takes place against these items, an extensive manual effort is required by DOT personnel to research and identify the original purchase order, and then to ensure that the activity is properly recorded.

Cause: We noted that the OAs are not following existing policies and procedures requiring them to periodically review UDO balances and take action to promptly de-obligate excess funds or close-out inactive balances and completed projects. Further, the OAs do not maintain proper documentation to support all UDO balances. Finally, we noted that the OAs do not have enough personnel or adequately trained personnel to effectively assess the UDO balances in a timely manner in accordance with DOT policy.

Effect: As of June 30, 2008, we noted that the UDO balances in the sample we selected were overstated by a known error of $3.9 million, which resulted in a projected error of $340.5 million. Without properly recording obligations in Delphi, there is an increased risk of inaccuracies or errors in financial reporting. Further, we noted that FHWA personnel were using a subsidiary ledger system to monitor active grant obligations that did not agree to Delphi by approximately $143 million. Finally, the $187 million of generic obligations could be overstated if DOT personnel incorrectly linked activity from the original purchase order to the wrong purchase order.

Recommendations: We recommend that the DOT:

17. Ensure that existing policies and procedures are consistently followed to include the periodic review of the validity of UDO balances and enhance the policies and procedures to include formal documentation of the OA's review and to ensure inactive and completed projects are de-obligated and closed-out in a timely fashion.
18. Identify and determine the specific cause of recurring differences between the subsidiary ledger used by FHWA personnel and Delphi, and develop a corrective action plan to prevent the recurrence of such differences.
19. Continue to research and reconcile the outstanding issues related to the generic obligations that remain in Delphi.

G. Information Technology Controls over Financial Systems and Applications

Background/Criteria: Last year, the DOT OIG reported a significant deficiency in the DOT's financial system controls, including system control weaknesses in Delphi and computer security deficiencies in DOT systems that provide financial data to Delphi. OMB Circular No. A-130, *Security of Federal Automated Information Resources,* emphasizes the importance of technical and operations controls as part of management controls to protect Federal systems and data commensurate with the risk and magnitude of harm resulting from the loss, misuse, or unauthorized access to or modification of information.

In FY 2008, DOT made significant progress in strengthening the design and implementation of controls over Delphi. However, we identified several areas in which system control weaknesses continue.

Conditions: Despite progress in some areas, continued improvements are needed in the DOT's general controls and in controls in the following systems:

- Departmental system: Delphi and the Delphi datacenter;
- FAA systems: System of Airports Reporting (SOAR), Purchase Request Information System Management (PRISM), Cost Accounting System (CAS), and Consolidated Automation System for Time and Labor Entry (CASTLE);
- FHWA systems: Fiscal Management Information System (FMIS); and
- FTA Systems: Transportation Electronic Award Management System (TEAMS), Electronic Clearing House Operation (ECHO), and the Delphi Online Transaction System (DOTS).

Cause: Effective policies and procedures have not been implemented to ensure that controls are in place and operating effectively in the information technology environment.

Effect: The deficiencies noted could adversely affect the DOT's ability to record, process, summarize, and report financial data consistent with the assertions of management in the DOT's consolidated financial statements. In addition, we also noted that these weaknesses impacted the DOT's ability to comply with financial management system requirements listed in OMB Circular No. A-127, *Policies and Standards for Financial Management Systems*, Section 7 – *Financial Management System Requirements*, regarding computer security act requirements, internal controls, and systems maintenance activities.

Recommendation: We recommend that the DOT:

20. Continue to improve the information technology environment applicable to the DOT applications by implementing the specific recommendations provided to management.

COMPLIANCE AND OTHER MATTERS

H. *Anti-Deficiency Act*

Background/Criteria: Title 31 U.S. Code (U.S.C.) Section 1517 states that an officer or an employee of the United States Government may not make or authorize an expenditure or obligation exceeding an apportionment or an amount permitted by regulations as specified by Title 31 U.S.C. Section 1514.

Condition: During FY 2007, MARAD's management identified a potential violation at the U.S. Merchant Marine Academy. During FY 2008, the DOT and representatives from the Government Accountability Office (GAO) began in-depth reviews of transactions associated with the U.S. Merchant Marine Academy. Executives within the U.S. Maritime Administration, the agency responsible for oversight of the U.S. Merchant Marine Academy, concluded that there were likely both isolated and systemic violations of the *Anti-Deficiency Act*. Although these potential violations occurred in fiscal years 2008 and prior, management's review of the potential violations has been ongoing and complicated by a lack of a unified accounting system at the U.S. Merchant Marine Academy and its affiliates. As of the date of our report, the DOT and the GAO had not completed their reviews of this matter.

Effect: The DOT is potentially not in compliance with the *Anti-Deficiency Act*.

Recommendations: We recommend that the DOT:

21. Make it a priority to work with OMB and the Congress to formally report these potential violations, in accordance with the *Anti-Deficiency Act* and the applicable implementation guidance.
22. Implement appropriate policies and procedures to correct the weaknesses identified at the U.S. Merchant Marine Academy.

I. *Federal Financial Management Improvement Act of 1996 (FFMIA)*

Background/Criteria: FFMIA requires that an agency's financial management systems substantially comply with Federal financial management systems requirements, accounting standards issued by the Federal Accounting Standards Advisory Board, and the U.S. Government Standard General Ledger at the transaction level. When evaluating an entity's compliance with FFMIA, OMB Bulletin No. 07-04 recommends that auditors evaluate whether an agency can: (1) prepare financial statements and other required financial budget reports using information generated by the financial management system(s); (2) provide reliable and timely financial information for managing current operations; (3) account for their assets reliably, so that they can be properly protected from loss, misappropriation, or destruction; and do all three in a way that is consistent with generally accepted accounting standards and the U.S. Government Standard General Ledger at the transaction level.

Condition: The DOT was not in substantial compliance with FFMIA because the DOT did not substantially comply with applicable Federal accounting standards during the year, and was not able to provide reliable and timely financial information for managing current operations at intervals throughout the year. However, our audit procedures enabled us to conclude that the DOT had substantially complied with Federal accounting standards in its year-end financial statements.

This finding is based on the various significant deficiencies in internal control over financial reporting discussed in Exhibit I of this report. Specifically, we found that:

- The DOT was not able to produce meaningful managerial cost accounting reports at nine of its 13 OAs;
- Certain transaction types or processes, such as construction in progress, revenue, and obligations, were not recorded in a timely or accurate manner during the year; and
- Account relationships were not appropriately addressed until late in the year.

The DOT has been making substantial progress in its efforts to create a world-class financial reporting organization that enables the OA and DOT managers to obtain meaningful information from the core accounting system and its subsidiary ledgers throughout the year. The operations of the DOT are complex and diverse, and standardization of accounting operations is critical. The DOT's Enterprise Service Center (ESC) is recognized by the OMB as a center of excellence, and is continuing to grow as additional Federal agencies choose the DOT's ESC as their accounting service provider. The continued progress by DOT, along with the additional agencies that are choosing the DOT as a service provider, demonstrate the commitment by DOT management to correct the existing deficiencies in internal control over financial reporting.

Effect: The weaknesses in internal control, discussed above, prevent the DOT from being able to produce timely and reliable financial information for managing current operations throughout the year.

Recommendation: We recommend that the DOT:

23. Address and resolve the deficiencies in internal control, as described in Exhibit I of this report.

J. *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*

Background/Criteria: FMFIA and OMB Circular No. A-123, *Management's Responsibility for Internal Control*, requires agency managers and staff to report annually on the three objectives of internal control: the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The DOT has put in place a significant structure and process to evaluate its reliability of financial reporting and compliance with applicable laws and regulations. The DOT has demonstrated a consistent and reliable process in evaluating those areas of internal control, and is working diligently on establishing a similar structure and process to evaluate the effectiveness and efficiency of its operations.

Condition: During FY 2008, we noted that there were inconsistencies in the consideration and reporting of internal controls over the effectiveness and efficiency of operations within the DOT. Specifically, the OAs do not have a consistent process to evaluate and report program weaknesses required under FMFIA.

Effect: Without a unified DOT-wide process to evaluate the effectiveness and efficiency of internal controls over operations, the DOT and its OAs may not identify and report programmatic weaknesses on a consistent basis.

Recommendation: We recommend that the DOT:

24. Address and resolve the weakness noted above, and fully comply with FMFIA in FY 2009.

K. *Improper Payments Information Act of 2002 (IPIA)*

Background/Criteria: OMB Circular A-123, Appendix C, issued on August 10, 2006, entitled "Requirements for Effective Measurement and Remediation of Improper Payments," implements the requirements of IPIA. The circular defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts include overpayments and underpayments, payments made to an ineligible recipient or for an ineligible service, duplicate payments, and payments for services not received.

The circular prescribes a four-step approach for use by agencies in evaluating improper payments: (1) review all programs and identify those susceptible to significant erroneous payments; (2) statistically estimate the annual amount of improper payments; (3) implement a plan to reduce erroneous payments; and (4) report estimates of the annual amount of improper payments and progress in reducing them.

During FY 2008, the DOT reported that it successfully completed its review of improper payments of the FHWA's Federal-aid Highway Program, the FAA's Airport Improvement Program, the FTA's Formula Grants Program, and the FTA's Capital Investment Grants Program. The DOT found improper payments in all four grant programs, and projected the improper payments to a range of $175.3 million to $206.1 million. The improper payments found in two of the programs (the FTA's Formula Grants Program and the FTA's Capital Investment Grants Program) exceeded the OMB's definition of significant improper payments.

Condition: To evaluate the DOT's compliance with IPIA, we worked with the DOT OIG's IPIA evaluation team, including their sampling specialists. However, neither we nor the DOT OIG were provided information by DOT with sufficient time before the issuance of our report in order to determine if the sampling plan used by DOT was statistically valid. Specifically, we could not determine if the projection of sampling results to the program totals were based on generally accepted conventional formulas.

Effect: The DOT is potentially not in compliance with the *Improper Payments Information Act*.

Recommendation: We recommend that DOT:

25. Work to ensure that information is provided to the OIG and other appropriate parties with sufficient time to evaluate whether the improper payment testing performed in FY 2009 is based on valid statistical sampling techniques.

STATUS OF PRIOR YEAR REPORTABLE CONDITIONS, AND NON-COMPLIANCE WITH SIGNIFICANT LAWS AND REGULATIONS

Prior Year Condition	As Reported At September 30, 2007	Status As Of September 30, 2008
Timely Processing of Transactions and Accounting for FAA Property, Plant, and Equipment, including the CIP Account	**Material weakness:** The FAA lacked adequate policies, procedures, and controls to monitor its CIP activity.	Downgraded to a significant deficiency
Journal Entries and Account Relationships for the HTF Agencies	**Significant Deficiency:** The DOT has weaknesses in following policies and procedures over journal entries, and in the timely reconciliation and resolution of differences identified in the DOT's budgetary to proprietary account relationships.	Repeated as a significant deficiency
Financial System Controls	**Significant Deficiency:** Certain general controls related to the DOT's primary financial applications need to be strengthened.	Repeated as a significant deficiency
DOT Information Security Program	**Significant Deficiency:** The DOT did not meet Government security standards to protect information systems and did not take sufficient action to correct identified security deficiencies.	Closed with respect to Federal financial management systems
FTA Grant Accrual	**Significant Deficiency:** Certain controls were not in place in FTA to ensure that the FTA's grant accrual was based on sufficient information provided by its grantees.	Repeated as a significant deficiency

Prior Year Condition	As Reported At September 30, 2007	Status As Of September 30, 2008
Non-compliance with the *Federal Financial Management Improvement Act*	**Instance of non-compliance:** The DOT did not substantially comply with the FFMIA because the FAA was unable to account for property, plant, and equipment transactions, including the CIP account, and present balances in its periodic financial statements in accordance with generally accepted accounting principles as of and for the fiscal year ended September 30, 2007.	Repeated as an instance of non-compliance
Non-compliance with the *Anti-Deficiency Act*	**Instance of non-compliance:** During FY 2007, the Maritime Administration CFO reported a potential violation at the U.S. Merchant Marine Academy.	Repeated as a potential instance of non-compliance
Non-compliance with the *Improper Payments Information Act of 2002*	**Instance of non-compliance:** During FY 2007, the DOT OIG was not provided with sufficient information by DOT before the issuance of the DOT FY 2007 PAR to determine if the sampling plan used by DOT was statistically valid.	Repeated as a potential instance of non-compliance
Non-compliance with the *SFFAS No. 4, Managerial Cost Accounting Concepts and Standards*	**Instance of non-compliance:** As of September 30, 2007, nine OAs of the DOT had not fully implemented cost accounting processes in accordance with SFFAS Number 4.	Reclassified as part of the non-compliance with FFMIA

U.S. Department of Transportation
Office of the Secretary of Transportation

1200 New Jersey Avenue. SE
Washington, DC 20590

November 12, 2008

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General, US DOT

Patrick Boyce
Partner, KPMG LLP

FROM: Phyllis F. Scheinberg Phyllis Scheinberg
Assistant Secretary for Budget and Programs/CFO

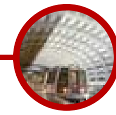
SUBJECT: Management's Response to the Audit Report on the Consolidated Financial Statements for Fiscal Years (FY) 2008 and 2007

Thank you for your audit report on the Consolidated Financial Statements for FY 2008 and 2007. I am very pleased that the Department of Transportation (DOT) earned an unqualified audit opinion. Noteworthy is the fact that, for the first time, no material weaknesses in any agency or at the consolidated department level were identified in the auditor's report on internal controls. This is validation of DOT's continued commitment to carefully protecting and managing the resources, assets, and programs entrusted to us. We take great pride in our ability to sustain strong and vigilant financial management, as demonstrated in our achievement of an unqualified audit opinion.

We concur with the seven significant deficiencies contained in your report on internal controls over financial reporting, and with the two potential and two actual instances of non-compliance found in certain provisions of applicable laws, regulations, contracts and grant agreements. The Department plans to submit a detailed action plan no later than December 29, 2008, to address the findings contained in your report.

Please convey my sincere appreciation and gratitude to everyone on your staffs for the professionalism and cooperation displayed during this audit. Our combined efforts and teamwork made the difference in successfully meeting the objectives of the financial audit process. Please refer any questions to Laurie Howard, Director of Financial Management.



U.S. DEPARTMENT OF TRANSPORTATION
CONSOLIDATED BALANCE SHEETS

As of September 30,		**2008**		**2007**
Dollars in Thousands				
ASSETS				
Intragovernmental				
Fund Balance with Treasury (Note 2)	$	22,074,754	$	23,392,470
Investments, Net (Note 3)		21,699,531		21,144,083
Accounts Receivable (Note 4)		235,638		509,692
Other (Note 5)		38,915		2,453
Total Intragovernmental		44,048,838		45,048,698
Cash		54,675		24,358
Investments, Net (Note 3)		28,707		74,085
Accounts Receivable, Net (Note 4)		67,852		114,118
Direct Loan and Loan Guarantees (Note 6)		1,670,284		889,885
Inventory and Related Property, Net (Note 7)		802,368		785,760
General Property, Plant and Equipment, Net (Note 8)		14,512,568		14,683,890
Other (Note 5)		182,492		211,044
Total Assets	**$**	**61,367,784**	**$**	**61,831,838**
Stewardship Property, Plant and Equipment (Note 9)				
LIABILITIES (Note 10)				
Intragovernmental				
Accounts Payable	$	11,046	$	30,424
Debt (Note 11)		1,762,985		1,040,761
Other (Note 15)		3,263,123		3,418,078
Total Intragovernmental		5,037,154		4,489,263
Accounts Payable		532,579		614,861
Loan Guarantee Liability (Note 6)		258,050		336,626
Federal Employee Benefits Payable (Note 12)		984,710		946,408
Environmental and Disposal Liabilities (Note 13)		828,757		852,366
Grant Accrual (Note 14)		5,810,147		5,526,288
Other (Note 15)		1,365,257		1,309,411
Total Liabilities		**14,816,654**		**14,075,223**
Commitments and Contingencies (Note 17)				
NET POSITION (Note 18)				
Unexpended Appropriations - Earmarked Funds		1,010,409		1,213,189
Unexpended Appropriations - Other Funds		7,643,564		8,563,101
Cumulative Results of Operations - Earmarked Funds		25,944,043		26,552,761
Cumulative Results of Operations - Other Funds		11,953,114		11,427,564
Total Net Position		**46,551,130**		**47,756,615**
Total Liabilities and Net Position	**$**	**61,367,784**	**$**	**61,831,838**

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF TRANSPORTATION

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30,	**2008**	**2007**
Dollars in Thousands		
PROGRAM COSTS (Note 19)		
SURFACE TRANSPORTATION		
Gross Costs	$ 50,416,782	$ 47,649,334
Less: Earned Revenue	263,771	264,028
Net Program Costs	50,153,011	47,385,306
AIR TRANSPORTATION		
Gross Costs	15,913,667	15,263,468
Less: Earned Revenue	381,546	449,014
Net Program Costs	15,532,121	14,814,454
MARITIME TRANSPORTATION		
Gross Costs	706,649	759,803
Less: Earned Revenue	491,570	189,076
Net Program Costs	215,079	570,727
CROSS-CUTTING PROGRAMS		
Gross Costs	565,861	511,524
Less: Earned Revenue	542,360	500,076
Net Program Costs	23,501	11,448
Costs Not Assigned to Programs	386,130	388,392
Less: Earned Revenues Not Attributed to Programs	39,379	30,295
NET COST OF OPERATIONS	**$ 66,270,463**	**$ 63,140,032**

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF TRANSPORTATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, Dollars in Thousands	2008 Earmarked Funds	2008 All Other Funds	2008 Total	2007 Earmarked Funds	2007 All Other Funds	2007 Total
Cumulative Results of Operations						
Beginning Balance	$26,552,761	$ 11,427,564	$ 37,980,325	$30,175,061	$12,465,748	$42,640,809
Budgetary Financing Sources						
Other Adjustments	(783)	756	(27)	(166,601)	166,625	24
Appropriations Used	2,582,284	14,220,954	16,803,238	2,095,506	4,156,871	6,252,377
Non-Exchange Revenue (Note 20)	48,688,029	(3,679)	48,684,350	51,531,076	2,197	51,533,273
Donations/Forfeitures of Cash/Cash Equivalents	1,557	–	1,557	2,422	–	2,422
Transfers-In/(Out) Without Reimbursement	8,035,031	(7,997,976)	37,055	6,883	76,568	83,451
Other Financing Sources (Non-Exchange)						
Transfers-In/(Out) Without Reimbursement	(1,898,408)	1,919,255	20,847	(2,443,652)	2,446,463	2,811
Imputed Financing	548,956	93,192	642,148	506,686	98,504	605,190
Other	–	(1,873)	(1,873)	–	–	–
Total Financing Sources	57,956,666	8,230,628	66,187,295	51,532,320	6,947,228	58,479,548
Net Cost of Operations	58,565,384	7,705,079	66,270,463	55,154,620	7,985,412	63,140,032
Net Change	(608,718)	525,550	(83,168)	(3,622,300)	(1,038,184)	(4,660,484)
Cumulative Results of Operations	**25,944,043**	**11,953,114**	**37,897,157**	**26,552,761**	**11,427,564**	**37,980,325**
Unexpended Appropriations						
Beginning Balance	1,213,189	8,563,101	9,776,290	612,378	7,806,902	8,419,280
Budgetary Financing Sources						
Appropriations Received	2,404,596	13,319,232	15,723,828	2,841,381	4,974,437	7,815,818
Appropriations Transferred-In/(Out)	(6)	28,006	28,000	621	(606)	15
Other Adjustments	(25,086)	(45,821)	(70,907)	(145,134)	(60,761)	(205,895)
Appropriations Used	(2,582,284)	(14,220,954)	(16,803,238)	(2,096,057)	(4,156,871)	(6,252,928)
Total Budgetary Financing Sources	(202,780)	(919,537)	(1,122,317)	600,811	756,199	1,357,010
Total Unexpended Appropriations	**1,010,409**	**7,643,564**	**8,653,973**	**1,213,189**	**8,563,101**	**9,776,290**
NET POSITION	**$26,954,452**	**$ 19,596,678**	**$ 46,551,130**	**$27,765,950**	**$19,990,665**	**$47,756,615**

The accompanying notes are an integral part of these financial statements.

U.S. DEPARTMENT OF TRANSPORTATION

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, Dollars in Thousands	2008		2007	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES (Note 21)				
Unobligated Balance, Brought Forward, October 1	$ 46,511,710	$332,405	$ 46,566,672	$ 358,827
Recoveries of Prior Year Unpaid Obligations	909,305	37,788	658,023	207,000
Budget Authority				
Appropriations Received	79,462,754	-	62,551,786	-
Borrowing Authority	215,000	950,094	225,000	865,759
Contract Authority	55,933,312	-	55,040,320	-
Spending Authority from Offsetting Collections				
Earned				
Collected	2,182,754	507,519	2,212,610	167,921
Change in Receivables from Federal Sources	(66,642)	(188)	(69,617)	(3,616)
Change in Unfilled Customer Orders				
Advance Received	216,149	-	89,251	-
Without Advance from Federal Sources	(192,676)	33,973	184,966	(20,491)
Expenditure Transfers from Trust Funds	6,447,419	-	5,673,226	-
Subtotal	144,198,070	1,491,398	125,907,542	1,009,573
Nonexpenditure Transfers, Net	2,000	-	2,220	-
Temporarily not Available Pursuant to Public Law	-	-	(5,489)	-
Permanently Not Available	(59,405,333)	(359,787)	(51,763,052)	(287,959)
Total Budgetary Resources	**$ 132,215,752**	**$ 1,501,804**	**$ 121,365,916**	**$ 1,287,441**
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	$ 84,438,020	$ 1,261,574	$ 72,701,475	$ 955,036
Reimbursable	1,970,779	-	2,152,731	-
Subtotal	86,408,799	1,261,574	74,854,206	955,036
Unobligated Balance				
Apportioned	26,059,115	4,796	22,742,862	4,394
Exempt from Apportionment	299,415	-	307,808	-
Subtotal	26,358,530	4,796	23,050,670	4,394
Unobligated Balance Not Available	19,448,423	235,434	23,461,040	328,011
Total Status of Budgetary Resources	**$ 132,215,752**	**$ 1,501,804**	**$ 121,365,916**	**$ 1,287,441**

The accompanying notes are an integral part of these financial statements.

DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES *(CONT.)*

For the Years Ended September 30, **Dollars in Thousands**	**2008** **Budgetary**	**2008** **Non-Budgetary Credit Reform Financing Accounts**	**2007** **Budgetary**	**2007** **Non-Budgetary Credit Reform Financing Accounts**
CHANGE IN OBLIGATED BALANCES				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	$ 76,707,884	$ 2,017,708	$ 72,330,387	$ 1,706,951
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,707,556)	(135,484)	(1,590,193)	(159,590)
Total Unpaid Obligated Balance, Net	75,000,328	1,882,224	70,740,194	1,547,361
Obligations Incurred	86,408,799	1,261,574	74,854,206	955,036
Gross Outlays	(82,157,078)	(1,391,414)	(69,820,935)	(437,279)
Unpaid Obligations	25,000	-	2,250	-
Recoveries of Prior Year Unpaid Obligations, Actual	(909,305)	(37,788)	(658,023)	(207,000)
Change In Uncollected Customer Payments from Federal Sources	262,920	(33,784)	(117,363)	24,106
Obligated Balance, Net, End of Period				
Unpaid Obligations	80,075,300	1,850,080	76,707,884	2,017,708
Uncollected Customer Payments From Federal Sources	(1,444,636)	(169,268)	(1,707,556)	(135,484)
Total Unpaid Obligated Balance, Net, End Of Period	$ 78,630,664	$ 1,680,812	$ 75,000,328	$ 1,882,224
NET OUTLAYS				
Net Outlays				
Gross Outlays	$ 82,157,078	$ 1,391,414	$ 69,820,935	$ 437,279
Offsetting Collections	(8,850,341)	(507,519)	(7,973,071)	(167,921)
Distributed Offsetting Receipts	(219,003)	(106,676)	(46,779)	-
Net Outlays	$ 73,087,734	$ 777,219	$ 61,801,085	$ 269,358

The accompanying notes are an integral part of these financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Department of Transportation (DOT or Department) serves as the focal point in the Federal Government's coordinated national transportation policy. It is responsible for helping cities and States meet their local transportation needs through financial and technical assistance, ensuring the safety of all forms of transportation; protecting the interests of consumers; promoting international transportation agreements; and conducting planning and research for the future.

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 provides the necessary services and oversight to ensure the best transportation system possible. The Department's consolidated financial statements present 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 a DOT entity. 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 that of the Department's, SLSDC's financial data is not included in the DOT consolidated financial statements. However, condensed information about SLSDC's financial position is presented in Note 24.

B. BASIS OF PRESENTATION

The Department's consolidated financial statements have been prepared to report the financial position and results from operations of DOT, as required by the Chief Financial Officers Act of 1990 (CFO Act) and Title IV of the Government Management Reform Act of 1994 (GMRA). The statements have been prepared from the DOT books and records in accordance with Office of Management and Budget (OMB) form and content requirements for entity financial statements and DOT's accounting policies and procedures. Unless otherwise noted, all dollar amounts are presented in thousands.

The Consolidated Balance Sheets present agency assets and liabilities, and the resulting agency net position (which is the difference between the two amounts). Agency assets substantially include entity assets (those which are available for use by the agency). Non-entity assets (those which are managed by the agency but not available for use in its operations) are immaterial. Agency liabilities include both those covered by budgetary resources (funded) and those not covered by budgetary resources (unfunded).

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

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

The Combined Statements of Budgetary Resources provide 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 2008.

Since DOT custodial activity is incidental to Departmental operations and is not considered material to the consolidated financial statements taken as a whole, a Statement of Custodial Activity has not been prepared. However, sources and dispositions of collections have been disclosed in Note 22 to the consolidated 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 requirements at the transaction level.

C. BUDGETS AND BUDGETARY ACCOUNTING

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated June 2008. 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 2008 and FY 2007, the Department was accountable for trust fund appropriations, general fund appropriations, revolving fund activity and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

Programs are financed from authorizations enacted in authorizing legislation and codified in Title 23 of the United States Code (U.S.C.). The DOT receives its budget authority in the form of contract authority and direct appropriations. Contract authority permits programs to incur obligations in advance of an appropriation, offsetting collections, or receipts. Subsequently, Congress provides an appropriation for the liquidation of the contract authority to allow payments to be made for the obligations incurred. Funds apportioned by state under Titles 23 and 49 of the U.S.C., Subtitle III by the Secretary of Transportation for activities in advance of the liquidation of appropriations are available for a specific time period.

D. BASIS OF ACCOUNTING

Transactions are generally recorded on both 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. All material intra-departmental transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular A-136.

Intragovernmental transactions and balances result from exchange transactions made between DOT and another Federal government reporting entity, while those classified as "with the public" result from exchange transactions between DOT and non-federal entities. For example, if DOT purchases goods or services from the public and sells them to another Federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intragovernmental." This could occur, for example, when DOT provides goods or services to another Federal government entity on a reimbursable basis. The purpose of this classification is to enable the Federal government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

DOT accounts for earmarked funds separately from other funds.

E. 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. Lockboxes have been established with financial institutions to collect certain payments, and these funds are transferred directly to Treasury on a daily (business day) basis. DOT does not maintain any balances of foreign currencies.

F. INVESTMENTS IN U.S. GOVERNMENT SECURITIES

Investments that consist of U.S. Government Securities are reported at cost and adjusted for 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. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury. The market value is calculated by multiplying the total number of shares by the market price on the last day of the fiscal year.

Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies (Maritime Escrow Fund) and are required to be classified as securities with the public and are not considered intragovernmental investments. The funds can be utilized to cover the construction costs of vessels and serve as additional security in the event of a default on the guaranteed loan.

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 (resulting from 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 RELATED 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 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. PROPERTY AND EQUIPMENT

DOT agencies have varying methods of determining the value of general purpose 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.

DOT's heritage assets, consisting of Union Station in Washington, DC, the Nuclear Ship Savannah and collections of maritime artifacts, are considered priceless and are not capitalized in the Consolidated Balance Sheets. (See Note 9 and the Required Supplementary Information section for additional information related to DOT's heritage assets).

J. 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 or capitalized, as appropriate, when the related goods and services are received.

K. 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.

L. 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 estimatable). DOT recognizes material contingent liabilities in the form of claims, legal actions, 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.

M. ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned and not taken. Nonvested leave is expensed when used.

N. 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 benefit plans is the responsibility of the administering agency, the Office of Personnel Management (OPM). Therefore, DOT does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

O. FEDERAL EMPLOYEES HEALTH BENEFIT (FEHB) PROGRAM

Most Department employees are enrolled in the FEHB Program, which provides post-retirement health benefits. OPM administers this program and is responsible for the reporting of liabilities. Employer agencies and covered employees are not required to make any contributions for post-retirement health benefits. OPM calculates the U.S. Government's service cost for covered employees each fiscal year. The Department has recognized the entire service cost of these post-retirement benefits for covered employees as an imputed cost and an imputed financing source.

P. FEDERAL EMPLOYEES GROUP LIFE INSURANCE (FEGLI) PROGRAM

Most Department employees are entitled to participate in the FEGLI Program. Participating employees can obtain basic term life insurance where the employee pays two-thirds of the cost and the Department pays one-third of the cost. OPM administers this program and is responsible for the reporting of liabilities. OPM calculates the U.S. Government's service cost for the post-retirement portion of the basic life coverage each fiscal year. Because OPM fully allocates the Department's contributions for basic life coverage to the pre-retirement portion of coverage, the Department has recognized the entire service cost of the post-retirement portion of basic life coverage as an imputed cost and an imputed financing source.

Q. FEDERAL EMPLOYEE COMPENSATION BENEFITS (FECA)

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because DOT will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future revenues will be used to reimburse DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under FECA.

R. ENVIRONMENTAL AND DISPOSAL LIABILITIES

DOT recognizes two types of environmental liabilities: unfunded environmental remediation and unfunded asset disposal liability. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The asset disposal liability includes both the cost to remove and dismantle an asset when that asset is no longer in service and the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials. DOT estimates the environmental remediation and asset disposal costs at the time a DOT-owned asset is placed in service.

Estimating the Department's environmental remediation liability requires making assumptions about future activities and is inherently uncertain. Costs for estimates of 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.

S. USE OF ESTIMATES

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include the allocation of trust fund receipts by Treasury's Office of Tax Analysis (OTA), accruals of accounts and grants payable, accrued workers' compensation, the allowance for doubtful accounts receivable, and accrued legal, contingent, environmental and disposal liabilities.

T. ALLOCATION TRANSFERS

DOT is a party to allocation transfers with other federal agencies as a transferring (parent) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account and subsequent obligations and outlays incurred by the receiving entity (child) are charged to this allocation account as the delegated activity is executed on the parent entity's behalf. Generally, all financial activity related to these allocation transfers (e.g. budget authority, obligations, outlays) is reported in the financial statements of the parent entity, from which the underlying legislative authority, appropriations and budget apportionments are derived.

DOT allocates funds, as the parent, to the following non-DOT Federal agencies in accordance with applicable public laws and statutes: Bureau of Indian Affairs, Bureau of Reclamation, U.S. Forest Service, National Park Service, Bureau of Land Management, Fish and Wildlife Service, Department of the Army, Appalachian Regional Commission, Tennessee Valley Authority, U.S. Army Corps of Engineers, Internal Revenue Service, Department of Housing and Urban Development, Denali Commission, Department of Navy, and Department of Energy.

U. REVENUES AND OTHER FINANCING SOURCES

DOT receives the majority of the funding needed to support its programs through non-exchange earmarked excise tax revenues related to the Highway Trust Fund (HTF) and the Airport and Airway Trust Fund (AATF). DOT also receives annual, multi-year and no-year appropriations. Appropriations are recognized as revenues when related program and administrative expenses are incurred. 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 received from gifts of 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 is recognized as revenue on the accrual basis rather than when received.

Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds based on estimates prepared by OTA. These estimates are based on historical excise tax data applied to current excise tax receipts. When actual amounts are certified by the IRS, generally four months after each quarter-end, adjustments are made to the estimated amounts and the difference is adjusted as a transfer of resources to the HTF and AATF accounts.

The DOT September 30, 2008 financial statements reflect excise taxes certified by the IRS through June 30, 2008 and excise taxes estimated by OTA for the period July 1, 2008 to September 30, 2008 as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the quarter ended September 30, 2008 will not be available from the IRS until January 2009. Management does not believe that the actual tax collections for the quarter ended September 30, 2008 will be materially different than the OTA estimate.

V. RECLASSIFICATIONS

Certain reclassifications were made to the FY 2007 consolidated financial statement presentation to conform to that used in FY 2008.

NOTE 2. FUND BALANCE WITH TREASURY

	FY 2008	FY 2007
Fund Balances		
Trust Funds	$ 6,283,435	$ 5,593,882
Revolving Funds	636,287	643,114
General Funds	14,831,421	16,871,467
Other Fund Types	323,611	284,007
Total	$ 22,074,754	$ 23,392,470
Status of Fund Balance with Treasury		
Unobligated Balance		
Available	$ 7,453,124	$ 5,055,441
Unavailable	2,380,690	1,537,890
Obligated Balance Not Yet Disbursed	12,021,987	16,465,645
Non-Budgetary Fund Balance with Treasury	218,953	333,494
Total	$ 22,074,754	$ 23,392,470

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.

The U.S. Treasury processes cash receipts and disbursements. DOT receives appropriations as budget authority, which permits it to incur obligations and make outlays (payments). In addition, DOT also receives contract authority to permit the incurrence of obligations in advance of an appropriation. The contract authority is subsequently replaced with the appropriation or the spending authority from offsetting collections to first cover and then liquidate the obligations. As a result, DOT does not have typical Fund Balance with Treasury amounts as funds remain invested in securities until needed to make payments.

NOTE 3. INVESTMENTS

As of September 30, 2008	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Intragovernmental Securities				
Marketable	$ 41,403	$ 650	$ 42,053	$ 42,594
Non-Marketable, Par Value	20,484,837	-	20,484,837	20,484,837
Non-Marketable, Market-Based	1,087,268	(533)	1,086,735	1,120,012
Subtotal	21,613,508	117	21,613,625	21,647,443
Accrued Interest	85,906	-	85,906	
Total Intragovernmental Securities	$ 21,699,414	$ 117	$ 21,699,531	$ 21,647,443
Securities with the Public				
Marketable	28,535	(250)	28,285	28,355
Subtotal	28,535	(250)	28,285	28,355
Accrued Interest	422	-	422	
Total Securites with the Public	28,957	(250)	28,707	28,355
As of September 30, 2007				
Intragovernmental Securities				
Marketable	$ 35,300	$ (371)	$ 34,929	$ 35,665
Non-Marketable, Par Value	20,135,487	-	20,135,487	20,135,487
Non-Marketable, Market-Based	886,403	-	886,403	895,914
Subtotal	21,057,190	(371)	21,056,819	21,067,066
Accrued Interest	87,264	-	87,264	
Total Intragovernmental Securities	$ 21,144,454	$ (371)	$ 21,144,083	$ 21,067,066
Securities with the Public				
Marketable	$ 75,252	$ (1,167)	$ 74,085	$ 74,205

Investments include non-marketable par value and market-based Treasury securities and marketable securities issued by the Treasury and other Federal entities. 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. Marketable Federal securities can be bought and sold on the open market.

NOTE 3. INVESTMENTS *(CONT.)*

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. Non-Marketable par value Treasury securities are issued to DOT as evidence of these receipts. These securities provide DOT with authority to draw upon the U.S. Treasury to make future expenditures. When 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.

Treasury securities are an asset of DOT and a liability of the U.S. Treasury. Because the DOT and the U.S. Treasury are both a part 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.

NOTE 4. ACCOUNTS RECEIVABLE

	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
As of September 30, 2008			
Intragovernmental			
Accounts Receivable	$ 235,620	$ -	$ 235,620
Accrued Interest	18	-	18
Total Intragovernmental	235,638	-	235,638
Public			
Accounts Receivable	85,141	(17,722)	67,419
Accrued Interest	896	(463)	433
Total Public	86,037	(18,185)	67,852
Total Receivables	$ 321,675	$ (18,185)	$ 303,490
As of September 30, 2007			
Intragovernmental			
Accounts Receivable	$ 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

NOTE 5. OTHER ASSETS

	FY 2008	FY 2007
Intragovernmental		
Advances and Prepayments	$ 38,915	$ 1,739
Other	-	714
Total Intragovernmental	$ 38,915	$ 2,453
Public		
Advances to the States for the Right of Way	$ 91,529	$ 98,861
Other Advances and Prepayments	90,646	112,029
Other	317	154
Total Public	$ 182,492	$ 211,044

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

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups:

(1) Pre-1992 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 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 subsequent subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) be recognized 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 would be expected to be received from selling the loans. DOT has calculated the allowance for pre-1992 loans using the allowance for loss method.

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

(1) The Railroad Rehabilitation Improvement Program is used to acquire, improve, or rehabilitate intermodal or rail equipment or facilities, including track, components of tract, bridges, yards, buildings, and shops; refinance outstanding debt incurred; and develop or establish new intermodal or railroad facilities.

(2) The Transportation Infrastructure Finance Innovation Act (TIFIA) Loan Program provides Federal credit assistance to major transportation investments of critical national importance such as highway, transit, passenger rail, certain freight facilities, and certain port projects with regional and national benefits. The TIFIA credit program is designed to fill market gaps and leverages substantial private co-investment by providing supplemental and subordinate capital.

(3) The Federal Ship Financing Fund (Title XI) offers loan guarantees to qualified shipowners and shipyards. The guarantee provides the benefit of long term financing at stable interest rates to the approved applicants.

(4) The OST Minority Business Resource Center Guaranteed Loan Program helps small businesses gain access to the financing needed to participate in transportation-related contracts.

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

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Direct Loans

Obligated Prior to FY 1992 (Allowance for Loss Method)

	FY 2008 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ 13,757	$ 154	$ -	$ 13,911

Direct Loan Programs	FY 2008 Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost(Present Value)	Value of Assets Related to Direct Loans, Net
Obligated After FY 1991				
1. Railroad Rehabilitation Improvement Program	$ 289,862	$ 552	$ (2,408)	$ 288,006
2. TIFIA Loans	1,488,123	-	(158,716)	1,329,407
Total	$ 1,777,985	$ 552	$ (161,124)	$ 1,617,413

Obligated Prior to FY 1992 (Allowance for Loss Method)

	FY 2007 Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Value of Assets Related to Direct Loans, Net
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ 17,479	$ 90	$ -	$ 17,569
Obligated After FY 1991				
1. Railroad Rehabilitation Improvement Program	$ 497,166	$ -	$ 9,889	$ 507,055
2. TIFIA Loans	377,058	-	(39,998)	337,060
Total	$ 874,224	$ -	$ (30,109)	$ 844,115

Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2008	FY 2007
Direct Loan Programs		
1. Railroad Rehabilitation Improvement Program	$ 70,027	$ 99,832
2. TIFIA Loans	1,079,316	246,033
Total	$ 1,149,343	$ 345,865

TIFIA loan disbursements increased significantly in FY 2008 over 2007 levels, primarily due to loan disbursements for three large surface transportation system projects totaling $950 million.

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Subsidy Expense for Direct Loans by Program and Component

Subsidy Expense for New Direct Loans Disbursed

FY 2008	Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 1,409	$ -	$ 1,409
2. TIFIA Loans	-	118,763	-	-	118,763
Total	$ -	$ 118,763	$ 1,409	$ -	$ 120,172

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other Subsidy Costs	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 1,786	$ -	$ 1,786
2. TIFIA Loans	-	27,576	-	-	27,576
Total	$ -	$ 27,576	$ 1,786	$ -	$ 29,362

Modifications and Re-estimates

FY 2008	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ -	$ -	$ 13,801	$ 13,801
2. TIFIA Loans	-	-	11,944	11,944
Total	$ -	$ -	$ 25,745	$ 25,745

FY 2007	Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
Direct Loan Programs				
1. Railroad Rehabilitation Improvement Program	$ (1,745)	$ -	$ 1,567	$ 1,567
2. TIFIA Loans	2,959	1,328	7,099	8,427
Total	$ 1,214	$ 1,328	$ 8,666	$ 9,994

Total Direct Loan Subsidy Expense

	FY 2008	FY 2007
Direct Loan Programs		
1. Railroad Rehabilitation Improvement Program	$ 15,210	$ 1,608
2. TIFIA Loans	130,707	2,959
Total	$ 145,917	$ 4,567

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

	FY 2008 Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
1. Railroad Rehabilitation Improvement Program	-0.95%	3.85%	-2.90%	0.00%	0.00%
2. TIFIA Loans	-0.04%	5.04%	0.00%	0.00%	5.00%
Total	-0.99%	8.89%	-2.90%	0.00%	5.00%

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

Beginning Balance, Changes, and Ending Balance	**FY 2008**	**FY 2007**
Beginning Balance of the Subsidy Cost Allowance	$ 30,109	$ (570)
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	118,763	-
Fees and Other Collections	1,409	-
Other Subsidy Costs	-	29,362
Total of the Above Subsidy Expense Components	120,172	29,362
Adjustments		
Loan Modifications	-	3,207
Fees Received	-	(55)
Subsidy Allowance Amortization	(14,902)	(8,518)
Ending Balance of the Subsidy Cost Allowance Before Reestimates	135,379	23,426
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	25,745	6,683
Total of the Above Reestimate Components	25,745	6,683
Ending Balance of the Subsidy Cost Allowance	$ 161,124	$ 30,109

Defaulted Guaranteed Loans from Post-1991 Guarantees

Loan Guarantee Programs	**FY 2008 Defaulted Guaranteed Loans Receivable, Gross**	**Interest Receivable**	**Foreclosed Property**	**Allowance for Subsidy**	**Value of Assets Related to Default Guaranteed Loans Receivable, Net**
3. Federal Ship Financing Fund (Title XI)	$ 43,680	$ 600	$ -	$ (5,320)	$ 38,960

Loan Guarantee Programs	**FY 2007 Defaulted Guaranteed Loans Receivable, Gross**	**Interest Receivable**	**Foreclosed Property**	**Allowance for Subsidy**	**Value of Assets Related to Default Guaranteed Loans Receivable, Net**
3. Federal Ship Financing Fund (Title XI)	$ 7,501	$ 200	$ 19,000	$ 1,500	$ 28,201

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Guaranteed Loans Outstanding

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
3. Federal Ship Financing Fund (Title XI)	$ 2,421,273	$ 2,421,273
4. OST Minority Business Resource Center	3,350	2,513
Total	$ 2,424,623	$ 2,423,786

New Guaranteed Loans Disbursed

	2008 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. OST Minority Business Resource Center	$ 2,600	$ 1,950

Loan Guarantee Programs	2007 Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
4. OST Minority Business Resource Center	$ 3,415	$ 2,651
Total	$ 3,415	$ 2,651

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

Loan Guarantee Programs	FY 2008 Liabilities for Post-1991 Guarantees, Present Value
3. Federal Ship Financing Fund (Title XI)	$ 257,929
4. OST Minority Business Resource Center	121
Total	$ 258,050

NOTE 6. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS *(CONT.)*

Subsidy Expense for Loan Guarantees by Program and Component

Subsidy Expense for New Loan Guarantees Disbursed

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	$ -	$ 38,599	$ (23,108)	$ -	$ 15,491
4. OST Minority Business Resource Center	-	53	-	-	53
Total	$ -	$ 38,652	$ (23,108)	$ -	$ 15,544

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	$ -	$ 891	$ 774	$ 20,499	$ 22,164
4. OST Minority Business Resource Center	62	-	-	-	62
Total	$ 62	$ 891	$ 774	$ 20,499	$ 22,226

Modifications and Re-estimates

Loan Guarantee Programs	FY 2008 Total Modifications	Interest Rate Re-estimates	Technical Re-estimates	Total Re-estimates
3. Federal Ship Financing Fund (Title XI)	$ -	$ -	$ (106,400)	$ (106,400)
4. OST Minority Business Resource Center	-	-	(153)	(153)
Total	$ -	$ -	$ (106,553)	$ (106,553)

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

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	FY 2008	FY 2007
3. Federal Ship Financing Fund (Title XI)	$ (90,909)	$ 22,164
4. OST Minority Business Resource Center	(100)	(2,154)
Total	$ (91,009)	$ 20,010

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

Loan Guarantee Programs	2008 Interest Supplements	Defaults	Fees and Other Collections	Other	Total
3. Federal Ship Financing Fund (Title XI)	0.00%	9.23%	-4.88%	0.00%	4.35%
4. OST Minority Business Resource Center	0.00%	2.03%	0.00%	0.00%	2.03%
Total	0.00%	11.26%	-4.88%	0.00%	6.38%

NOTE 6. 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 2008	FY 2007
Beginning Balance of the Loan Guarantee Liability	$ 336,626	$ 345,864
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component		
Default Costs (net of recoveries)	38,652	571
Fees and Other Collections	(23,108)	774
Other Subsidy Costs	-	3,299
Total of the Above Subsidy Expense Components	15,544	4,644
Adjustments		
Interest Accumulation on the Liability Balance	11,910	17,216
Other	523	-
Ending Balance of the Loan Guarantee Liability Before Reestimates	364,603	367,724
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	(106,553)	(31,098)
Total of the Above Reestimate Components	(106,553)	(31,098)
Ending Balance of the Loan Guarantee Liability	$ 258,050	$ 336,626

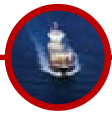
Interest on the loans is accrued based on the terms of the loan agreement. DOT does not accrue interest on non-performing loans that have filed for bankruptcy protection. DOT management considers administrative costs to be insignificant.

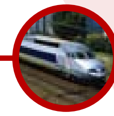
The downward reestimate on the Federal Ship Financing Fund (Title XI) was a result of significant reductions in principal outstanding each year on the loan guarantees as well as the reassessment of risk levels on high risk loans. The economic assumptions of the TIFIA loan program has been revised resulting in an upward reestimate of costs over the life of the loan. The Railroad Rehabilitation Improvement Program's upward reestimate was a result of an update for change in the discount rate between time of loan obligation and disbursement and an update for actual cash flows and changes in technical assumptions.

The downturn in economy has led to volatility in financial markets which could affect loan repayments under direct and loan guarantee programs. Under the Federal Credit Reform Act, upward reestimates are automatically covered by permanent indefinite budget authority, which ensures DOT will have sufficient resources to cover any losses incurred in its existing portfolio without further action by Congress. DOT continues to evaluate the risks to affected markets in light of evolving economic conditions, but the impact of such risks on DOT's loan and loan guarantee portfolio reserves, if any, cannot be fully known at this time. The sufficiency of DOT's portfolio reserves at September 30, 2008 will largely depend on future economic and market conditions and could differ from current estimates.

NOTE 7. INVENTORY AND RELATED PROPERTY

	Cost	Allowance for Loss	Net
As of September 30, 2008			
Inventory:			
Inventory Held for Current Sale	$ 82,350	$ (96)	$ 82,254
Excess, Obsolete and Unserviceable Inventory	19,583	(19,583)	-
Inventory Held for Repair	487,117	(96,240)	390,877
Other	26,299	(10,591)	15,708
Total Inventory	$ 615,349	$ (126,510)	$ 488,839
Operating Materials and Supplies:			
Items Held for Use	$ 229,430	$ (4,856)	$ 224,574
Items Held in Reserve for Future Use	65,903	-	65,903
Excess, Obsolete and Unserviceable Items	526	(526)	-
Items Held for Repair	41,024	(17,972)	23,052
Total Operating Materials & Supplies	$ 336,883	$ (23,354)	$ 313,529
Total Inventory and Related Property			$ 802,368
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





NOTE 8. GENERAL PROPERTY, PLANT AND EQUIPMENT

Major Classes	Service Life	Acquisition Value	Accumulated Depreciation	Book Value
As of September 30, 2008				
Land and Improvements	30	$ 103,056	$ (1,084)	$ 101,972
Buildings and Structures	15-40	5,054,765	(2,665,384)	2,389,381
Furniture and Fixtures	15-20	67,509	(65,050)	2,459
Equipment	15-20	18,797,474	(9,843,868)	8,953,606
ADP Software	15-20	252,778	(208,227)	44,551
Assets Under Capital Lease	6-10	166,387	(125,137)	41,250
Leasehold Improvements	40	90,392	(43,519)	46,873
Aircraft	40	401,614	(314,282)	87,332
Ships and Vessels	11-20	1,656,764	(1,241,137)	415,627
Small Boats	20	17,724	(15,180)	2,544
Construction in Progress		2,409,108	-	2,409,108
Property Not in Use		95,013	(77,148)	17,865
Total		$ 29,112,584	$ (14,600,016)	$ 14,512,568
As of September 30, 2007				
Land and Improvements	30	$ 208,742	$ (89,679)	$ 119,063
Buildings and Structures	15-40	4,823,882	(2,485,100)	2,338,782
Equipment	15-20	17,666,943	(9,054,817)	8,612,126
ADP Software	15-20	208,130	(180,104)	28,026
Assets Under Capital Lease	6-10	166,387	(111,373)	55,014
Leasehold Improvements	40	67,494	(35,541)	31,953
Aircraft	40	401,614	(297,508)	104,106
Ships and Vessels	11-20	1,656,764	(1,176,540)	480,224
Small Boats	20	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
Total		$ 28,203,267	$ (13,519,377)	$ 14,683,890

NOTE 9. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

PERSONAL PROPERTY HERITAGE ASSETS

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 agency-owned ships prior to their disposal. As ships are assigned to a non-retention status, artifact items are collected, inventoried, photographed and relocated to secure shore-side storage facilities. This resulting inventory is made available on a long-term loan basis to qualified organizations for public display purposes.

MARAD artifacts and other collections are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies. MARAD maintains a web-based inventory system that manages the artifact loan process. 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. The artifacts and other collections are composed of ships' operating equipment obtained from obsolete ships. The ships are inoperative and in need of preservation and restoration. As all items are durable and restorable, disposal is not a consideration. A total of 604 units of artifacts and other collections were collected as of September 30, 2008 and 598 units were collected as of September 30, 2007.

REAL PROPERTY HERITAGE ASSETS

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

Washington's Union Station is an elegant and unique turn-of-the-century rail station in which a wide variety of elaborate, artistic workmanship characteristic of the period is found. Union Station is listed on the National Register of Historic Places. The station consists of the renovated original building and a parking garage, which was added by the National Park Service.

The Nuclear Ship Savannah is the world's first nuclear-powered merchant ship. It was constructed as a joint project of the Maritime Administration and the Atomic Energy Commission (AEC) as a signature element of President Eisenhower's "Atoms for Peace" program. In 1965 the AEC issued a commercial operating license and ended its participation in the joint program. The ship remains licensed and regulated by the U.S. Nuclear Regulatory Commission (successor to the AEC). The Nuclear Ship Savannah is listed on the National Register of Historic Places. The ship is a boldly-styled passenger/cargo vessel powered by a nuclear reactor.

Actions taken by the Maritime Administration since 2006 have stabilized the ship and rehabilitated portions of its interior for work-day occupancy by staff and crew. The ship is currently located in Baltimore, MD, where it is being prepared for continued "SAFSTOR" retention under the provisions of its NRC license.

NOTE 10. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Intragovernmental	FY 2008	FY 2007
Debt	$ -	$ 1,726
Other Liabilities (Note 15)	364,516	440,686
Total Intragovernmental	364,516	442,412
Federal Employee Benefits Payable	984,710	946,408
Environmental and Disposal Liabilities (Note 13)	828,757	852,366
Other Liabilities	864,520	782,120
Total Liabilities Not Covered by Budgetary Resources	3,042,503	3,023,306
Total Liabilities Covered by Budgetary Resources	11,774,151	11,051,917
Total Liabilities	$ 14,816,654	$ 14,075,223

NOTE 11. DEBT

	FY 2007 Beginning Balance	FY 2007 Net Borrowing	FY 2007 Ending Balance	FY 2008 Net Borrowing	FY 2008 Ending Balance
Intragovernmental Debt					
Debt to the Treasury	$ 836,680	$ 201,623	$ 1,038,303	$ 722,458	$ 1,760,761
Debt to the Fed Financing Bank	2,677	(219)	2,458	(234)	2,224
Total Intragovernmental Debt	$ 839,357	$ 201,404	$ 1,040,761	$ 722,224	$ 1,762,985

NOTE 12. FEDERAL EMPLOYEE BENEFITS PAYABLE

		2008		2007
Intragovernmental Liability for FECA (Note 15)	$	221,586	$	214,787
Expected Future Liability for FECA		984,710		946,408
Total Federal Employee Benefits Payable	$	1,206,296	$	1,161,195

The Department of Labor calculates the FECA liability for DOT as a whole. FECA liabilities include the expected liability for death, disability, medical and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary resources and thus will require future appropriated funding.

The intragovernmental FECA liability represents amounts billed to DOT by the DOL for FECA payments made on DOT's behalf. Funding for the liability will be made provided by future appropriations. The intragovernmental amount is not an actuarial liability.

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

	September 30, 2008	September 30, 2007
Public		
Environmental Remediation	$ 464,081	$ 316,748
Asset Disposal	364,676	535,618
Total Public	$ 828,757	$ 852,366

Environmental remediation 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 activities associated with normal operations or the result of an accident. The increase or decrease in the annual liability is charged to the current year expense.

As of September 30, 2008 and 2007, DOT's environmental remediation liability primarily includes the removal of contaminants on the Nuclear Ship Savannah, containment of exfoliating ship paint for the non-retention ships in the National Defense Reserve Fleet (Fleet), and remediation at various sites managed by the FAA and MARAD.

DOT has not recorded a liability for potential contamination at a MARAD site in Portland, Oregon. Because the remedial investigation/feasibility study has not been completed and because MARAD is listed as one of hundreds of potentially responsible parties, it is not yet possible to reasonably estimate MARAD's portion, if any, of the remediation costs.

The National Maritime Heritage Act requires that MARAD dispose of certain merchant vessels owned by the U.S. government, including non-retention ships in the Fleet. The asset disposal liability at September 30, 2008 includes the estimated cost of disposing 187 ships. In addition, FAA records an asset disposal liability upon the decommissioning of an asset to cover preparatory costs required to meet regulatory standards allowing for the safe disposition of the asset.

NOTE 14. GRANT ACCRUAL

The grant accrual consists of an estimate of grantee expenses incurred but not yet paid by DOT. Grantees primarily include state and local governments and transit authorities.

Grant accruals by Operating Administration at September 30, 2008 and 2007 are summarized as follows:

	FY 2008	FY 2007
Federal Highway Administration	$ 3,730,005	$ 4,144,949
Federal Transit Administration	1,373,270	707,996
Federal Aviation Administration	642,041	653,790
Other	64,831	19,553
Total Grant Accrual	$ 5,810,147	$ 5,526,288

NOTE 15. OTHER LIABILITIES

	Non-Current	Current	Total
As of September 30, 2008			
Intragovernmental			
Advances and Prepayments	$ -	$ 2,786,860	$ 2,786,860
Accrued Pay and Benefits	-	79,188	79,188
FECA Billings (Note 12)	126,117	95,469	221,586
Deferred Credits	-	458	458
Other Accrued Liabilities	92,427	82,604	175,031
Total Intragovernmental	$ 218,544	$ 3,044,579	$ 3,263,123
Public			
Other Accrued Unbilled Payments	$ -	$ 50,177	$ 50,177
Advances and Prepayments	-	60,101	60,101
Accrued Pay and Benefits	48,386	698,169	746,555
Deferred Credits	-	93,676	93,676
Legal Claims	2,901	109,787	112,688
Capital Leases	49,271	12,400	61,671
Other Custodial Liability	-	17,956	17,956
Other Accrued Liabilities	197,131	25,302	222,433
Total Public	$ 297,689	$ 1,067,568	$ 1,365,257
As of September 30, 2007	**Non-Current**	**Current**	**Total**
Intragovernmental			
Advances and Prepayments	$ (79,321)	$ 2,911,830	$ 2,832,509
Accrued Pay and Benefits	2,533	83,810	86,343
FECA Billings (Note 12)	126,127	88,660	214,787
Deferred Credits	34,972	-	34,972
Other Accrued Liabilities	227,405	22,062	249,467
Total Intragovernmental	$ 311,716	$ 3,106,362	$ 3,418,078
Public			
Other Accrued Unbilled Payments	$ 11	$ 1,752	$ 1,763
Advances and Prepayments	31,420	142,852	174,272
Accrued Pay and Benefits	160,135	568,817	728,952
Deferred Credits	129,891	-	129,891
Legal Claims	2,431	14,205	16,636
Capital Leases	57,612	14,499	72,111
Other Custodial Liability	(2)	26,796	26,794
Other Accrued Liabilities	93,421	65,571	158,992
Total Public	$ 474,919	$ 834,492	$ 1,309,411

NOTE 16. CAPITAL LEASES

ENTITY AS LESSEE

Capital Leases

	2008	2007
Summary of Assets Under Capital Lease by Category		
Land, Buildings & Machinery	$ 166,387	$ 166,387
Accumulated Amortization	(125,137)	(111,373)
Net Assets Under Capital Lease	$ 41,250	$ 55,014

Future Payments Due

Fiscal Year	
Year 1 (2009)	$ 13,502
Year 2 (2010)	12,833
Year 3 (2011)	11,816
Year 4 (2012)	8,637
Year 5 (2013)	5,709
After 5 Years (2014+)	54,240
Total Future Lease Payments	$ 106,737
Less: Imputed Interest	45,066
Net Capital Lease Liability	$ 61,671

The capital lease payments disclosed above relate to FAA and are authorized to be funded annually as codified in the United States Code - Title 49 - Section 40110(c)(1) which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

OPERATING LEASES

Future Payments Due

Fiscal Year	Land, Buildings, Machinery & Other
Year 1 (2008)	$ 208,288
Year 2 (2009)	200,604
Year 3 (2010)	177,565
Year 4 (2011)	161,468
Year 5 (2012)	108,545
After 5 Years (2013+)	670,297
Total Future Lease Payments	$ 1,526,767

Operating lease expense incurred during the years ended September 30, 2008 and 2007 was $251 million and $236 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege; however, DOT intends to remain in the leases. The FY 2008 lease expense and related future payments disclosed above include amounts related to DOT's new Southeast Federal Center Building located in the District's Anacostia Watershed and do not include immaterial lease amounts of DOT field offices. The operating lease amounts due after five years does not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

NOTE 17. COMMITMENTS AND CONTINGENCIES

LEGAL CLAIMS

As of September 30, 2008 and 2007, DOT's contingent liabilities, in excess of amounts accrued, for asserted and pending legal claims reasonably possible of loss were estimated at $88.2 million and $33.1 million, respectively. DOT does not have material amounts of known unasserted claims.

GRANT PROGRAMS

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such projects, at which time FHWA can accept or reject such requests. For the fiscal year ended September 30, 2008 and 2007, FHWA has pre-authorized $46.2 billion and $46.2 billion, respectively, under these arrangements. These commitments have not been recognized in the DOT consolidated financial statements at September 30, 2008 and 2007.

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 Congress appropriating New Starts funds to the project. As of September 30, 2008 and September 30, 2007, FTA had approximately $1.7 billion and $3.9 billion respectively, in funding commitments under FFGAs, which Congress had not yet appropriated. Congress must first provide the budget authority (appropriations) to allow FTA to incur obligations for these programs. Until Congress appropriates funds, FTA is not liable to grantees for any costs incurred. There is no liability related to these commitments reflected in the DOT consolidated financial statements at September 30, 2008 and 2007.

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 is 75 percent of the eligible costs for large and medium primary hub airports with the exception of noise program implementation, which is 80 percent of the eligible costs. For remaining airports (small primary, reliever, and general aviation airports), FAA's share is 95 percent of the eligible costs.

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, 2008, FAA issued letters of intent covering FY 1988 through FY 2020 totaling $5.7 billion. As of September 30, 2008, FAA had obligated $4.6 billion of this total amount leaving $1.1 billion unobligated. 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.

CONTRACT OPTIONS AND NEGOTIATIONS

As of September 30, 2008 and 2007, FAA had contract options of $3.7 billion and $3.5 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.

NOTE 17. COMMITMENTS AND CONTINGENCIES *(CONT.)*

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 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.

During FY 2008, FAA provided premium war-risk insurance to 77 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. FAA also provided non-premium war-risk insurance to 38 carriers with 1,667 aircraft for Department of Defense charter operations for Central Command and standby non-premium war-risk insurance policies for 8 carriers for State Department charter operations.

As of September 30, 2008, there are no pending aviation insurance claims. There is approximately $1.1 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and State Department have agreed to pay claims to the carriers covered by non-premium insurance.

ENVIRONMENTAL LIABILITIES

MARAD is named as a defendant in a case alleging violations of the Resource Conservation and Recovery Act, the Clean Water Act, and the hazardous waste code for the State of California. Based on the nature of the lawsuit, management is currently unable to quantify its liability in this area.

As of September 30, 2008, FAA has estimated contingent liabilities, categorized as reasonably possible of $114.1 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

NOTE 18. EARMARKED FUNDS

DOT administers certain earmarked funds, which are specifically identified revenues, often supplemented by other financing sources, that remain available over time. No new legislation was enacted as of September 30, 2008 that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance. Descriptions of the significant earmarked funds are as follows:

Highway Trust Fund

The Highway Trust Fund (HTF) 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 by 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. Over the years, the use of the fund has been expanded to include mass transit and other surface transportation programs such as highway safety and motor carrier safety programs.   Overall, there are 73 separate treasury symbols in the HTF.

HTF's programs and activities are primarily financed from excise taxes collected on specific motor fuels, truck taxes, and fines and penalties. The Highway Revenue Act of 1982 established two accounts within the HTF, the Highway Account and the Mass Transit Account. In September 2008, Congress appropriated an $8 billion transfer from the Treasury General Fund to the HTF Highway Account to alleviate the cash shortfall created by increases in fuel prices, and corresponding declines in gas tax revenues.

Airport and Airway Trust Fund

The 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 nation's aviation system and typically includes annual funding for four distinct areas within FAA: Operations; Grant in Aid for Airports; Facilities and Equipment; and Research, Engineering and Development.

Funding currently comes from several aviation related excise tax collections from passenger tickets, passenger flight segments, international arrivals/departures, cargo waybills and aviation fuels.

Mass Transit Account

In FY-2005 and prior, FTA's formula and bus grant programs were funded 80 percent by certain earmarked excise tax revenues and 20 percent from the Treasury general receipts account. These funds are considered earmarked but not reported as part of the HTF.

Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) legislation (PL 109-59) changed the way FTA programs are funded. Beginning in FY-2006, the FTA formula and bus grant programs are funded 100 percent by the HTF.

The following is a list of other earmarked funds for which the DOT has program management responsibility:

Other Earmarked Funds

- Aviation Insurance Revolving Fund
- Pipeline Safety
- Emergency Preparedness Grant
- Aviation User Fees
- Essential Air Service and Rural Airport Improvement Fund
- University Transportation Centers
- Contributions for Highway Research Program
- Cooperative Work, Forest Highways
- Safety of Cross-Border Trucking Between the United States and Mexico
- Payment to Air Carriers
- Right of Way Revolving Fund Program Account
- Alaska Pipeline Task Force, Oil Spill Liability Trust Fund
- Right-of-Way Revolving Fund Trust Fund
- Technical Assistance, United States Dollars Advanced from Foreign Governments
- Gifts and Bequests, Maritime Administration
- Special Studies, Services and Projects
- Gifts and Bequests, DOT Office of the Secretary
- Equipment, Supplies, etc., for Cooperating Countries

NOTE 18. EARMARKED FUNDS *(CONT.)*

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Earmarked Funds	FY 2008 Total Earmarked
Balance Sheet as of September 30, 2008					
Assets					
Fund Balance with Treasury	$ 4,005,470	$ 848,372	$ 2,157,264	$ 3,196,326	$ 10,207,432
Investments, Net	12,811,128	7,746,547	-	1,142,277	21,699,952
Accounts Receivable, Net	27,112,794	-	-	3,918,375	31,031,169
Inventory and Related Property, Net	-	-	-	-	-
Property, Plant & Equipment	112,119	-	-	3,794	115,913
Other	380,932	-	777	2,579,181	2,960,890
Total Assets	$ 44,422,443	$ 8,594,919	$ 2,158,041	$ 10,839,953	$ 66,015,356
Liabilities and Net Position					
Accounts Payable	$ 27,125,748	$ 3,772,307	$ 2,039	$ 315,627	$ 31,215,721
AATF Amounts due to FAA	-	-	-	-	-
FECA Liabilities	856,966	-	181	1,120,534	1,977,681
Grants Accrual	3,791,266	-	135,443	644,311	4,571,020
Other Liabilities	212,999	-	3,360	1,080,123	1,296,482
Unexpended Appropriations	-	-	41,197	969,212	1,010,409
Cumulative Results of Operations	12,435,464	4,822,612	1,975,821	6,710,146	25,944,043
Total Liabilities and Net Position	$ 44,422,443	$ 8,594,919	$ 2,158,041	$ 10,839,953	$ 66,015,356
Statement of Net Cost For the Period Ended September 30, 2008					
Program Costs	$ 43,416,975	$ 13,466,390	$ 1,322,007	$ 866,911	$ 59,072,283
Less Earned Revenue	111,467	-	(15,330)	558,714	654,851
Net Program Costs	43,305,508	13,466,390	1,337,337	308,197	58,417,432
Costs Not Attibutable to Programs	-	-	-	147,952	147,952
Net Cost of Operations	$ 43,305,508	$ 13,466,390	$ 1,337,337	$ 456,149	$ 58,565,384
Statement of Changes in Net Position For the Period Ended September 30, 2008					
Beginning Net Position	$ 11,293,841	$ 6,046,786	$ 3,357,240	$ 7,068,083	$ 27,765,950
Budgetary Financing Sources	44,414,017	12,242,216	(2,885)	2,449,990	59,103,338
Other Financing Sources	33,114	-	-	(1,382,566)	(1,349,452)
Net Cost of Operations	43,305,508	13,466,390	1,337,337	456,149	58,565,384
Change in Net Position	1,141,623	(1,224,174)	(1,340,222)	611,275	(811,498)
Net Position End of Period	$ 12,435,464	$ 4,822,612	$ 2,017,018	$ 7,679,358	$ 26,954,452

NOTE 18. EARMARKED FUNDS *(CONT.)*

	Highway Trust Fund	Airport & Airway Trust Fund	Mass Transit	Other Earmarked Funds	FY 2007 Total Earmarked
Balance Sheet as of September 30, 2007					
Assets					
Fund Balance with Treasury	$ 3,209,239	$ 715,578	$ 3,542,996	$ 3,231,336	$ 10,699,149
Investments, Net	12,204,544	8,006,774	-	933,401	21,144,719
Accounts Receivable, Net	46,987	179,673	15,646	3,057,058	3,299,364
Property, Plant & Equipment	95,744	-	-	2,891,344	2,987,088
Other	192,639	-	1,322	23,130	217,091
Total Assets	$ 15,749,153	$ 8,902,025	$ 3,559,964	$ 10,136,269	$ 38,347,411
Liabilities and Net Position					
Liabilities	$ 310,363	$ 2,855,239	$ 4,564	$ 3,060,529	$ 6,230,695
Grants Accrual	4,144,949	-	198,160	7,657	4,350,766
Unexpended Appropriations	-	-	49,232	1,163,957	1,213,189
Cumulative Results of Operations	11,293,841	6,046,786	3,308,008	5,904,126	26,552,761
Total Liabilities and Net Position	$ 15,749,153	$ 8,902,025	$ 3,559,964	$ 10,136,269	$ 38,347,411
Statement of Net Cost For the Period Ended September 30, 2007					
Program Costs	$ 39,942,210	$ 12,695,908	$ 1,779,049	$ 1,308,782	$ 55,725,949
Less Earned Revenue	108,695	-	56,279	508,634	673,608
Net Program Costs	39,833,515	12,695,908	1,722,770	800,148	55,052,341
Costs Not Attibutable to Programs	-	-	-	102,279	102,279
Net Cost of Operations	$ 39,833,515	$ 12,695,908	$ 1,722,770	$ 902,427	$ 55,154,620
Statement of Changes in Net Position For the Period Ended September 30, 2007					
Beginning Net Position	$ 11,932,051	$ 6,398,812	$ 5,290,939	$ 7,165,637	$ 30,787,439
Budgetary Financing Sources	39,160,532	12,343,882	(210,929)	2,776,612	54,070,097
Other Financing Sources	34,773	-	-	(1,971,739)	(1,936,966)
Net Cost of Operations	39,833,515	12,695,908	1,722,770	902,427	55,154,620
Change in Net Position	(638,210)	(352,026)	(1,933,699)	(97,554)	(3,021,489)
Net Position End of Period	$ 11,293,841	$ 6,046,786	$ 3,357,240	$ 7,068,083	$ 27,765,950

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES

For the Year Ended September 30, 2008	Intragovernmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$ 261,106	$ 35,462,448	$ 35,723,554
Less Earned Revenue	4,541	63,819	68,360
Net Program Costs	256,565	35,398,629	35,655,194
Mass Transit Program			
Gross Costs	5,517	10,137,413	10,142,930
Less Earned Revenue	16,215	766	16,981
Net Program Costs	(10,698)	10,136,647	10,125,949
Other Surface Transportation Programs			
Gross Costs	307,817	4,242,481	4,550,298
Less Earned Revenue	31,350	147,080	178,430
Net Program Costs	276,467	4,095,401	4,371,868
Total Surface Transportation Program Costs	522,334	49,630,677	50,153,011
Air Transportation			
Air Traffic Organization			
Gross Costs	1,993,589	8,456,418	10,450,007
Less Earned Revenue	24,273	528	24,801
Net Program Costs	1,969,316	8,455,890	10,425,206
Airports			
Gross Costs	18,138	3,735,702	3,753,840
Less Earned Revenue	-	165	165
Net Program Costs	18,138	3,735,537	3,753,675
Aviation Safety			
Gross Costs	169,358	986,409	1,155,767
Less Earned Revenue	870	25	895
Net Program Costs	168,488	986,384	1,154,872
Commercial Space Transportation			
Gross Costs	1,693	9,564	11,257
Other Federal Aviation Administration Programs			
Gross Costs	68,719	474,077	542,796
Less Earned Revenue	2,520	353,165	355,685
Net Program Costs	66,199	120,912	187,111
Total Air Transportation Program Costs	2,223,834	13,308,287	15,532,121

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2008	Intragovernmental	With the Public	Total
Maritime Transportation			
Gross Costs	$ 19,364	$ 687,285	$ 706,649
Less Earned Revenue	282,959	208,611	491,570
Net Program Costs	(263,595)	478,674	215,079
Cross-Cutting Programs			
Gross Costs	6,335	559,526	565,861
Less Earned Revenue	539,109	3,251	542,360
Net Program Costs	(532,774)	556,275	23,501
Costs not Assigned to Programs	129,209	256,921	386,130
Less: Earned Revenues not Attributed to Programs	39,196	183	39,379
Net Cost of Operations	$ 2,039,812	$ 64,230,651	$ 66,270,463

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2007	Intragovernmental	With the Public	Total
Surface Transportation			
Federal-Aid Highway Program			
Gross Costs	$ 243,314	$ 34,329,482	$ 34,572,796
Less Earned Revenue	26,824	56,822	83,646
Net Program Costs	216,490	34,272,660	34,489,150
Mass Transit Program			
Gross Costs	12,037	8,892,451	8,904,488
Less Earned Revenue	49,783	978	50,761
Net Program Costs	(37,746)	8,891,473	8,853,727
Other Surface Transportation Programs			
Gross Costs	293,537	3,878,513	4,172,050
Less Earned Revenue	44,554	85,067	129,621
Net Program Costs	248,983	3,793,446	4,042,429
Total Surface Transportation Program Costs	427,727	46,957,579	47,385,306
Air Transportation			
Air Traffic Organization			
Gross Costs	2,002,801	7,703,336	9,706,137
Less Earned Revenue	24,644	1,017	25,661
Net Program Costs	1,978,157	7,702,319	9,680,476
Airports			
Gross Costs	17,955	3,905,764	3,923,719
Less Earned Revenue	-	114	114
Net Program Costs	17,955	3,905,650	3,923,605
Aviation Safety			
Gross Costs	158,478	859,837	1,018,315
Less Earned Revenue	2,231	3,335	5,566
Net Program Costs	156,247	856,502	1,012,749
Commercial Space Transportation			
Gross Costs	94,081	510,448	604,529
Less Earned Revenue	100,381	317,292	417,673
Net Program Costs	(6,300)	193,156	186,856
Other Federal Aviation Administration Programs			
Gross Costs	1,676	9,092	10,768
Net Program Costs	1,676	9,092	10,768
Total Air Transportation Program Costs	2,147,735	12,666,719	14,814,454

NOTE 19. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES *(CONT.)*

For the Year Ended September 30, 2007	Intragovernmental	With the Public	Total
Maritime Transportation			
Gross Costs	$ 173,064	$ 586,739	$ 759,803
Less Earned Revenue	183,089	5,987	189,076
Net Program Costs	(10,025)	580,752	570,727
Cross-Cutting Programs			
Gross Costs	25,177	486,347	511,524
Less Earned Revenue	492,603	7,473	500,076
Net Program Costs	(467,426)	478,874	11,448
Costs not Assigned to Programs	270,670	117,722	388,392
Less: Earned Revenues not Attributed to Programs	14	30,281	30,295
Net Cost of Operations	$ 2,368,667	$ 60,771,365	$ 63,140,032

Surface Transportation Program costs includes those operating costs incurred by the Operating Administrations authorized by SAFETEA-LU (FHWA, NHTSA, FMCSA, and FTA), plus the FTA, to promote safety and mobility of the nation's highways and railroads and among the nation's drivers and auto manufacturers.

Air Transportation Program costs include those operating costs incurred to promote aviation safety and mobility by building, maintaining, and operating the Nation's air traffic control system; overseeing commercial and general aviation safety through regulation and inspection; and providing assistance to improve the capacity and safety of our airports.

Maritime Transportation Program Costs include those operating costs incurred to promote the development and maintenance of a U.S. merchant marine that is sufficient to carry the Nation's domestic waterborne commerce, a substantial portion of which is trade with other nations, and to serve as a naval and military auxiliary in time of war and national emergency.

Cross -cutting Program costs include those operating costs incurred to provide goods and services on a reimbursable basis for those Operating Administrations whose mission is primarily cross modal.

NOTE 20. CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

NON-EXCHANGE REVENUE

Highway Trust Fund Excise Taxes and Other Non-Exchange Revenue	FY 2008	FY 2007
Gasoline	$ 25,325,646	$ 25,418,957
Diesel and Special Motor Fuels	10,531,919	9,916,020
Trucks	2,870,560	5,302,320
Fines and Penalties	17,989	16,869
Total Taxes	38,746,114	40,654,166
Less: Transfers	(1,305,069)	(468,003)
Gross Taxes	37,441,045	40,186,163
Less: Refunds of Taxes	(1,056,512)	(1,047,659)
Total Excise Taxes	36,384,533	39,138,504
Other Non-Exchange Revenue	2,628	19,980
Net Highway Trust Fund Excise Taxes & Other Non-Exchange Revenue	36,387,161	39,158,484
Federal Aviation Administration		
Excise Taxes and Other Non-Exchange Revenue:		
Passenger Ticket	8,260,611	8,376,680
International Departure	2,462,375	2,136,257
Fuel (Air)	624,493	850,454
Waybill	521,040	574,404
Investment Income	429,572	502,937
Tax Refunds and Credits	(55,957)	(67,229)
Other	36,626	64
Net Federal Aviation Administration Excise Taxes & Other Non-Exchange Revenue	12,278,760	12,373,567
Other Miscellaneous Net Non Exchange Revenue	18,429	1,222
Total Non-Exchange Revenue	$ 48,684,350	$ 51,533,273

For the Highway Trust Fund and the Airport and Airway Trust Fund, the consolidated financial statements reflect actual tax collections for the nine months ended June 30, plus an estimate of tax collections expected for the quarter ended September 30. Actual tax collection data for the quarter ended September 30 is not available from the IRS until December of each year.

NOTE 21. COMBINED STATEMENT OF BUDGETARY RESOURCES

The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment, as defined in OMB Circular No. A-11, Part 4, Instructions on Budget Execution, are as follows:

	2008			2007		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 9,147,943	$ 1,009,893	$ 10,157,836	$ 8,317,117	$ 885,289	$ 9,202,406
Category B	76,467,131	727,083	77,194,214	65,307,451	816,961	66,124,412
Exempt from apportionment	87,419	230,904	318,323	261,488	220,936	482,424
Total	$ 85,702,493	$ 1,967,880	$ 87,670,373	$ 73,886,056	$ 1,923,186	$ 75,809,242

	2008	2007
Available Contract Authority at year-end	$ 26,974,765	$ 17,995,498
Available Borrowing Authority at year-end	$ 207,985	$ 232,807
Undelivered Orders at year-end	$ 75,032,596	$ 72,184,302

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

TERMS OF BORROWING AUTHORITY USED

Under the provisions of the Federal Credit Reform Act of 1990, DOT direct loan and loan guarantee programs are authorized to borrow funds from Treasury to support its credit programs. All loan draw downs are dated October 1 of the applicable fiscal year. Interest is payable at the end of each fiscal year based on activity for that fiscal year. Principal can be repaid at any time funds become available. Repayment is effectuated by a combination of loan recoveries and upward re-estimates.

EXISTENCE, PURPOSE, AND AVAILABILITY OF PERMANENT INDEFINITE APPROPRIATIONS

DOT 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.

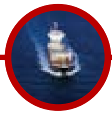
NOTE 21. COMBINED STATEMENT OF BUDGETARY RESOURCES *(CONT.)*

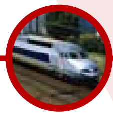
STATEMENT OF BUDGETARY RESOURCES VS BUDGET OF THE UNITED STATES GOVERNMENT

The reconciliation for the year ended September 30, 2007 is presented below. The reconciliation for the fiscal year ended September 30, 2008 is not presented, because the submission of the Budget of the United States (Budget) for FY 2010, which presents the execution of the FY 2008 budget, occurs after publication of these financial statements. The Department of Transportation Budget Appendix can be found on the OMB website (http://www.whitehouse.gov/omb/budget) and will be available in early February 2009.

For the Fiscal Year Ended September 30, 2007	(Dollars in millions)			
	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 122,653	$ 75,809	$ (47)	$ 62,070
Funds not Reported in the Budget				
Expired Funds	(264)	-	-	-
Recoveries of prior year obligations	(11)	-	-	-
Expenditure transfers from trust funds	(15)	-	-	-
Rescission not reflected on SBR	(7)	-	-	-
Distributed Offsetting Receipts	-	-	47	47
Other	(25)	(7)	-	1
Budget of the United States Government	$ 122,331	$ 75,802	$ -	$ 62,118

Other differences represent financial statement adjustments, timing differences and other immaterial differences between amounts reported in the Department's Statement of Budgetary Resources and the Budget of the United States.





NOTE 22. INCIDENTAL CUSTODIAL COLLECTIONS

	FY 2008	FY 2007
Revenue Activity		
Sources of Cash Collections:		
Miscellaneous Receipts	$ 32,061	$ 28,332
Fines, Penalties and Forfeitures	17,873	4,498
Total Cash Collections	49,934	32,830
Total Custodial Revenue	49,934	32,830
Disposition of Collections		
Transferred to Treasury's (General Fund)	49,934	32,830
Net Custodial Revenue Activity	$ -	$ -

NOTE 23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

	FY 2008	FY 2007
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations Incurred	$ 87,670,373	$ 75,809,242
Less: Spending Authority from Offsetting Collections and Recoveries	10,075,399	9,099,273
Obligations Net of Offsetting Collections and Recoveries	77,594,974	66,709,969
Less: Distributed Offsetting Receipts	(325,679)	(46,779)
Net Obligations	77,269,295	66,663,190
Other Resources		
Transfers In/Out Without Reimbursement	20,847	2,812
Imputed Financing From Costs Absorbed by Others	642,148	605,189
Other	(1,873)	-
Net Other Resources Used to Finance Activities	661,122	608,001
Total Resources Used to Finance Activities	77,930,417	67,271,191
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	3,137,262	4,018,636
Resources That Fund Expenses Recognized in Prior Periods	259,382	283,949
Credit Program Collections That Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(513,984)	(115,714)
Other/Change in Unfilled Customer Orders	(126,464)	(461,855)
Resources That Finance the Acquisition of Assets	2,569,811	1,395,553
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Operations	7,984,827	216,115
Total Resources Used to Finance Items Not Part of the Net Cost Of Operations	13,310,834	5,336,684
Total Resources Used to Finance the Net Cost of Operations	$ 64,619,583	$ 61,934,507
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	$ 45,281	$ 10,696
Upward/Downward Reestimates of Credit Subsidy Expense	98,889	(1,818)
Increase in exchange revenue receivable from the public	(1,600)	(43,314)
Change in Other Liabilities	210,361	25,584
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	352,931	(8,852)
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	1,213,539	1,279,474
Revaluation of Assets or Liabilities	21,850	(17,179)
Other Expenses and Adjustments not Otherwise Classified Above	62,560	(47,918)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	1,297,949	1,214,377
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period	1,650,880	1,205,525
Net Cost of Operations	$ 66,270,463	$ 63,140,032

NOTE 23. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET *(CONT.)*

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 24. REPORTING ON DOT AFFILIATED ACTIVITIES

Saint Lawrence Seaway Development Corporation

The U.S. Saint Lawrence Seaway Development Corporation (SLSDC), a wholly owned Government corporation and operating administration of the Department, is responsible for the operation and maintenance of the U.S. portion of the St. Lawrence Seaway. This responsibility includes maintaining and operating two U.S. locks, controlling vessel traffic and promoting trade development activities on the seaway.

Condensed Information:

	FY 2008	FY 2007
Cash and Short-Term Time Deposits	$ 16,176	$ 15,430
Long-Term Time Deposits	2,153	980
Accounts Receivable	108	115
Inventories	266	253
Other Current Assets	1	6
Property, Plant and Equipment	73,181	74,578
Deferred Charges	3,705	3,478
Other Assets	605	599
TOTAL ASSETS	**$ 96,195**	**$ 95,439**
Current Liabilities	2,790	$ 2,577
Actuarial Liabilities	3,705	3,478
TOTAL LIABILITIES	**6,495**	**6,055**
Invested Capital	88,219	89,617
Cumulative Results of Operations	1,481	(233)
TOTAL NET POSITION	**$ 89,700**	**$ 89,384**
TOTAL LIABILITIES AND NET POSITION	**$ 96,195**	**$ 95,439**
Operating Revenues	17,993	17,092
Operating Expenses	19,169	19,488
Operating Income (loss)	(1,176)	(2,396)
Other Financing Sources	2,890	2,973
Operating revenues and other financing sources over (under) operating expenses	**1,714**	**577**
Beginning cumulative results of operations (deficit)	(233)	(810)
Ending cumulative results of operations (deficit)	**$ 1,481**	**$ (233)**

<u>MARAD Non-Appropriated Fund Instrumentality (NAFI)</u>

The Non-Appropriated Fund Instrumentality (NAFI) operates as a separate fiscal entity under MARAD to provide or assist the U.S. Merchant Marine Academy in providing programs and services for students, personnel and authorized civilians from sources other than Congressional appropriations. Although considered Governmental, NAFI assets and operations are separate and distinct from those recorded in the books of Federal Government. The dollar value of NAFI activities are immaterial to that of the Department.

REQUIRED SUPPLEMENTARY INFORMATION

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DEFERRED MAINTENANCE

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	2008 Cost to Return to Acceptable Condition**	2007 Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 116,785	$ 79,970
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	124,828	25,254
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	4,511	22,600
	Real Property, Buildings (Anchorage)	Condition Assessment Survey	3	40	14,695
	Other (Fleet Craft)	Condition Assessment Survey	3	350	2,520
	Other (Pier and Berthing Surveys and Studies)	Estimate	3	35	235
	Other (Heritage Assets)	Condition Assessment	3&4	200	200
			Total	$ 246,749	$ 145,474

*Asset Condition Rating Scale:

1 - Excellent

2 - Good

3 - Fair

4 - Poor

5 - Very Poor

Asset	**Acceptable Condition is	Comments
FAA Buildings	3 - Fair	
FAA Other Structures and Facilities	3 - Fair	
MARAD Vessels, Ready Reserve Force	1 - Excellent	Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3 - Fair	Buildings are safe and inhabitable.
MARAD Real Property, Structures	3 - Fair	Adequate water depth, shore power, and mooring capabilities.
MARAD Stewardship Heritage Assets	3 - Fair	

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

HERITAGE ASSETS SUMMARY
REQUIRED SUPPLEMENTARY INFORMATION, SEPTEMBER 30, 2008
NUMBER OF PHYSICAL UNITS ADDED AND WITHDRAWN

Heritage Assets

	Units as of 09/30/2007	Additions	Withdrawals	Units as of 09/30/2008
Personal Property				
Artifacts and Other Collections	598	6	-	604
Total Personal Property Heritage Assets	598	6	-	604

	Units as of 09/30/2006	Additions	Withdrawals	Units as of 09/30/2007
Artifacts and Other Collections	597	2	1	598
Total Real Property Heritage Assets	597	2	1	598

Artifacts and Other Collections are owned by the Maritime Administration. They are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies, and are composed of ship operating equipment obtained from obsolete ships.

U.S. DEPARTMENT OF TRANSPORTATION
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2008
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	$ 35,724,487	$ 2,753,668	$ 5,353,911	$ 427,378	$ 2,584,671	$ 46,844,115
Recoveries of Prior Year Unpaid Obligations	-	471,076	79,042	52,851	344,124	947,093
Budget Authority						
Appropriations Received	41,965,861	15,810,521	8,578,755	597,088	12,510,529	79,462,754
Borrowing Authority	-	-	-	219,000	946,094	1,165,094
Contract Authority	43,146,419	3,675,000	7,872,893	-	1,239,000	55,933,312
Spending Authority from Offsetting Collections						
Earned						
Collected	78,823	865,313	72,599	458,420	1,215,118	2,690,273
Change in Receivables from Federal Sources	(2,158)	(59,596)	(20,667)	(5,874)	21,465	(66,830)
Change in Unfilled Customer Orders						
Advance Received	278	(25,761)	(41,718)	9,539	273,811	216,149
Without Advance from Federal Sources	66,990	(2,903)	(21,666)	34,007	(235,131)	(158,703)
Expenditure Transfers from Trust Funds	-	6,397,061	-	6,500	43,858	6,447,419
Subtotal	85,256,213	26,659,635	16,440,196	1,318,680	16,014,744	145,689,468
Nonexpenditure Transfers, Net	(1,001,981)	(41,566)	989,651	7,747	48,149	2,000
Permanently Not Available	(46,138,460)	(4,697,732)	(6,990,753)	(202,232)	(1,735,943)	(59,765,120)
Total Budgetary Resources	$ 73,840,259	$ 25,145,081	$ 15,872,047	$ 1,604,424	$ 17,255,744	$ 133,717,556
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 38,365,681	$ 21,643,568	$ 11,398,632	$ 646,991	$ 13,644,722	$ 85,699,594
Reimbursable	35,080	679,233	16,613	457,462	782,391	1,970,779
Subtotal	38,400,761	22,322,801	11,415,245	1,104,453	14,427,113	87,670,373
Unobligated Balance						
Apportioned	18,524,318	1,395,626	4,451,447	178,515	1,514,005	26,063,911
Exempt from Apportionment	-	-	-	2,944	296,471	299,415
Subtotal	18,524,318	1,395,626	4,451,447	181,459	1,810,476	26,363,326
Unobligated Balance Not Available	16,915,180	1,426,654	5,355	318,512	1,018,156	19,683,857
Total Status of Budgetary Resources	$ 73,840,259	$ 25,145,081	$ 15,872,047	$ 1,604,424	$ 17,255,745	$ 133,717,556

REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2008
Dollars in Thousands

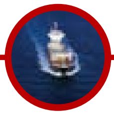
	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
CHANGE IN OBLIGATED BALANCES						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$ 46,367,132	$ 9,008,582	$ 16,730,015	$ 298,285	$ 6,321,578	$ 78,725,592
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(373,708)	(495,387)	(147,119)	(116,622)	(710,204)	(1,843,040)
Total Unpaid Obligated Balance, Net	45,993,424	8,513,195	16,582,896	181,663	5,611,374	76,882,552
Obligations Incurred	38,400,761	22,322,801	11,415,245	1,104,453	14,427,113	87,670,373
Gross Outlays	(35,794,527)	(21,955,876)	(10,040,658)	(980,544)	(14,776,887)	(83,548,492)
Unpaid Obligations	-	-	-	-	25,000	25,000
Recoveries of Prior Year Unpaid Obligations, Actual	-	(471,076)	(79,042)	(52,851)	(344,124)	(947,093)
Change In Uncollected Customer Payments from Federal Sources	(64,833)	62,499	46,768	(28,134)	212,836	229,136
Obligated Balance, Net, End of Period						
Unpaid Obligations	48,973,366	8,904,431	18,025,560	369,343	5,652,680	81,925,380
Uncollected Customer Payments From Federal Sources	(438,541)	(432,888)	(100,351)	(144,756)	(497,368)	(1,613,904)
Total Unpaid Obligated Balance, Net, End Of Period	$ 48,534,825	$ 8,471,543	$ 17,925,209	$ 224,587	$ 5,155,312	$ 80,311,476
NET OUTLAYS						
Net Outlays						
Gross Outlays	$ 35,794,527	$ 21,955,876	$ 10,040,658	$ 980,544	$ 14,776,887	$ 83,548,492
Offsetting Collections	(79,107)	(7,237,024)	(35,315)	(469,514)	(1,536,900)	(9,357,860)
Distributed Offsetting Receipts	-	(1,970)	(2,764)	(177,100)	(143,845)	(325,679)
Net Outlays	$ 35,715,420	$ 14,716,882	$ 10,002,579	$ 333,930	$ 13,096,142	$ 73,864,953

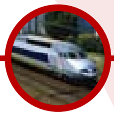
U.S. DEPARTMENT OF TRANSPORTATION
REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2007
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
BUDGETARY RESOURCES						
Unobligated Balance, Brought Forward, October 1	$ 35,318,886	$ 2,305,222	$ 6,169,750	$ 516,882	$ 2,614,759	$ 46,925,499
Recoveries of Prior Year Unpaid Obligations	-	291,059	91,235	3,240	479,489	865,023
Budget Authority						
Appropriations Received	36,042,237	15,433,314	6,407,000	585,480	4,083,755	62,551,786
Borrowing Authority	-	-	-	225,000	865,759	1,090,759
Contract Authority	42,268,565	4,292,480	7,262,775	-	1,216,500	55,040,320
Spending Authority from Offsetting Collections						
Earned						
Collected	53,933	1,024,399	105,963	390,738	805,498	2,380,531
Change in Receivables from Federal Sources	7,220	(89,887)	19,357	(2,731)	(7,193)	(73,233)
Change in Unfilled Customer Orders						
Advance Received	-	11,670	(10,110)	(6,262)	93,953	89,251
Without Advance from Federal Sources	264,529	(71,478)	(58,212)	(3,788)	33,425	164,476
Expenditure Transfers from Trust Funds	-	5,627,900	-	-	45,326	5,673,226
Subtotal	78,636,484	26,228,398	13,726,773	1,188,437	7,137,023	126,917,116
Nonexpenditure Transfers, Net	(1,096,504)	(46,331)	973,287	-	171,768	2,219
Temporarily Not Available Pursuant to Public Law	-	-	-	(4,945)	(544)	(5,489)
Permanently Not Available	(40,372,513)	(5,058,781)	(4,660,856)	(376,527)	(1,582,334)	(52,051,011)
Total Budgetary Resources	$ 72,486,353	$ 23,719,567	$ 16,300,189	$ 1,327,087	$ 8,820,161	$ 122,653,357
STATUS OF BUDGETARY RESOURCES						
Obligations Incurred						
Direct	$ 36,533,084	$ 20,307,497	$ 10,743,441	$ 585,643	$ 5,486,846	$ 73,656,511
Reimbursable	228,781	658,402	202,835	314,065	748,649	2,152,731
Subtotal	36,761,865	20,965,899	10,946,276	899,708	6,235,495	75,809,242
Unobligated Balance						
Apportioned	14,013,972	1,347,769	5,320,503	11,746	2,053,266	22,747,256
Exempt from Apportionment	1,972	-	-	1,360	304,476	307,808
Subtotal	14,015,944	1,347,769	5,320,503	13,106	2,357,742	23,055,064
Unobligated Balance Not Available	21,708,544	1,405,899	33,410	414,273	226,925	23,789,051
Total Status of Budgetary Resources	$ 72,486,353	$ 23,719,567	$ 16,300,189	$ 1,327,087	$ 8,820,162	$ 122,653,357

REQUIRED SUPPLEMENTARY INFORMATION
COMBINING STATEMENT OF BUDGETARY RESOURCES BY MAJOR ACCOUNT
For the Year Ended September 30, 2007
Dollars in Thousands

	Federal-Aid	FAA	FTA	MARAD	All Other	TOTAL
CHANGE IN OBLIGATED BALANCES						
Obligated Balance, Net						
Unpaid Obligations, Brought Forward, October 1	$ 43,366,976	$ 9,151,262	$ 15,169,501	$ 297,867	$ 6,051,732	$ 74,037,338
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(101,959)	(656,752)	(185,974)	(123,141)	(681,957)	(1,749,783)
Total Unpaid Obligated Balance, Net	43,265,017	8,494,510	14,983,527	174,726	5,369,775	72,287,555
Obligations Incurred	36,761,865	20,965,899	10,946,276	899,708	6,235,494	75,809,242
Gross Outlays	(33,761,709)	(20,817,520)	(9,294,527)	(896,050)	(5,488,408)	(70,258,214)
Unpaid Obligations	-	-	-	-	2,250	2,250
Recoveries of Prior Year Unpaid Obligations, Actual	-	(291,059)	(91,235)	(3,240)	(479,489)	(865,023)
Change In Uncollected Customer Payments from Federal Sources	(271,749)	161,365	38,855	6,519	(28,247)	(93,257)
Obligated Balance, Net, End of Period						
Unpaid Obligations	46,367,132	9,008,582	16,730,015	298,285	6,321,578	78,725,592
Uncollected Customer Payments From Federal Sources	(373,708)	(495,387)	(147,119)	(116,622)	(710,204)	(1,843,040)
Total Unpaid Obligated Balance, Net, End Of Period	45,993,424	8,513,195	16,582,896	$181,663	$5,611,374	76,882,552
NET OUTLAYS						
Net Outlays						
Gross Outlays	$ 33,761,709	$ 20,817,520	$ 9,294,527	$ 896,050	$ 5,488,408	$ 70,258,214
Offsetting Collections	(53,933)	(6,663,969)	(95,852)	(384,476)	(942,762)	(8,140,992)
Distributed Offsetting Receipts	-	(20,941)	(9,854)	(17,638)	1,654	(46,779)
Net Outlays	$ 33,707,776	$ 14,132,610	$ 9,188,821	$ 493,936	$ 4,547,300	$ 62,070,443





REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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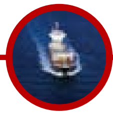
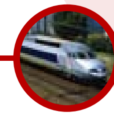




NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
TRANSPORTATION INVESTMENTS
DOLLARS IN THOUSANDS

Surface Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
Federal Aid Highways (HTF)	$ 29,207,012	$ 29,750,120	$ 32,190,231	$ 32,800,748	$ 34,470,595
Other Highway Trust Fund Programs	300,493	445,083	452,022	366,672	481,762
General Fund Programs	962,370	330,790	14,240	51,119	31,740
Appalachian Development System	263,430	425,810	366,816	329,161	185,316
Federal Motor Carrier	299,450	195,740	117,004	196,967	144,455
Total Federal Highway Administration	31,032,755	31,147,543	33,140,313	33,744,667	35,313,868
Federal Transit Administration					
Discretionary Grants	$ 160,655	$ 119,277	$ 91,961	$ 11,719	$ 27,174
Formula Grants	4,723,674	4,521,288	3,376,068	2,086,876	1,329,811
Capital Investment Grants	2,788,920	3,375,206	3,073,294	2,662,845	2,473,141
Washington Metro Area Transit Authority	12,409	1,719	4,255	28,430	46
Interstate Transfer Grants	1,479	1,411	206	1,774	360
Formula and Bus Grants	-	-	1,862,772	4,193,989	5,968,651
Total Federal Transit Administration	7,687,137	8,018,901	8,408,556	8,985,633	9,799,183
Total Surface Transportation Nonfederal Physical Property Investments	$ 38,719,892	$ 39,166,444	$ 41,548,869	$ 42,730,300	$ 45,113,051

NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
TRANSPORTATION INVESTMENTS
DOLLARS IN THOUSANDS

Air Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Aviation Administration					
Airport Improvement Program	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719	$ 3,753,840
Total Air Transportation Nonfederal Physical Property Investments	$ 2,977,300	$ 3,712,423	$ 3,852,141	$ 3,923,719	$ 3,753,840
Total Nonfederal Physical Property Investments	$ 41,697,192	$ 42,878,867	$ 45,401,010	$ 46,654,019	$ 48,866,891

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

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

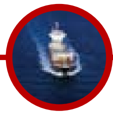
Formula grants provide capital assistance to urban and non-urban areas and may be used for a wide variety of mass transit purposes, including planning, construction of facilities, and purchases of buses and railcars. Funding also includes providing transportation to meet the special needs of elderly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

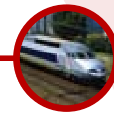
Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related facilities.

The Washington Metropolitan Area Transit Authority provides funding to support the construction of the Washington Metrorail System.

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

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





HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
DOLLARS IN THOUSANDS

Surface Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
National Highway Institute Training	$ 4,069	$ 11,844	$ 14,123	$ 4,083	$ 1,205
Federal Motor Carrier Safety Administration					
California Highway Patrol	192	41	-	127	722
Safety Grants	-	-	-	748	426
Idaho Video	344	208	-	-	302
Kentucky IT Conference	-	-	175	-	-
Massachusetts Training Academy	9	53	-	172	-
Minnesota Crash Investigation	21	-	1	-	-
New York Crash Reconstruction	-	-	-	36	180
Tennessee Crash Investigation	-	-	-	165	167
Federal Transit Administration					
National Transit Institute Training (1)	4,667	3,318	3,961	3,879	4,577
National Highway Safety Administration					
Section 403 Highway Safety Programs	53,964	110,981	221,523	235,382	162,038
Highway Traffic Safety Grants	205,509	216,702	279,244	416,241	485,721
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	7,780	8,065	7,800	7,798	13,263
Total Surface Transportation Human Capital Investments	276,555	351,212	526,827	668,631	668,601

Maritime Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Maritime Administration					
State Maritime Academies Training (1)	9,208	9,215	7,528	8,978	9,406
Additional Maritime Training	388	328	134	555	800
Total Maritime Transportation Human Capital Investments	9,596	9,543	7,662	9,533	10,206
Total Human Capital Investments	$ 286,151	$ 360,755	$ 534,489	$ 678,164	$ 678,807

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

The California Highway Patrol educates the trucking industry for the Federal Motor Carrier Safety Administration about Federal and State commercial motor vehicle/carrier inspection procedures, and to increase CMV driver awareness. The Idaho Video Program develops video training material utilized by the FMCSA National Training Center for the purpose of training State and Local law enforcement personnel. The Massachusetts Training Academy provides training to State law enforcement personnel located in the northeast region of Massachusetts. The Minnesota Crash Investigation program provides training and develops processes and protocols for commercial motor vehicle crash investigations.

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

The National Highway Safety Administration's programs authorized under the Highway Trust Fund provide resources to State and Local governments, private partners, and the public, to effect changes in driving behavior on the nation's highways to increase safety belt usage and reduce impaired driving. NHTSA provides technical assistance to all states on the full range of components of the impaired driving system as well as conducting demonstrations, training and public information/education on safety belt usage.

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

(1) Does not include funding for the Student Incentive Payment (SIP) program which produces graduates who are obligated to serve in a reserve component of the United States armed forces. Does not include funding for maintenance and repair (M&R).

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2008
DOLLARS IN THOUSANDS

Surface Transportation:	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Highway Administration					
Intelligent Transportation Systems	$ 146,852	$ 183,634	$ 129,219	$ 152,799	$ 128,931
Other Applied Research and Development	142,557	114,315	105,336	74,942	63,906
Federal Railroad Administration					
Railroad Research and Development Program	$ 9,342	$ 6,032	$ 11,681	$ 5,551	$ 3,049
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	$ 3,483	$ 2,546	$ 6,543	$ 3,144	$ 6,076
Office of the Secretary					
Applied Research and Development					
Emergency Transportation	$ 8	$-	$-	$-	$-
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Pipeline Safety	$ 6,375	$ 10,810	$ 12,953	$ 5,494	$ 12,762
Hazardous Materials	1,489	1,638	2,225	1,072	1,084
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	$ 1,134	$ 1,564	$ 1,110	$ 1,036	$ 1,036
Total Surface Transportation Research and Development Investments	$ 311,240	$ 320,539	$ 269,067	$ 244,038	$ 216,844

Air Transportation	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Federal Aviation Administration					
Research and Development Plant	$ 4,230	$ 5,287	$ 3,821	$ 4,217	$ 3,498
Applied Research	91,743	103,659	106,390	102,782	88,114
Development	478	547	587	844	814
Administration	28,643	29,163	30,566	32,050	33,519
Total Air Transportation Research and Development Investments	$ 125,094	$ 138,656	$ 141,364	$ 139,893	$ 125,945
Total Research and Development Investments	$ 436,334	$ 459,195	$ 410,431	$ 383,931	$ 342,789

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

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

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

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

Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

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

The Pipeline and Hazardous Materials Safety Administration funds research and development activities for the following organizations and activities:

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

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

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

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