



FINANCIAL REPORT



**REPORT ON CONSOLIDATED FINANCIAL
STATEMENTS FOR FY 2007 AND FY 2006**

Department of Transportation

Report Number: FI-2008-011


Date Issued: November 13, 2007



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

Memorandum

Subject: **ACTION:** Report on Consolidated Financial Statements for Fiscal Years 2007 and 2006, DOT Report Number: FI-2008-011 Date: November 13, 2007

From: Calvin L. Scovel III  Inspector General Reply to Attn. of: JA-20

To: The Secretary

I respectfully submit the Office of Inspector General report on the Department of Transportation (DOT) Consolidated Financial Statements for Fiscal Years (FY) 2007 and 2006 (see Attachment). This year, our audit concluded that DOT's consolidated financial statements are fairly presented, in all material respects, in conformity with generally accepted accounting principles. The clean (unqualified) opinion signals to the public that the Department has successfully overcome last year's qualified opinion on the Construction in Progress (CIP) balance, which is a subcomponent of the Property, Plant, and Equipment line item on the Department's balance sheet.

Last year, KPMG LLP, under contract to us and under our supervision, rendered a qualified opinion on the Federal Aviation Administration's (FAA) FY 2006 financial statements because deficiencies in FAA's accounting for CIP prevented FAA from providing adequate support to verify that reported CIP balances were reliable. Since FAA's property, including CIP, represents about 95 percent of the Property, Plant, and Equipment line item on the Department's consolidated balance sheet, the Department's consolidated financial statements were similarly qualified. During FY 2007, FAA made a concerted effort to revise the CIP account balance, resulting in a clean opinion this year.

The Department's ability to regain a clean opinion on its consolidated financial statements 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 Acting FAA Administrator and the departmental Chief Financial Officer. During the year, you made several inquiries about FAA's CIP and financial statement audit progress. Your consistent attention

to this subject helped departmental officials stay focused on their correction efforts.

The Department has undergone annual financial statement audits since FY 1992 and received the best outcome yet in FY 2007—a clean audit opinion and only one material weakness (FAA’s continued challenge in managing the property account). While the Department should be commended for this accomplishment, it must remain vigilant in sustaining good financial management operations because auditors continue to find significant deficiencies associated with financial transaction processing. These deficiencies, if not properly addressed, could turn into material weaknesses in the future. The following summarizes key challenges the Department continues to face.

Institutionalizing New CIP Processes

FAA must institutionalize the new policies and procedures it developed to process CIP transactions. FAA’s process for accounting for CIP has been a longstanding concern. Auditors reported material weaknesses concerning FAA’s Property, Plant, and Equipment account balances, including inaccurate and untimely CIP transaction processing, 13 times since FY 1992. Congress provides more than \$2 billion to FAA to invest in modernizing air traffic control systems each year. Most modernization projects involve sophisticated technology that may take years to develop/construct from concept to deployment. CIP projects are often deployed to multiple locations at different times and require FAA to use complicated formulas to calculate incurred and projected costs. In addition, the rapid advancement of technology and changes in FAA programs sometimes cause FAA to abandon projects before deployment.

For years, FAA has relied on a labor-intensive process to adjust the CIP account balance for the annual financial statement reporting. For FY 2006, however, FAA was unable to support the \$4.7 billion CIP account balance as of September 30, 2006. As a result, both FAA and the Department received a qualified audit opinion on the FY 2006 financial statements.

During FY 2007, FAA made an unprecedented effort and devoted extensive resources to cleaning up the CIP account by conducting a comprehensive project-by-project evaluation. As part of these correction efforts, FAA also revised the associated CIP business processes. These included standardizing the methodology to calculate unit costs and overhead (burdening) allocation and enhancing procedures to record transactions in the property subsidiary ledger to ensure accurate, complete, and timely recording throughout the year. However, implementing these new procedures is very challenging. As a result, these new policies and procedures were not fully used to process FY 2007 transactions.



Institutionalizing the new (To-Be) procedures throughout the Agency will help ensure that FAA properly accounts for capital investment projects and avoids devoting extensive resources to this process again in future years. This year, KPMG reported FAA's CIP-related process a continued material weakness and recommended that FAA implement proper internal controls around the new policies and procedures; continue training and strengthening communications among field, regional, and accounting offices; enhance automated system processes to reduce manual interventions; and assess its human capital needs to reduce reliance on contract staff for future implementation.

Regarding the Highway Trust Fund (HTF) financial statements, KPMG rendered an unqualified (clean) opinion this year, the ninth consecutive HTF clean opinion since FY 1999. More importantly, auditors did not identify any material weakness associated with HTF financial accounting operations and oversight, which had been a repeated material weakness since FY 2003. This signals to the public that the Department has finally developed a mature and reliable financial environment to account for HTF resources. This is especially important because, beginning in FY 2008, this stand-alone financial statement will cease to exist. HTF-related financial activities will be audited as part of the Department's consolidated financial statements.

The Department was required to prepare a stand-alone financial statement to increase the visibility of HTF financial management. The HTF finances operations in multiple DOT Operating Administrations: the Federal Highway Administration (FHWA), the Federal Transit Administration, the National Highway Traffic Safety Administration, the Federal Motor Carrier Safety Administration, the Federal Railroad Administration, and the Research and Innovative Technology Administration. In addition, 15 other agencies outside of DOT receive HTF appropriations through FHWA. Together, these agencies disbursed about \$40 billion in Federal funds during FY 2007.

To account properly for resources of this magnitude and complexity, the Department implemented new policies and procedures for internal governance and coordination with outside entities. In consideration of the progress made, the Office of Management and Budget approved the Department's request and waived the requirement for stand-alone HTF financial statements in June 2007.

Facing the Highway Trust Fund Funding Crisis

While the Department made good strides in strengthening financial management oversight of HTF resource usage, it is now facing a new challenge. The HTF is the primary source for financing highway construction projects and has experienced declining revenue collection. This year, the Department of the

Treasury's mid-year evaluation increased its projection of the FY 2009 cash shortfall from \$230 million to \$3.8 billion for the trust fund's highway account—a 16-fold escalation. Unless addressed, this shortfall could lead to reductions in obligation limitations for Federal highway programs below the levels anticipated in the current authorization to prevent HTF insolvency.

Highway funding levels are largely determined by the amount of revenue collected from the Federal motor fuel excise tax. The Internal Revenue Service (IRS) collects between \$30 billion and \$40 billion annually in motor fuel tax revenues, which account for almost 90 percent of HTF receipts. To combat motor fuel excise tax evasion, Congress has appropriated tens of millions of dollars from the HTF to help IRS develop more sophisticated information systems and enhance tax examination and motor fuel excise tax evasion investigations. This tax evasion is estimated to cost the trust fund \$1 billion per year.¹

In October 2005, the Treasury Inspector General for Tax Administration reported that the IRS did not effectively implement congressional direction.² In response to our request, the Treasury Inspector General has agreed to perform a follow-up review of IRS' corrective actions in FY 2008 (see Exhibit A). Reducing tax evasion is critical, given the erosion of trust fund revenues and the rising need for investments in the Nation's highway infrastructure.³ FHWA management needs to work closely with IRS to implement congressional direction and increase tax revenue collections for the HTF.

Ensuring Continued Financial Management Improvement

Generating timely, reliable, and useful financial information is no small task and requires continued senior management attention. DOT is a complex organization that is accountable for substantial resources. DOT's FY 2007 financial statements show total assets of \$62 billion, liabilities of \$14 billion, program costs of \$63 billion, and available financial resources of more than \$122 billion. In FY 2007, DOT received appropriations of \$63 billion. More than \$51 billion (about 82 percent) of DOT's revenue sources came from two trust funds, the HTF and the Airport and Airway Trust Fund.

Based on the amount of resources received (appropriations), the Department would rank among the top 20 corporations in America. To measure up to what is

¹ According to the IRS estimate, the Highway Trust Fund loses about \$1 billion annually because fuel owners mix motor fuel with other products—a practice aimed at increasing the fuel volume to reduce the effective tax rate.

² "The Excise Files Information Retrieval System Has Not Been Effectively Implemented," Treasury Inspector General for Tax Administration, 2006-20-001.

³ In January 2007, the Government Accountability Office identified financing the Nation's transportation system as a high-risk area. GAO High-Risk Series: An Update, January 2007 (GAO-07-310).



expected from large publicly-held corporations, 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. During this audit, we identified incidents in which management postponed researching/resolving account variances by posting adjusting entries at the end of each quarter, which were reversed at the beginning of the next quarter. This practice not only results in lower quality financial information throughout the year, but also inappropriately increases the yearend workload. It must be corrected.

We provided a draft of this report to the DOT Assistant Secretary for Programs and Budget/Chief Financial Officer, who concurred with its findings and agreed to implement corrective actions. 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) 366-1488.

Attachment

**DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE DEPARTMENT OF TRANSPORTATION
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEARS (FY) 2007 AND 2006**

To the Secretary:

The Department of Transportation (DOT) Office of Inspector General (OIG) audited the DOT Consolidated Financial Statements for the years ended September 30, 2007, and September 30, 2006. We found:

- Financial statements that are fairly presented, in all material respects, in conformity with generally accepted accounting principles.
- One material internal control weakness: timely processing of transactions and accounting for Federal Aviation Administration (FAA) property, plant, and equipment, including the Construction in Progress (CIP) account.
- Four significant deficiencies: (1) journal entries and analysis of account relationships for the Highway Trust Fund (HTF) agencies,¹ (2) controls over financial management systems, (3) DOT's information security program, and (4) reporting the FTA grant accrual.
- Four instances of noncompliance with laws and regulations: (1) the Federal Financial Management Improvement Act of 1996 (FFMIA); (2) the Anti-deficiency Act; (3) the Improper Payments Information Act of 2002; and (4) SFFAS#4, Managerial Cost Accounting Concepts and Standards.
- Financial information in the Management Discussion and Analysis materially consistent with the financial statements.
- Supplementary and stewardship information, and other accompanying information, materially consistent with management representations and the financial statements.

We performed our work in accordance with Generally Accepted Government Auditing Standards and Office of Management and Budget (OMB) Bulletin 07-04,

¹ Federal Highway Administration, National Highway Traffic Safety Administration, Federal Transit Administration, Federal Railroad Administration, Federal Motor Carrier Safety Administration, and Research and Innovative Technology Administration.



“Audit Requirements for Federal Financial Statements.” The following sections discuss these conclusions. Our audit objectives, scope, and methodology are described in Exhibit B. We believe that our audit provides a reasonable basis for our opinion.

A. UNQUALIFIED OPINION ON FINANCIAL STATEMENTS

In our report dated November 15, 2006, we expressed a qualified opinion on the FY 2006 DOT consolidated financial statements because the FAA CIP balance presented to KPMG in August 2006 contained material errors, and FAA was not able to develop a reliable and supportable CIP balance prior to the issuance of the DOT FY 2006 Performance and Accountability Report (PAR). As discussed in footnotes 9 and 25, FAA has completed its review of the CIP balance and related transactions (reduced the September 30, 2006, CIP balance from \$4.7 billion to \$2.1 billion) and, as a result, DOT restated the FY 2006 consolidated financial statements to correct the error in accounting for FAA CIP. The restatement relates to the material weakness in the processing of transactions and accounting for FAA property, plant, and equipment, including the CIP account. Accordingly, our opinion on the DOT consolidated financial statements, including the FY 2006 restated financial statements, is different from that expressed in our previous report.

In our opinion, the DOT consolidated financial statements, including the accompanying notes, present fairly, in all material respects, in conformity with generally accepted accounting principles, the DOT assets, liabilities, and net position; net costs; changes in net position; and budgetary resources; as of September 30, 2007, and September 30, 2006, and for the years then ended.

Under contract with OIG and under its supervision, KPMG audited the financial statements of FAA as of and for the years ended September 30, 2007, and September 30, 2006, and rendered an unqualified opinion on the FAA financial statements. KPMG also audited the financial statements of the HTF as of and for the years ended September 30, 2007, and September 30, 2006, and rendered an unqualified opinion on the HTF financial statements. We performed quality control reviews of the work performed by KPMG and relied on their results in performing our work on the FY 2007 and FY 2006 DOT consolidated financial statements.

As discussed in financial statement footnotes 1 and 21, the accompanying financial statements reflect actual excise tax revenues deposited in the HTF and the Airport and Airway Trust Fund for the 9 months ended June 30, 2007, and excise tax receipts estimated by the Department of the Treasury Office of Tax Analysis for the quarter ended September 30, 2007. As discussed in footnote 1,

DOT changed its method of accounting for parent/child allocation transfers in FY 2007, in accordance with OMB Circular A-136.

Also, as discussed in footnotes 1 and 24, DOT changed its method of reporting footnotes 1 and 24, DOT changed its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in FY 2007, in accordance with OMB Circular A-136.

As discussed in footnote 25, DOT has restated certain balances previously reported to correct errors in accounting for FAA CIP, estimating the FTA grant accrual, and reporting FTA earmarked funds.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered DOT's internal controls over financial reporting, compliance with laws and regulations, and reliability of performance reporting. We do not express an opinion on internal controls because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 07-04 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found one material weakness. A material weakness is a significant deficiency, or combination of significant deficiencies, that result in a more than remote likelihood that a material misstatement of the financial statements will not be prevented or detected.

Our work identified four significant deficiencies in internal controls. A significant deficiency is a deficiency in internal control, or a combination of deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected. Our internal control work would not necessarily disclose all material weaknesses or significant deficiencies.



MATERIAL WEAKNESS

Timely Processing of Transactions and Accounting for FAA Property, Plant, and Equipment, including the CIP Account

In FY 2005, KPMG reported a material weakness related to deficiencies in FAA's ability to process transactions and reconcile account balances in a timely manner. The account most affected was the CIP component of the Property, Plant, and Equipment (PP&E) line item. In FY 2006, KPMG reported that the CIP balance presented by FAA in August 2006 contained unknown and potentially material errors, and FAA management was unable to represent to KPMG, before the issuance of the Department's Performance and Accountability Report, that the CIP balance, reported to be \$4.7 billion as of September 30, 2006, was fairly stated. Accordingly, KPMG could not complete its audit of CIP balances and again identified CIP process deficiencies as a material weakness. KPMG noted that FAA lacked adequate policies, procedures, and controls to monitor its CIP activity and balances in a routine and timely fashion.

During FY 2007 FAA executed an extensive corrective action plan, including a complete review of the CIP balance reported as of September 30, 2006. FAA's review of CIP resulted in a significant restatement of the DOT FY 2006 financial statements, including a reclassification of \$1.7 billion from CIP to in-use fixed assets and more than \$900 million from CIP to expense. The restated CIP balance at September 30, 2006, was \$2.1 billion.

In its FY 2007 audit report, KPMG again identified the processing of transactions and accounting for PP&E, including the CIP account, as a material weakness. KPMG noted that FAA had not fully complied with standardized policies and procedures on unit costs, overhead allocations, and entry of transactions in the fixed asset subsidiary ledger, to ensure CIP and related PP&E balances were accurate, complete, and recorded in a timely manner throughout the year. Substantial manual processes were necessary for FAA to account for and report CIP transactions occurring during FY 2007 and to determine the appropriate balances reported at year end. Specifically, KPMG noted:

- FAA was focused on the cleanup of FY 2006 and prior-year activity in the first two quarters of FY 2007; therefore, about 80 percent of FY 2007 capitalization activity (additions and adjustments from CIP to in-use fixed assets) were not recorded at the detailed transaction level until after March 31, 2007;
- Documentation (joint acceptance inspections, contractor acceptance inspections, delivery schedules, etc.) was not readily available from program

offices and did not consistently support management's conclusions on CIP project status; in some cases, management needed to reevaluate its initial disposition of CIP projects and adjust the general ledger and draft financial statement amounts;

- A lack of formal communications and training for program managers, engineers, and operational accountants needed to accurately account for and present capitalized balances and related expenses;
- A lack of adherence to policies and procedures to ensure the timely removal of fixed assets from the accounting system upon retirement;
- FAA processes and controls allowed errors to occur in the CIP capitalization and valuation process, such as unit costing and overhead allocation; the methodology adopted by FAA requires a high level of manual involvement to accurately account for CIP; and
- FAA has weaknesses in entity-level controls pertaining to human resources to properly account for PP&E and CIP, and relied heavily on outside contractors to compute the restatement of the FY 2006 financial statements and record FY 2007 CIP and PP&E transactions.

Accounting for FAA CIP and PP&E is very complex with many variables and inputs that affect capitalized asset values including estimates, indirect costs, projection of future spending rates, and the timing and number of asset deployments. The conditions leading to the restatement of the FY 2006 financial statements and the material weakness have built up over several years. For example, FAA converted to the Delphi accounting system in FY 2004, and during the conversion, some CIP balances were transferred at the summary level, making the identification of individual assets in CIP more difficult, causing assets to remain in CIP long after they had been placed in service. Also, FAA experienced turnover in key PP&E accounting positions, especially at the HQ level, resulting in loss of continuity and institutional knowledge. Finally, until recently, programmatic and operational personnel did not always adhere to policies and procedures to enable the timely recording of assets placed in service.

As a result, FAA had not fully implemented internal controls required by the Federal Managers' Financial Integrity Act (FMFIA) and OMB Circular A-123, that will allow FAA management to provide reasonable assurance that controls over CIP and PP&E are properly designed and operating effectively. In addition, if FAA is unable to correct these conditions early in FY 2008, the CIP, PP&E, and



related financial statement balances may not be fairly stated at the end of FY 2008 and beyond.

KPMG made seven recommendations to correct these deficiencies. FAA agreed with the KPMG recommendations and indicated it would continue to implement corrective actions in early FY 2008.

SIGNIFICANT DEFICIENCIES

The following sections describe the significant deficiencies that we identified.

Journal Entries and Account Relationships for the HTF Agencies

Since the audit of the FY 2003 HTF financial statements, we reported that material weaknesses existed in internal controls over financial management and reporting activities in the HTF agencies. In FY 2006, KPMG reported that the HTF agencies continued to have a material weakness in financial management, reporting, and oversight. The deficiencies reported by KPMG included (1) the preparation, approval, and processing of journal entries; (2) the preparation and analysis of the HTF financial statements; (3) the analysis of abnormal account balances; (4) the analysis of proprietary and budgetary account relationships; (5) the coordination with non-DOT agencies that receive HTF appropriations through FHWA; and (6) the estimation and reporting of grant accruals.

During FY 2007, the HTF agencies implemented significant improvements in internal controls over financial management and reporting activities. The deficiencies related to the preparation and analysis of the HTF financial statements, the analysis of abnormal account balances, and accounting for parent-child allocation transfers (with non-DOT agencies) have been corrected. In its FY 2007 audit report, KPMG identified controls over journal entries and analysis of proprietary and budgetary account relationships as a significant deficiency. In addition, KPMG reported the FTA grant accrual as a separate significant deficiency.

Controls Over Journal Entries

For the 114 journal entries reviewed by KPMG at September 30, 2007, KPMG noted 34 instances related to the FHWA, the Federal Motor Carrier Safety Administration (FMCSA), and the National Highway Traffic Safety Administration (NHTSA) in which either supporting documentation was not provided or the documentation provided was insufficient to support the entry. KPMG also noted the approvers for six journal entries related to FHWA and

NHTSA were unable to explain the purpose of the entry. While all journal entries reviewed had evidence of approval by other than the preparer, KPMG noted 12 entries related to FHWA, FMCSA, and NHTSA in which they could not determine if the entry was approved before it was posted to the general ledger. Failure to follow existing policies and procedures over journal entries increases the risk that financial statements may be misstated or not properly supported.

Analysis of Proprietary and Budgetary Account Relationships

During FY 2007 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 for the period ended June 30, 2007. During its review of account relationship tests at September 30, 2007, KPMG noted the following exceptions related to analyzing, resolving, or explaining the variances identified by the account relationship tests:

- FHWA did not analyze or resolve any of the 62 variances identified;
- FMCSA identified 26 variances, identified the cause of 18 variances, but provided no indication of the cause of the other 8 variances or when they would be resolved;
- NHTSA identified 28 variances, identified the cause of 11 variances, but provided no indication of the cause of the other 17 variances or when they would be resolved; and
- The Research and Innovative Technology Administration (RITA) identified 10 variances, identified the cause of 3 variances, but provided no indication of the cause of the other 7 variances or when they would be resolved.

KPMG reported that at the end of each quarter, journal entries were posted to balance certain proprietary and budgetary accounts without completely researching the related variance. These journal entries are reversed at the beginning of the next quarter in order to continue researching the variances.

The HTF agencies had not adequately implemented existing policies and procedures over the analysis and resolution of variances identified between proprietary and budgetary accounts. In addition, Office of the Secretary of Transportation (OST) policies and procedures did not establish a firm due date for the resolution of any variances identified. Failure to research and resolve proprietary and budgetary account variances increases the risk that financial statements may be misstated or not properly supported.



KPMG made six recommendations to improve controls over journal entries and proprietary and budgetary account relationship tests for the HTF agencies. Departmental management agreed to implement corrective actions.

Financial System Controls

Last year, we reported DOT's financial system controls as a reportable condition (significant deficiency). This included system control weaknesses in Delphi and computer security deficiencies in FAA and HTF systems that provide financial data to Delphi.

In FY 2007, DOT made significant progress in strengthening the design and implementation of controls over Delphi. Enhanced computer security and other protective measures enabled auditors to rely on Delphi financial management system controls except for logical access controls. In addition, FAA and HTF systems were enhanced in areas such as security awareness training, user access, contingency planning, physical security, segregation of duties, and others. However, DOT's move to a new Headquarters building in Washington, D.C., resulted in other security concerns. Consequently, despite progress in some areas, continued improvements are needed to remediate various control deficiencies in the Delphi, FAA, and HTF financial systems.

Computer security controls can be improved in all 12 systems reviewed during the DOT financial statement audits.

- Departmental system: Delphi Financial Management System
- FAA systems: procurement system (PRISM), cost accounting system, timekeeping system (CASTLE), grant management system (System of Accounting and Reporting)
- FHWA systems: User Profile and Access Control System, Rapid Approval and State Payment System, Fiscal Management Information System, Delphi Interface Management System
- FTA Systems: Transportation Electronic Award Management System, Electronic Clearing House Operation, and Delphi Online Transaction System.

KPMG's audit reports dated November 5, 2007, included recommendations to improve the information technology environment applicable to FAA and HTF financial systems.

The Clifton Gunderson LLP review of the controls over the Enterprise Service Center's Delphi Financial Management System, again reported weaknesses in the design and implementation of access controls related to the Delphi financial management system. Departmental management agreed to implement corrective actions needed in the Delphi, FAA, and HTF financial systems.

DOT Information Security Program

In October 2007, we issued our seventh annual report on DOT's Information Security Program. FY 2007 was a challenging year for the Department because of the Headquarters move and the need to review, test, and certify security protection for more than half of the departmental information systems. Because of this, the overall effectiveness of the Department's information security program declined. Specifically, management did not meet Government security standards to protect information systems and did not take sufficient action to correct identified security deficiencies. We also found that commercial software products used in departmental systems were not configured in accordance with security standards, and that security incidents were incompletely and/or inaccurately reported.

We made a series of recommendations to help the Department strengthen its information security program. The Department Chief Information Officer agreed that these are needed to resolve the current deficiencies.

FTA Grant Accrual

For year-end reporting, the Federal Transit Administration (FTA) calculated and recorded an estimate (liability) for the amount of work performed by its grantees (including their contractors) but not yet billed to or reimbursed by FTA. During FY 2007 FTA hired a consultant to assist in the development of grant accrual using a nonstatistical sample of surveys to 49 grantees (29 large and 20 small) that accounted for about 70 percent of active obligations. The survey requested information that would assist FTA in calculating the FY 2007 grant accrual, such as billing cycle days and grantees' audited year-end accrual amounts.

While FTA received all the completed surveys, the responses varied in terms of reliability. FTA determined that only 18 of the 49 surveys (13 large and 5 small) were reasonably accurate and suitable for use in calculating FY 2007 grant accrual. KPMG determined that the 18 surveys constituted an inadequate basis on which to calculate the accrual. FTA agreed to follow up on the remaining surveys, and was ultimately able to use 45 of the 49 surveys. KPMG also noted that documentation supporting the work performed by FTA and its consultant was initially incomplete and there was no evidence that FTA properly reviewed the work performed by its consultant.



Controls are not in place in FTA to ensure that grant accrual is based on sufficient information provided by its grantees. KPMG made two recommendations to FTA to improve controls over the development of the grant accrual and oversight of work performed by its consultant. Departmental management agreed to implement corrective actions.

C. COMPLIANCE WITH LAWS AND REGULATIONS

In planning and conducting our audit, we performed limited tests of DOT's compliance with laws and regulations, as required by OMB guidance. It was not our objective to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to testing selected provisions of laws and regulations that would have a direct and material effect on the financial statements and be reportable under Generally Accepted Government Auditing Standards or under OMB guidance. Our work disclosed the following instances of noncompliance with laws and regulations.

FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT OF 1996 (FFMIA)

Under FFMIA, we must report whether DOT's financial management systems substantially comply with Federal financial system requirements, generally accepted accounting principles, and the U.S. Government Standard General Ledger at the transaction level. DOT was not in compliance with FFMIA because 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 year ended September 30, 2007.

ANTIDEFIENCY ACT

Title 31, United States Code, Section 1517, provides that an officer or employee of the U.S. Government may not make or authorize an expenditure or obligation exceeding an amount available in an allotment. In our report on the FY 2006 DOT financial statements, we reported that FAA still needed to report to the President and Congress, a \$1.9 million violation associated with the Small Community Air Service Development Program first detected by FAA in FY 2005. On September 7, 2007, DOT reported the FAA Small Community Air Service Development Program violation to the President and Congress.

On June 1, 2006, DOT also reported to the President and Congress a \$3.6 million violation in RITA's Research and Development Account. While departmental

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management was aware of this violation during FY 2006, it did not disclose the incident in the management representation letter prior to issuance of our audit report on the FY 2006 DOT Consolidated Financial Statements.

Also during FY 2007, the Maritime Administration (MARAD) CFO identified a potential violation at the U.S. Merchant Marine Academy that needs to be reviewed by MARAD and OST General Counsel and, if determined to be a violation, reported to the President and Congress.

IMPROPER PAYMENTS INFORMATION ACT OF 2002 (IPIA)

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 and is effective for FY 2006 reporting. 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, 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.

In our FY 2006 report we stated that FHWA could not estimate the annual amount of improper payments made under the Federal-aid program, and that the estimate was limited to a period of 5 months—about \$30 million. We also reported that FTA and FAA were still in the early stages of implementing the improper payments testing requirements. During FY 2006, FAA performed testing of grant payments made by one airport authority, and FTA tested payments made by two transit grantees.

During FY 2007 DOT reported it successfully completed its review of improper payments in 3 of the 4 DOT major grant programs; the FHWA Federal-aid Program, the FAA Airport Improvement Program, and the FTA Formula Grant Program. In addition, DOT reported it had developed and tested a model to test for improper payments in the FTA Capital Investment Program in FY 2008. However, we were not provided sufficient information by DOT and its consultant,



before the issuance of the DOT FY 2007 PAR, to determine if the sampling plan used by DOT and its consultant was statistically valid. For example, we could not determine if the sample sizes or the projection of the sample results to the program totals were based on generally accepted conventional formulas. The Department planned to initiate another round of improper payments testing in all four grant programs next year. We will continue to work with DOT and its consultant to ensure the improper payment testing performed in FY 2008 is based on valid statistical sampling techniques.

SFFAS 4, MANAGERIAL COST ACCOUNTING CONCEPTS AND STANDARDS

Statement of Federal Financial Accounting Standards (SFFAS) Number 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, requires Federal entities to establish managerial cost accounting capabilities in order to provide reliable and timely information on the full cost of Federal programs, activities, and outputs. The managerial cost accounting capabilities must include (1) accumulating and reporting costs on a regular basis for management information purposes, (2) establishing responsibility segments to match costs with outputs, (3) determining full costs of goods and services, (4) recognizing the costs of goods and services provided among Federal entities, and (5) using appropriate costing methodologies to accumulate and assign costs to outputs.

Nine Operating Administrations (OA) (FHWA, MARAD, FMCSA, FRA, NHTSA, PHMSA, RITA, OST, and STB) have not fully implemented cost accounting processes in accordance with SFFAS Number 4. Using the FY 2007 OMB Circular A-123 (Appendix A) results, the DOT CFO has recommended that each of these nine OAs continue implementing their managerial cost accounting processes.

D. CONSISTENCY OF OTHER INFORMATION

The Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information sections of the PAR contain a wide range of data, some of which are not directly related to the financial statements. We are not required to, and we do not, express an opinion on this information. As required by OMB guidance, we inquired of management about the methods of preparing this information, and we compared this information for consistency with the DOT consolidated financial statements and other knowledge obtained during the audit of the financial

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statements. Based on this work, we found no material inconsistencies with the DOT consolidated financial statements or nonconformance with OMB guidance.

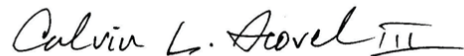
E. PRIOR AUDIT COVERAGE

Our report on the DOT Consolidated Financial Statements for FY 2006 and FY 2005 expressed a qualified opinion and made no new recommendations. Exhibit C displays the status of the prior year's findings.

Since our report on the DOT Consolidated Financial Statements for FY 2006 and FY 2005 was released, we have issued 19 additional reports related to the DOT Consolidated Financial Statements. The reports are listed in Exhibit D.

The Assistant Secretary for Budgets and Programs/Chief Financial Officer provided comments on a draft of this report (see Appendix). The response agreed with the material weakness and significant deficiencies cited in this report and stated that corrective actions have already been initiated. Management agreed to provide a detailed action plan addressing each finding by December 28, 2007.

This report is intended for the information of and use by DOT, OMB, the Government Accountability Office, and Congress. The report is a matter of public record, and its distribution is not limited.



Calvin L. Scovel III
Inspector General

November 9, 2007



**EXHIBIT A. LETTER TO TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION**



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

The Inspector General

Office of Inspector General
Washington, DC 20590

October 25, 2007

The Honorable J. Russell George
Treasury Inspector General for Tax Administration
U.S. Department of Treasury
1125 15th Street, NW
Washington, DC 20005

Dear Mr. George:

I would like to express my appreciation for your office's decision to perform a follow-up review of the Internal Revenue Service's (IRS) implementation of the Excise Files Information Retrieval System (ExFIRS). The IRS developed this system to combat motor fuel excise tax evasion. In October 2005, your office reported that the IRS had not effectively implemented ExFIRS and recommended corrective actions to help increase tax revenue collection for the Highway Trust Fund.¹

The IRS collects between \$30 billion and \$40 billion annually in motor fuel tax revenues, which account for almost 90 percent of Highway Trust Fund receipts. This trust fund is the primary financial source for highway construction projects. Since fiscal year 1999, Congress has appropriated tens of millions of dollars from the Highway Trust Fund to help IRS develop ExFIRS and enhance tax examination and motor fuel excise tax evasion investigations. This tax evasion is estimated to cost the trust fund \$1 billion per year.²

¹ "The Excise Files Information Retrieval System Has Not Been Effectively Implemented," Treasury Inspector General for Tax Administration, 2006-20-001.

² According to the IRS estimate, the Highway Trust Fund loses \$1 billion annually because fuel owners mix motor fuel with other products—a practice aimed at increasing the fuel volume to reduce the effective tax rate.

Exhibit A. Letter to Treasury Inspector General for Tax Administration

Attachment
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In August 2007, my staff requested that your office do a follow-up review after we received the Department of the Treasury's mid-year evaluation of the Highway Trust Fund. Treasury increased its projection of fiscal year 2009 cash shortfalls from \$230 million to \$3.8 billion for the trust fund's highway account—a major escalation.

Reducing tax evasion is critical in view of the erosion of trust fund revenues and rising need for investments in the Nation's highway infrastructure.³ Your review will provide critical insight into IRS efforts to collect more tax revenues for the Highway Trust Fund through ExFIRS.

We are particularly interested in the status of the following corrective actions to reduce motor fuel excise tax evasion.

1. *Enforcing electronic filing of motor fuel tax information.* The October 2005 report stated that the planned use of the automated matching process in ExFIRS to detect tax evasion was limited because only 70 percent of the fuel transactions were reported electronically.
2. *Revising the computer matching process to identify potential noncompliant taxpayers.* The October 2005 report stated that the IRS deemed the matching results unreliable and that it planned to revise the matching process.
3. *Referring potential noncompliance cases for examination and actual recovery.* The October 2005 report stated that the IRS elected not to refer potential exception cases identified by computer matching for examination until electronic filing became mandated in 2006.
4. *Assessing penalties on companies that failed to file complete and accurate information documents.* The October 2005 report stated that data perfection issues would continue to pose a significant problem to ExFIRS operations. IRS, however, elected not to assess penalties on companies until after January 1, 2006.
5. *Mitigating "reporting gaps" in the movement of motor fuel.* The October 2005 report stated that while ExFIRS was designed to track all motor fuel movements into and out of approved terminals, reporting gaps hinder the effectiveness of ExFIRS to monitor fuel production and sales. For example,

³ In January 2007, the Government Accountability Office identified financing the Nation's transportation system as a high-risk area. GAO High-Risk Series: An Update, January 2007 (GAO-07-310).



Attachment
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certain carriers were exempted from reporting fuel deliveries to the terminal. Also, ExFIRS would not include fuel distribution reporting at refineries, unregulated terminals, and bulk storage facilities.

6. *Enhancing coordination with the Federal Highway Administration.* The October 2005 report stated that the IRS and the Federal Highway Administration need to work more closely on ExFIRS development.

We look forward to the results of your review in these key areas. My office will be glad to assist you in coordinating with the Federal Highway Administration.

If you have any questions or would like to discuss this matter further, please contact me at (202) 366-1959 or Todd Zinser, Deputy Inspector General, at (202) 366-6767.

Sincerely,

Calvin L. Scovel III
Inspector General

cc: Administrator, Federal Highway Administration
Assistant Secretary for Budget and Programs/Chief Financial Officer

EXHIBIT B. OBJECTIVES, SCOPE, AND METHODOLOGY

Our audit objectives for the DOT Consolidated Financial Statements for FY 2007 and FY 2006 were to determine whether (1) the basic DOT Consolidated Financial Statements and accompanying notes were presented fairly, in all material respects, in conformity with generally accepted accounting principles; (2) DOT had adequate internal controls over financial reporting, including safeguarding assets; (3) DOT complied with laws and regulations that could have a direct and material effect on the basic DOT Consolidated Financial Statements or that had been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis, Required Supplementary Information, Required Supplementary Stewardship Information, and Other Accompanying Information was materially consistent with the information in the basic DOT Consolidated Financial Statements; and (5) internal controls were in place relating to the existence and completeness of performance measures.

DOT is responsible for (1) preparing the DOT Consolidated Financial Statements for FY 2007 and FY 2006 in conformance with generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of FFMIA are met; (3) ensuring that DOT financial management systems substantially comply with FFMIA requirements; and (4) complying with other applicable laws and regulations. DOT is responsible for maintaining an effective system of internal controls. The objectives of these controls are explained below.

- **Financial reporting.** Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements in accordance with generally accepted accounting principles; and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.
- **Compliance with laws and regulations.** Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements; and any other laws, regulations, and policies identified by OMB.
- **Reliability of performance reporting.** Transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of required performance information.

To fulfill these responsibilities, we (1) examined, on a test basis, evidence supporting the amounts and disclosures in the financial statements; (2) assessed

Exhibit B. Objectives, Scope, and Methodology



the accounting principles used and significant estimates made by management; (3) evaluated the overall presentation of the financial statements; (4) obtained an understanding and performed limited tests of internal controls related to financial reporting, compliance with laws and regulations, and performance measures; and (5) tested compliance with selected provisions of certain laws, including FFMIA. We did not evaluate all internal controls relevant to operating objectives as broadly defined by FFMIA, such as those controls relevant to ensuring that programs achieve their intended results and that resources are used consistent with agency missions. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected.

The Government Accountability Office performed agreed-upon procedures at the Internal Revenue Service on the excise taxes distributed to the HTF and the Airport and Airway Trust Fund during FY 2007. The Treasury Office of Inspector General reported on the effectiveness of controls placed in operation over the Bureau of Public Debt Trust Fund Management and Federal Investments branches for the period August 1, 2006, to July 31, 2007, and attained management's assurance on the effectiveness of controls through September 30, 2007. The Treasury Office of Inspector General also reported on selected schedules of assets and liabilities of the HTF and the Airport and Airway Trust Fund prepared by the Bureau of Public Debt Trust Fund Management Branch, as of and for the year ended September 30, 2007.

We did not test compliance with all laws and regulations applicable to DOT. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the DOT Consolidated Financial Statements for the years ended September 30, 2007, and September 30, 2006. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes.

The Chief Financial Officers of DOT and each Operating Administration have been assigned the responsibility to address the deficiencies identified in this report. Management's response to the findings and recommendations in this report is contained in the Appendix.

We performed our work in accordance with Generally Accepted Government Auditing Standards and OMB Bulletin 07-04, "Audit Requirements for Federal Financial Statements."

Exhibit B. Objectives, Scope, And Methodology

EXHIBIT C. STATUS OF PRIOR YEAR FINDINGS

Issue	As Reported September 30, 2006	As Reported September 30, 2007
Timely Processing of and Accounting for the FAA Construction-in-Progress Transaction	Material Weakness	Material Weakness
HTF Agencies' Financial Management, Reporting, and Oversight Activities	Material Weakness	Several deficiencies corrected; Journal Entries and Analysis of Account Relationships continue as Significant Deficiency; FTA Grant Accrual is reported as a separate Significant Deficiency
Reporting of Earmarked Funds for FTA	Reportable Condition	Corrected
Financial System Controls	Reportable Condition	Significant Deficiency
DOT Information Security Program	Reportable Condition	Significant Deficiency
Intragovernmental Transactions	Reportable Condition	Management Letter
Deobligating Unneeded Funds in the HTF Agencies	Reportable Condition	Management Letter
FAA Grants Management	Reportable Condition	Corrected
Federal Financial Management Improvement Act of 1996	Noncompliance	Noncompliance
Antideficiency Act	Noncompliance	Noncompliance
Improper Payments Information Act of 2002	Noncompliance	Noncompliance

Exhibit C. Status of Prior Year Findings



EXHIBIT D. FINANCIAL-RELATED REPORTS

Report Title	Report Number	Date Issued
Audit of Special-Purpose Financial Statements for Fiscal Years 2006 and 2005	FI-2007-011	November 17, 2006
Oversight of Airport Improvement Program Hurricane Grants	AV-2007-014	December 13, 2006
Inspector General Review of Fiscal Year 2006 Drug Control Funds	FI-2007-029	February 1, 2007
Emergency Transportation Services Contract: Lessons Learned from the 2005 Gulf Coast Hurricanes	FI-2007-030	February 5, 2007
Opportunities to Free Up Unneeded FHWA Funds for Use in Hurricane Recovery Efforts	MH-2007-037	March 6, 2007
Value Engineering in FHWA's Federal-Aid Highway Program	MH-2007-040	March 28, 2007
FTA Procedures to Prevent Antideficiency Act Violations	FI-2007-047	May 15, 2007
More Incurred-Cost Audits of DOT Procurement Contracts Should Be Obtained	FI-2007-064	August 29, 2007
Review of Congressional Earmarks Within Department of Transportation Programs	AV-2007-066	September 7, 2007
Quality Control Review of the Report on Controls Over the Enterprise Service Center's Delphi Financial Management System	QC-2007-072	September 13, 2007
FAA's Oversight of Inactive Airport Improvement Program Grant Obligations	AV-2007-073	September 13, 2007
Growth in Highway Construction and Maintenance Costs	CR-2007-079	September 26, 2007

Exhibit D. Financial-Related Reports

Attachment
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Report Title	Report Number	Date Issued
Information Security Program at the Department of Transportation	FI-2008-001	October 10, 2007
Prioritization of Airport Improvement Program Funding	AV-2008-002	October 26, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006: Federal Aviation Administration	QC-2008-005	November 9, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006 Highway Trust Fund	QC-2008-006	November 9, 2007
Quality Control Review of Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006: Saint Lawrence Seaway Development Corporation	QC-2008-007	November 9, 2007
Quality Control Review of the Audited Financial Statements for Fiscal Year 2007 and Fiscal Year 2006 FAA Franchise Fund	QC-2008-010	November 13, 2007
Top Management Challenges	PT-2008-008	November 15, 2007

Exhibit D. Financial-Related Reports



APPENDIX. ASSISTANT SECRETARY FOR BUDGET AND PROGRAMS/CHIEF FINANCIAL OFFICER RESPONSE TO AUDIT REPORT

November 13, 2007

MEMORANDUM TO: Calvin L. Scovell, III
Inspector General

FROM: Phyllis F. Scheinberg *Phyllis F. Scheinberg*

SUBJECT: Management Response to the Audit Report
on Consolidated Financial Statements for
Fiscal Years (FY) 2007 and 2006

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for FYs 2007 and 2006. We are very proud of the exceptional advancements that our Operating Administrations have made over the last year.

This year's audit concluded that DOT's consolidated financial statements are fairly presented in all material respects in conformity with generally accepted accounting principles.

We concur with the one material weaknesses and four significant deficiencies described in your report. Corrective action plans are being developed to address the findings in your report and will be forwarded to you by December 28. Our consolidated action plans will also address the findings in the audits of the Federal Aviation Administration (FAA) and the Highway Trust Fund (HTF) agencies.

This year the Department made significant progress in resolving long-standing financial management internal control issues, including the following highlights:

- The qualification on the FAA's FY 2006 audit opinion due to their Construction In Progress (CIP) account was lifted as a result of a comprehensive program of project-by-project reviews conducted by the FAA.

**Appendix. Assistant Secretary for Budget and Programs/Chief
Financial Officer Response to Audit Report**

During FY 2008, the FAA will complete the remaining corrective actions in this area.

- The HTF agencies have eliminated the FY 2006 material weakness in financial reporting and oversight. During FY 2007 they significantly strengthened financial management processes and controls. This is the first audit year that no material weaknesses have been reported in the HTF audit. The Office of Management and Budget (OMB) has eliminated the requirement for the stand-alone HTF audit in the future; therefore, this is the last year that it will be conducted.
- Significant progress was also made on DOT's implementation of the Improper Payments Information Act (IPIA). In FY 2007, the Department developed improper payment rates for the Federal-Aid Highway Program, the Airport Improvement Program, and the Transit Formula Grants Program. The Department also developed and tested a model for determining the amount of improper payments in the Transit Capital Investment Grants Program. Per our agreement with OMB, DOT will be continuing a comprehensive IPIA program in FY 2008.
- This year the Department completed its comprehensive two-year implementation of OMB Circular A-123, *Management's Responsibility for Internal Control*. During FY 2007 DOT assessed our control environments and documented and tested the final seven key business processes. We are planning our A-123 program for FY 2008 while we continue to resolve the findings identified by our testing.

We agree with your recommendations and will use them to develop and implement corrective actions. We will continue to work closely with the Operating Administrations and the audit workgroups to ensure that the Department further improves financial management in FY 2008.

I would like to express my sincere appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit. Please refer any questions to Laurie Howard, Director of Financial Management, at (202) 366-2135.

**Appendix. Assistant Secretary for Budget and Programs/Chief
Financial Officer Response to Audit Report**



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

DEPARTMENT OF TRANSPORTATION CONSOLIDATED BALANCE SHEET

As of September 30,	2007	Restated 2006
Dollars in Thousands		
ASSETS (Note 2)		
Intragovernmental		
Fund Balance with Treasury (Note 3)	\$ 23,392,470	\$ 27,692,908
Investments (Note 4)	21,144,083	19,824,151
Accounts Receivable, Net (Note 5)	509,692	212,616
Other Assets (Note 6)	2,453	37,946
Total Intragovernmental Assets	45,048,698	47,767,621
Cash and Other Monetary Assets		
Cash and Other Monetary Assets	24,358	27,639
Investments (Note 4)	74,085	-
Accounts Receivable, Net (Note 5)	114,118	103,371
Direct Loan and Loan Guarantees, Net (Note 7)	889,885	618,179
Inventory and Related Property, Net (Note 8)	785,760	897,494
General Property, Plant & Equipment, Net (Note 9)	14,683,890	14,501,762
Other Assets (Note 6)	211,044	195,506
Total Assets	\$ 61,831,838	\$ 64,111,572
Stewardship Property, Plant & Equipment (Note 10)		
LIABILITIES (Note 11)		
Intragovernmental		
Accounts Payable	\$ 30,424	\$ 21,271
Debt (Note 12)	1,040,761	839,357
Other Intragovernmental Liabilities (Note 15)	3,418,078	3,212,891
Total Intragovernmental Liabilities	4,489,263	4,073,519
Accounts Payable	614,861	403,722
Loan Guarantees (Note 7)	336,626	345,864
Federal Employee and Veterans' Benefits Payable	946,408	950,466
Environmental and Disposal Liabilities (Note 13)	852,366	953,635
Grant Accrual (Note 14)	5,526,288	4,975,556
Other Liabilities (Note 15)	1,309,411	1,409,182
Total Liabilities	\$ 14,075,223	\$ 13,111,944
Contingencies and Commitments (Note 17)		
NET POSITION (Note 18)		
Unexpended Appropriations - Earmarked Funds	\$ 1,213,189	\$ 612,378
Unexpended Appropriations - Other Funds	8,563,101	7,806,902
Cumulative Results of Operations - Earmarked Funds	26,552,761	30,114,600
Cumulative Results of Operations - Other Funds	11,427,564	12,465,748
Total Net Position	\$ 47,756,615	\$ 50,999,628
Total Liabilities and Net Position	\$ 61,831,838	\$ 64,111,572

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

UNITED STATES DEPARTMENT OF TRANSPORTATION

DEPARTMENT OF TRANSPORTATION
CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30,	2007	Restated 2006
Dollars in Thousands		
PROGRAM COSTS (Notes 19 & 20)		
SURFACE TRANSPORTATION		
Gross Costs	\$ 47,649,334	\$ 46,351,162
Less: Earned Revenue	264,028	395,324
Net Program Costs	47,385,306	45,955,838
AIR TRANSPORTATION		
Gross Costs	\$ 15,263,468	\$ 14,794,760
Less: Earned Revenue	449,014	659,343
Net Program Costs	14,814,454	14,135,417
MARITIME TRANSPORTATION		
Gross Costs	\$ 759,803	\$ 739,789
Less: Earned Revenue	189,076	282,264
Net Program Costs	570,727	457,525
CROSS-CUTTING PROGRAMS		
Gross Costs	\$ 511,524	\$ 442,044
Less: Earned Revenue	500,076	434,689
Net Program Costs	11,448	7,355
Costs Not Assigned to Programs	388,392	390,463
Less: Earned Revenues Not Attributed to Programs	30,295	30,985
NET COST OF OPERATIONS	\$ 63,140,032	\$ 60,915,613

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

DEPARTMENT OF TRANSPORTATION CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30,	2007			Restated 2006		
Dollars in Thousands	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Cumulative Results of Operations						
Beginning Balances	\$ 30,114,600	\$ 12,465,748	\$ 42,580,348	\$ 31,317,494	\$ 16,327,693	\$ 47,645,187
Adjustments (Note 21)						
Changes in Accounting Principles	60,461	-	60,461	-	-	-
Corrections of Errors	-	-	-	(347,773)	(1,267,448)	(1,615,221)
Beginning Balance, As Adjusted	30,175,061	12,465,748	42,640,809	30,969,721	15,060,245	46,029,966
Budgetary Financing Sources						
Other Adjustments (Rescissions, etc.)	(166,601)	166,625	24	(48,206)	-	(48,206)
Appropriations Used	2,095,506	4,156,871	6,252,377	3,982,705	3,4998,986	7,481,691
Non-Exchange Revenue (Note 21)	51,531,076	2,197	51,533,273	49,482,068	11,967	49,494,035
Donations/Forfeitures of Cash/Cash Equivalents	2,422	-	2,422	2,151	0	2,151
Transfers-In/Out Without Reimbursement	6,883	76,568	83,451	54,184	67,477	121,661
Other Budgetary Financing Sources	-	-	-	-	(263)	(263)
Other Financing Sources (Non-Exchange)						
Transfers-In/Out Without Reimbursement	(2,443,652)	2,446,463	2,811	(1,032,131)	892,660	(139,471)
Imputed Financing	506,686	98,504	605,190	460,003	102,274	562,277
Other	-	-	-	-	(7,880)	(7,880)
Total Financing Sources	51,532,320	6,947,228	58,479,548	52,900,774	4,565,221	57,465,995
Net Cost of Operations	55,154,620	7,985,412	63,140,032	53,755,895	7,159,718	60,915,613
Net Change	(3,622,300)	(1,038,184)	(4,660,484)	(855,121)	(2,594,497)	(3,449,618)
Cumulative Results of Operations	\$ 26,552,761	\$ 11,427,564	\$ 37,980,325	\$ 30,114,600	\$ 12,465,748	\$ 42,580,348
Unexpended Appropriations						
Beginning Balance	612,378	7,806,902	8,419,280	1,502,773	3,941,386	5,444,159
Adjustments						
Corrections of Errors	-	-	-	347,773	(4,395)	343,378
Beginning Balance, As Adjusted	612,378	7,806,902	8,419,280	1,850,546	3,936,991	5,787,537
Budgetary Financing Sources						
Appropriations Received	2,841,381	4,974,437	7,815,818	2,778,855	7,422,451	10,201,306
Appropriations Transferred-In/Out	621	(606)	15	25,365	4,117	29,482
Other Adjustments (Rescissions, etc.)	(145,134)	(60,761)	(205,895)	(59,682)	(59,738)	(119,420)
Appropriations Used	(2,096,057)	(4,156,871)	(6,252,928)	(3,982,706)	(3,496,919)	(7,479,625)
Total Budgetary Financing Sources	600,811	756,199	1,357,010	(1,238,168)	3,869,911	2,631,743
Total Unexpended Appropriations	\$ 1,213,189	\$ 8,563,101	\$ 9,776,290	\$ 612,378	\$ 7,806,902	\$ 8,419,280
NET POSITION	\$ 27,765,950	\$ 19,990,665	\$ 47,756,615	\$ 30,726,978	\$ 20,272,650	\$ 50,999,628

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

DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30,

2007

2006

Dollars in Thousands

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
BUDGETARY RESOURCES (Note 22)				
Unobligated Balance, Brought Forward, October 1	\$ 46,566,672	\$ 358,827	\$ 43,793,009	\$ 434,789
Recoveries of Prior Year Unpaid Obligations	658,023	207,000	709,780	728,153
Budget Authority				
Appropriations Received	62,551,786	-	60,768,943	-
Borrowing Authority	225,000	865,759	269,300	225,051
Contract Authority	55,040,320	-	51,421,012	-
Spending Authority from Offsetting Collections				
Earned				
Collected	2,212,610	167,921	2,344,798	395,477
Change in Receivables from Federal Sources	(69,617)	(3,616)	(152,036)	3,803
Change in Unfilled Customer Orders				
Advance Received	89,251	-	32,546	-
Without Advance from Federal Sources	184,966	(20,491)	397,898	(40,360)
Expenditure Transfers from Trust Funds	5,673,226	-	142,346	-
Subtotal	125,907,542	1,009,573	115,224,807	583,971
Nonexpenditure Transfers, Net	2,220	-	23,093	-
Temporarily not Available Pursuant to Public Law	(5,489)	-	(80,837)	-
Permanently Not Available	(51,763,052)	(287,959)	(47,871,478)	(1,007,732)
Total Budgetary Resources	\$ 121,365,916	\$ 1,287,441	\$ 111,798,374	\$ 739,181
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred				
Direct	\$ 72,701,475	\$ 955,036	\$ 62,959,622	\$ 380,354
Reimbursable	2,152,731	-	2,272,080	-
Subtotal	\$ 74,854,206	\$ 955,036	\$ 65,231,702	\$ 380,354
Unobligated Balance				
Apportioned	22,742,862	4,394	23,324,733	-
Exempt from Apportionment	307,808	-	269,421	-
Subtotal	23,050,670	4,394	23,594,154	-
Unobligated Balance Not Available	23,461,040	328,011	22,972,518	358,827
Total Status of Budgetary Resources	\$ 121,365,916	\$ 1,287,441	\$ 111,798,374	\$ 739,181

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

DEPARTMENT OF TRANSPORTATION
COMBINED STATEMENT OF BUDGETARY RESOURCES (CONT.)

For the Years Ended September 30,

2007

2006

Dollars in Thousands

	2007		2006	
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
CHANGE IN OBLIGATED BALANCE				
Obligated Balance, Net				
Unpaid Obligations, Brought Forward, October 1	\$ 72,330,387	\$ 1,706,951	\$ 70,820,273	\$ 2,361,768
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(1,590,193)	(159,590)	(1,338,353)	(196,147)
Total Unpaid Obligated Balance, Net	70,740,194	1,547,361	69,481,920	2,165,621
Obligations Incurred	74,854,206	955,036	65,231,702	380,354
Gross Outlays	(69,820,935)	(437,279)	(63,011,808)	(307,018)
Obligated Balance, Transferred, Net				
Actual Transfers, Unpaid Obligations	2,250	-	-	-
Total Unpaid Obligated Balance Transferred, Net	2,250	-	-	-
Recoveries of Prior Year Unpaid Obligations, Actual	(658,023)	(207,000)	(709,780)	(728,153)
Change In Uncollected Customer Payments from Federal Sources	(117,363)	24,106	(251,840)	36,557
Obligated Balance, Net, End of Period				
Unpaid Obligations	76,707,884	2,017,708	72,330,387	1,706,951
Uncollected Customer Payments From Federal Sources	(1,707,556)	(135,484)	(1,590,193)	(159,590)
Total Unpaid Obligated Balance, Net, End Of Period	75,000,328	1,882,224	70,740,194	1,547,361
NET OUTLAYS				
Net Outlays				
Gross Outlays	69,820,935	437,279	63,011,808	307,018
Offsetting Collections	(7,973,071)	(167,921)	(2,513,482)	(395,475)
Less: Distributed Offsetting Receipts	(46,779)	-	(236,451)	-
Net Outlays	\$ 61,801,085	\$ 269,358	\$ 60,261,875	\$ (88,457)

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

Note 1. Significant Accounting Policies

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Circular No. A-136, "Financial Reporting Requirements," has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, and Statement of Budgetary Resources. Effective FY 2007, the Statement of Financing was changed from a basic statement to a footnote disclosure and is reflected in Note 24 – Reconciliation of Net Cost of Operations to Budget. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

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

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

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

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2007.

Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 23 to the financial statements.

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

B. Reporting Entity

DOT serves as the focal point in the Federal Government for the Coordinated National Transportation Policy. It is responsible for ensuring the safety of all forms of transportation; protecting the interests of consumers; international transportation agreements; conducting planning and research for the future; and helping cities and States meet their local transportation needs through financial and technical assistance.

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data,



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including various trust funds, revolving funds, appropriations and special funds of the following organizations:

- ✧ Office of The Secretary (OST - includes OST Working Capital Fund)
- ✧ Federal Aviation Administration (FAA)
- ✧ Federal Highway Administration (FHWA)
- ✧ Federal Motor Carrier Safety Administration (FMCSA)
- ✧ Federal Railroad Administration (FRA)
- ✧ National Highway Traffic Safety Administration (NHTSA)
- ✧ Maritime Administration (MARAD)
- ✧ Federal Transit Administration (FTA)
- ✧ Surface Transportation Board (STB)
- ✧ Office of Inspector General (OIG)
- ✧ Pipeline and Hazardous Materials Safety Administration (PHMSA)
- ✧ Research and Innovative Technology Administration (RITA - includes Volpe National Transportation System Center)

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 26.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2007. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2007, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

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

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

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital

expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

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

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

G. Receivables

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

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

H. Inventory and Operating Materials and Supplies

Inventory primarily consists of supplies that are for sale or used in the production of goods for sale. Operating materials and supplies primarily consist of unissued supplies that will be consumed in future operations. Valuation methods for supplies on hand at yearend include historical cost, last acquisition price, standard price/specific identification, standard repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold. Adjustments for the proper valuation of repairable, excess, obsolete, and unserviceable items are made to appropriate allowance accounts.

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securities with the public and are not considered intragovernmental investments.

J. Property and Equipment

DOT agencies have varying methods of determining the value of property and equipment and how it is depreciated.



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

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Information section and the Required Supplementary Stewardship Reporting section of this statement. See Note 10 for specific required disclosures related to Stewardship Heritage Assets.

K. Prepaid and Deferred Charges

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

L. Liabilities

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

M. Contingencies

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

N. Annual, Sick, and Other Leave

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

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

O. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335.

Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

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

P. Comparative Data

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

Q. Use of Estimates

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

R. Reclassifications

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

S. Parent/Child Allocations

FHWA adjusted the beginning balances of cumulative results of operations by \$60.5 million due to a change in accounting principle. According to OMB Circular No. A-136, effective FY 2007 the parent must report all budgetary and proprietary activity of the child account in its financial statements, whether material to the parent or not. As a result, U.S. Army Corps of Engineers and U.S. Forest Service beginning balances are reflected in "Changes to Accounting Principles" on the Statement of Changes to Net Position. For FY 2006, two recipient agencies, U.S. Army Corps of Engineers and U.S. Forest Service, were excluded from all financial statements (except the Statement of Budgetary Resources) and related footnotes; as an exception allowed them to include the allocation activity on their financial statements if it was deemed material to the child agency.

T. Prior Period Adjustments and Restatements

Federal Aviation Administration Construction in Process (CIP)

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

Federal Transit Administration Grant Accrual

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



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

Federal Transit Administration Earmarked Funds

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

NOTE 2. NON-ENTITY ASSETS
Dollars in Thousands

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

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



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NOTE 3. FUND BALANCE WITH TREASURY
Dollars in Thousands

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

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

NOTE 4. INVESTMENTS

Dollars in Thousands

As of September 30, 2007	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Intragovernmental Securities					
Marketable	\$ 35,300	\$ 244	\$ 35,544	\$ (615)	\$ 34,929
Non-Marketable					
Par Value	20,135,487	-	20,135,487	-	20,135,487
Market-Based	886,403	-	886,403	-	886,403
Subtotal	\$ 21,057,190	\$ 244	\$ 21,057,434	\$ (615)	\$ 21,056,819
Accrued Interest	87,264	-	87,264	-	87,264
Total Intragovernmental Securities	\$ 21,144,454	\$ 244	\$ 21,144,698	\$ (615)	\$ 21,144,083
Securities with the Public					
Marketable	\$ 75,252	\$ 483	\$ 75,735	\$ (1,650)	\$ 74,085
Total Securities with the Public	\$ 75,252	\$ 483	\$ 75,735	\$ (1,650)	\$ 74,085
As of September 30, 2006					
Intragovernmental Securities					
Marketable	\$ 152,616	\$ 2,037	\$ 154,653	\$ (3,233)	\$ 151,420
Non-Marketable					
Par Value	18,890,967	-	18,890,967	-	18,890,967
Market-Based	698,055	(1,388)	696,667	-	696,667
Subtotal	\$ 19,741,638	\$ 649	\$ 19,742,287	\$ (3,233)	\$ 19,739,054
Accrued Interest	85,097	-	85,097	-	85,097
Total Intragovernmental	\$ 19,826,735	\$ 649	\$ 19,827,384	\$ (3,233)	\$ 19,824,151

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations. Securities with the Public include marketable Treasury securities that were purchased using deposit fund monies and are required to be classified as securities with the public and are not considered intragovernmental investments.

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

The Federal Government does not set aside assets to pay future benefits or other expenditures associated with earmarked funds. The cash receipts collected from the public for an earmarked fund are deposited in the U.S. Treasury, which uses the cash for Government purposes. Treasury securities are issued to the DOT as evidence of its receipts. Treasury securities are an asset to the DOT and a liability to the U.S. Treasury. Because the DOT and the U.S. Treasury are both parts of the Government, these assets and liabilities offset each other from the standpoint of the Government as a whole. For this reason, they do not represent an asset or liability in the U.S. Government-wide financial statements.

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



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NOTE 5. ACCOUNTS RECEIVABLE
Dollars in Thousands

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

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

NOTE 6. OTHER ASSETS
Dollars in Thousands

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

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



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NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS
Dollars in Thousands

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

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

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

Direct Loans Obligated Prior to FY 1992, Net

	FY 2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss Method					
1. Railroad Rehab. Improvement Program	\$ 17,479	\$ 90	\$ -	\$ -	\$ 17,569
Subtotal	\$ 17,479	\$ 90	\$ -	\$ -	\$ 17,569
After FY 1991					
1. Railroad Rehab. Improvement Program	\$ 497,166	\$ -	\$ -	\$ 9,889	\$ 507,055
3. TIFIA Loan	377,058	-	-	(39,998)	337,060
Subtotal	\$ 874,224	\$ -	\$ -	\$ (30,109)	\$ 844,115

Direct Loans Obligated Prior to FY 1992, Net

	FY 2006 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Direct Loans, Net
Direct Loan Programs					
Prior to FY 1992 Allowance for Loss Method					
1. Railroad Rehab. Improvement Program	\$ 21,900	\$ 82	\$ -	\$ -	\$ 21,982
Subtotal	\$ 21,900	\$ 82	\$ -	\$ -	\$ 21,982
After FY 1991					
1. Railroad Rehab. Improvement Program	\$ 449,320	\$ -	\$ -	\$ 9,471	\$ 458,791
3. TIFIA Loan	117,950	-	-	(8,901)	109,049
Subtotal	\$ 567,270	\$ -	\$ -	\$ 570	\$ 567,840

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)
Dollars in Thousands
Total Amount of Direct Loans Disbursed (Post-1991)

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

Subsidy Expense for Direct Loans by Program and Component

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

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

Modifications and Re-estimates

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

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

Total Direct Loan Subsidy Expense

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



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

Budget Subsidy Rates for Direct Loans for the Current Year Cohort

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

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

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

Defaulted Guaranteed Loans from Post-1991 Guarantees

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

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY 2006 Loans		Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
	Receivable, Gross					
4. Fed Ship Financing Fund (Title XI)	\$ 7,713	\$ 144	\$ 19,000	\$ 1,500	\$ 28,357	
Total	\$ 7,713	\$ 144	\$ 19,000	\$ 1,500	\$ 28,357	

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

Guaranteed Loans Outstanding

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

New Guaranteed Loans Disbursed

	FY 2007	
	\$	\$
5. OST Minority Business Resource Center	3,415	2,651
Subtotal	<u>\$ 3,415</u>	<u>\$ 2,651</u>

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

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

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

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

Subsidy Expense for Loan Guarantees by Program and Component

Subsidy Expense for New Loan Guarantees Disbursed

FY 2007 Loan Guarantee Programs

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

FY 2006 Loan Guarantee Programs

4. Fed Ship Financing Fund (Title XI)	\$ -	\$ (3,378)	\$ (12,707)	\$ 75,210	\$ (106,654)	\$ (47,529)
5. OST Minority Business Resource	-	(77)	-	-	-	(77)
Subtotal	\$ -	\$ (3,455)	\$ (12,707)	\$ 75,210	\$ (106,654)	\$ (47,606)

Modifications and Re-estimates

Loan Guarantee Programs

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

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

Total Loan Guarantee Subsidy Expense

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

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

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

NOTE 7. DIRECT LOANS AND LOAN GUARANTEES, NON-FEDERAL BORROWERS (CONT.)**Schedule for Reconciling Loan Guarantee Liability Balances (Post-1991 Loan Guarantees)**

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

The Federal Credit Reform Act of 1990 divides direct loans and loan guarantees into two groups: (1) Pre-1992 means the direct loan obligations or loan guarantee commitments made prior to FY 1992 and the resulting direct loans obligations or loan guarantees, and (2) Post-1991 means the direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees.

The Act provides that, for direct loan obligations or loan guarantee commitments made after FY 1991, the present value of the subsidy costs (which arises from interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets, and other cash flows) associated with direct loans and loan guarantees be recognized as a cost in the year the direct or guaranteed loan is disbursed.

Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Foreclosed property is valued at the net realizable value. Loans receivable, net, or their value of assets related to direct loans, is not the same as the proceeds that they would expect to receive from selling their loans. DOT calculated the allowance for pre-1992 using the allowance for loss method.

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 8. INVENTORY AND RELATED PROPERTY

Dollars in Thousands

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

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

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

NOTE 9. GENERAL PROPERTY, PLANT AND EQUIPMENT

Dollars in Thousands

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

Depreciation is computed using the straight line method. Net book value of multi-use heritage assets is now included in general property, plant and equipment, while “physical quantity” information is included in the Heritage Assets section of the Required Supplementary Information.



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

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

NOTE 10. STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT**Stewardship Mission**

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

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

Stewardship Policy

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

The Federal Railroad Administration has an oversight role in the management of Washington Union Station. FRA received title through legislation, and sublets the property to Union Station Venture Limited which manages the property. Net book value of multi-use heritage assets is included in general property, plant and equipment, while "physical quantity" information is included in the Heritage Assets section of Required Supplementary Information. The condition of the stewardship assets is included in the Deferred Maintenance section of the Required Supplementary Information.



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

Dollars in Thousands

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

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

NOTE 12. DEBT
Dollars in Thousands

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

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 13. ENVIRONMENTAL AND DISPOSAL LIABILITIES

Dollars in Thousands

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

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

NOTE 14. GRANT ACCRUAL
Dollars in Thousands

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

Grant accruals by Operating Administrations at September 30, 2007 and September 30, 2006 are summarized as follows:

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

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 15. OTHER LIABILITIES

Dollars in Thousands

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

UNITED STATES DEPARTMENT OF TRANSPORTATION

	Non-Current	Current	FY 2006 Total
As of September 30, 2006			
Intragovernmental			
Advances and Prepayments	\$ -	\$ 2,797,414	\$ 2,797,414
Accrued Pay and Benefits	993	52,546	53,539
FECA Billings	121,877	91,572	213,449
Uncleared Disbursements and Collections	-	(26,967)	(26,967)
Deferred Credits	-	2,199	2,199
Deposit Funds	-	(2,437)	(2,437)
Other Accrued Liabilities	164,702	10,992	175,694
Total Intragovernmental	\$ 287,572	\$ 2,925,319	\$ 3,212,891
Public			
Other Accrued Unbilled Payments	\$ -	\$ 11,772	\$ 11,772
Accrued Pay and Benefits	182,330	686,968	869,298
Legal Claims	3,281	8,001	11,282
Deferred Credits	115,175	74,675	189,850
Capital Leases	34,199	8,607	42,806
Advances and Prepayments	-	105,554	105,554
Uncleared Disbursements and Collections	-	6,548	6,548
Deposit Funds	(3,950)	3,139	(811)
Other Custodial Liability	-	57,902	57,902
Other Accrued Liabilities	88,991	25,990	114,981
Total Public	\$ 420,026	\$ 989,156	\$ 1,409,182

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 16. CAPITAL LEASES

Dollars in Thousands

ENTITY AS LESSEE

Capital Leases

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

Future Payments Due

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

Operating Leases

Future Payments Due

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

NOTE 17. CONTINGENCIES, COMMITMENTS, AND OTHER DISCLOSURES

Contingencies

Legal Claims

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

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

Grant Programs

FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. For the fiscal year ended September 30, 2007 and 2006, FHWA has pre-authorized \$46.2 billion and \$44.8 billion, respectively under these arrangements; however no liability is reflected in the Highway Trust Fund financial statements at September 30, 2007 and 2006.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2007 and September 30, 2006 approximately \$3.9 billion and \$2.7 billion respectively in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2007 and September 30, 2006 for these agreements.

Contract Options and Negotiations

As of September 30, 2007 and 2006, FAA had contract options of \$3.51 billion and \$3.35 billion, respectively. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Aviation Insurance Program

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

FAA maintains standby non-premium war-risk insurance policies for 40 air carriers having approximately 1,643 aircraft available for Department of Defense and for 9 carriers available for State Department charter operations.

On September 22, 2001, the Air Transportation Safety and System Stabilization Act (Public Law 107-42) expanded premium insurance program authority to permit insurance of domestic operations. Under this program, FAA initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 required FAA to extend policies in effect on July 19, 2002 and to add hull loss and passenger and third party war risk liability insurance for those policies.



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

Subsequent acts ending with the Revised Continuing Appropriations Resolution, 2007, P.L. 110-5, ultimately extended the mandatory provision of insurance through September 30, 2007, expanded the authority of the DOT to include war and terrorism insurance for aircraft and aircraft engine manufacturers, extended the potential \$100 million third party liability limitation for air carriers through September 30, 2007, and expanded it to include aircraft and aircraft engine manufacturers. On September 1, 2007, the Secretary of Transportation extended coverage through December 31, 2007. During this year there were 77 FAA premium war-risk policies. Insured air carriers per occurrence limits for combined hull and liability coverage range from \$100 million to \$4 billion.

Current war risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress. During FY 2007 and FY 2006, FAA recognized insurance premium revenue of \$171 million and \$168.4 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the FAA's Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

FAA airline war risk insurance policies normally establish a maximum liability for claims associated with a single war risk event. The maximum liability for both hull loss and liability, per occurrence, is \$4 billion. No claims for losses were pending as of September 30, 2007, or 2006. In the past, FAA has insured a small number of air carrier operations and established a maximum liability for losing one aircraft. Since the inception of the Aviation Insurance Program in 1951, the FAA has intermittently insured air carrier operations on both a premium and non-premium basis. During its history, the Aviation Insurance Program has only paid four claims, all involving only minor dollar amounts. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Commitments

Grant Programs

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

FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into Airport Improvement Program grant agreements. FAA records an obligation when a grant is awarded. Through September 30, 2007, FAA issued letters of intent covering FY 1988 through FY 2020 totaling \$5.6 billion. As of September 30, 2007, FAA had obligated \$4.3 billion of this total amount leaving \$1.3 billion unobligated. Through September 30, 2006, FAA issued letters of intent covering FY 1988 through FY 2020 totaling \$5.3 billion. As of September 30, 2006, FAA had obligated \$3.8 billion of this total amount, leaving \$1.5 billion unobligated.

Other Disclosures

Environmental Liabilities

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

NOTE 18. EARMARKED FUNDS

Highway Trust Funds

The Highway Trust Fund is comprised of the Highway Corpus Trust Fund and certain accounts of the Federal Highway Administration, Federal Motor Carrier Safety Administration, Federal Transit Administration, Federal Railroad Administration and the National Highway Traffic Safety Administration. The HTF was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. The use of the fund has also been expanded to embrace highway safety. Overall, there are 73 earmarked funds in the HTF.

Federal Aviation Administration Trust Funds

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

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

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

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

Federal Highway Administration Non Trust Funds

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

Federal Transit Administration (Mass Transit)

In FY-2005 and prior, FTA programs were funded 80% through the Mass Transit account and 20% through Treasury General Receipt (Fund) account. During these prior years, FTA's formula programs were paid out of general fund accounts combined with financing sources transferred in without reimbursement from expenditure transfers from an



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FTA conduit Trust Fund account (69X8350). The Mass Transit account for these years is considered earmarked but not reported as part of the HTF.

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

Maritime Administration

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

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

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

Office of the Secretary

X-5423 - Emergency Air Service post 911 travel

X-8304 - Emergency Air Service post 911 travel

X-8548 - Investment at Treasury from a gift that earns interest twice a year

Pipeline and Hazardous Material Safety Administration

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

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

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

SOURCES OF EARMARKED FUNDS

Highway Trust Funds

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

Aviation Insurance Revolving Fund:

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

Aviation User Fees

FAA collects over flight user fees for providing air traffic control services. These revenues are inflows of resources to the government.

Airport and Airway Trust Fund

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

Federal Highway Administration Non Trust Funds

Source of funding is from receipts that come in from various public sources. The level of funding is not known. These receipts are the sole source of funding for Miscellaneous trust funds.

Federal Transit Administration (Mass Transit)

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

Maritime Administration

War Risk Insurance Fund - Insurance premium

Special Study, Services & Project Funds - Fee for performing work or service

Gift and Bequests Fund - Donation

Office of the Secretary

X-5423 - Funding comes from FAA as a transfer of funds, 100% intergovernmental flow

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

X-8548 - Investment at Treasury from a gift that earns interest twice a year, 100% resources to the Government

Pipeline and Hazardous Material Safety Administration

Pipeline- Financing is a result of user fees

Trust Fund - Funds are appropriated and received from the BPD Trust fund

EP Grants - Financing is obtained from registration fees.

There were no changes in legislation as of September 30, 2007 that significantly changed the purpose of the earmarked funds or redirected a material portion of the accumulated balance.



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

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



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NOTE 19. NET COST BY PROGRAM
Dollars in Thousands

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

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

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

NOTE 20. INTRAGOVERNMENTAL COSTS AND EXCHANGE REVENUES**Dollars in Thousands**

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



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

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

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

NOTE 21. STATEMENT OF CHANGES IN NET POSITION**Dollars in Thousands****Non-Exchange Revenue**

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

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



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NOTE 22. STATEMENT OF BUDGETARY RESOURCES

Dollars in Thousands

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

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

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

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

Additional Disclosures

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

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

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

NOTE 23. INCIDENTAL CUSTODIAL COLLECTIONS**Dollars in Thousands**

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



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

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

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

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



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

NOTE 25. RESTATEMENTS
Dollars in Thousands

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

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

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

NOTE 26. SAINT LAWRENCE SEAWAY DEVELOPMENT CORPORATION**Dollars in Thousands****Condensed Information**

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



REQUIRED SUPPLEMENTARY INFORMATION



PERFORMANCE AND ACCOUNTABILITY REPORT - FY 2007

Information.

DEFERRED MAINTENANCE

DOT Entity	Major Class of Asset	Method of Measurement	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	\$ 79,970
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	25,254
MARAD	Vessels, Ready Reserve Force (Various Locations)	Condition Assessment Survey	2	22,600
	Real Property, Buildings Anchorage	Condition Assessment Survey	3	14,695
	Other (Fleet Craft)	Condition Assessment Survey	3	2,520
	Other (Pier and Berthing Surveys and Studies)	Estimate	3	235
	Other (Heritage Assets)	Condition Assessment	3&4	200
			Total	\$ 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 SUPPLEMENTAL INFORMATION, SEPTEMBER 30, 2007
NUMBER OF PHYSICAL UNITS**

<u>Heritage Assets</u>				
	Units as of			Units as of
	09/30/2006	Additions	Withdrawals	09/30/2007
Personal Property				
Collections				
Artifacts	38	2	-	40
Museum	458	-	1	457
Other Collections	101	-	-	101
Total Collections	597	2	1	598
Total Personal Property Heritage Assets	597	2	1	598
	Units as of			Units as of
	09/30/2006	Additions	Withdrawals	06/30/2007
Real Property				
Buildings and Structures	1	-	-	1
Total Real Property Heritage Assets	1	-	-	1

Artifacts are those of the Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies.

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

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

Financial information for multi-use heritage assets is presented in the principal statements and notes. The condition of the stewardship heritage assets is presented in the Deferred Maintenance section of the Required Supplementary



REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION



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**NON FEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2007
TRANSPORTATION INVESTMENTS**
Dollars in Thousands

<u>Surface Transportation:</u>	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
Federal Aid Highways (HTF)	\$ 29,258,796	\$ 29,207,012	\$ 29,750,120	\$ 32,190,231	\$ 32,800,748
Other Highway Trust Fund Programs	243,874	300,493	445,083	452,022	366,672
General Fund Programs	73,046	962,370	330,790	14,240	51,119
Appalachian Development System	128,480	263,430	425,810	366,816	329,161
Federal Motor Carrier	159,628	299,450	195,740	117,004	196,967
Federal Transit Administration					
Discretionary Grants	\$ 291,889	\$ 160,655	\$ 119,277	\$ 91,961	\$ 11,719
Formula Grants	4,390,965	4,723,674	4,521,288	3,376,068	2,086,876
Capital Investment Grants ¹	2,632,841	2,788,920	3,375,206	3,073,294	2,662,845
Washington Metro	11,252	12,409	1,719	4,255	28,430
Interstate Transfer Grants	9,459	1,479	1,411	206	1,774
Formula and Bus Grants	N/A	N/A	N/A	1,862,772	4,193,989
Surface Transportation Nonfederal Physical Property Investments	\$ 37,200,230	\$ 38,719,892	\$ 39,166,444	\$ 41,548,869	\$ 42,730,300
(1) Outlays are not net of Federal Emergency Management Agency (FEMA) collection of \$2.75 billion.					
Air Transportation					
Federal Aviation Administration					
Airport Improvement Program	\$ 2,786,717	\$ 2,977,300	\$ 3,712,423	\$ 3,852,141	\$ 3,923,719
Air Transportation Nonfederal Physical Property Investments	\$ 2,786,717	\$ 2,977,300	\$ 3,712,423	\$ 3,852,141	\$ 3,923,719
Total Nonfederal Physical Property Investments	\$ 39,986,947	\$ 41,697,192	\$ 42,878,867	\$ 45,401,010	\$ 46,654,019

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

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

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

Capital investment grants, which replaced discretionary grants in 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.

Washington Metro 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, 2007
 Dollars in Thousands

<u>Surface Transportation</u>	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
National Highway Institute Training	\$ 8,539	\$ 4,069	\$ 11,844	\$ 14,123	\$ 4,083
Federal Motor Carrier Safety Administration					
California Highway Patrol	926	192	41	-	127
Commercial Motor Vehicle Operator					
Safety Grants					748
Idaho Video	593	344	208	-	-
Kentucky IT Conference				175	-
Massachusetts Training Academy	175	9	53	-	172
Minnesota Crash Investigation	57	21	-	1	-
New York Crash Reconstruction					36
Tennessee Crash Investigation					165
Federal Transit Administration (2)					
National Transit Institute Training	\$ 4,292	\$ 4,667	\$ 3,318	\$ 3,961	\$ 3,879
National Highway Safety Administration					
Section 403 Highway Safety Programs	\$ 49,013	\$ 53,964	\$ 110,981	\$ 221,523	\$ 235,382
Highway Traffic Safety Grants	210,469	205,509	216,702	279,244	416,241
Pipeline and Hazardous Materials Safety Administration					
Hazardous Materials (Hazmat) Training	\$ 7,782	\$ 7,780	\$ 8,065	\$ 7,800	\$ 7,798
Surface Transportation Human					
Capital Investments	\$ 281,846	\$ 276,555	\$ 351,212	\$ 526,827	\$ 668,631
Maritime Transportation					
Maritime Administration					
State Maritime Academies Training (3)	\$ 8,363	\$ 9,208	\$ 9,215	\$ 7,528	\$ 8,978
Additional Maritime Training	463	388	328	134	555
Maritime Transportation Human Capital Investments	\$ 8,826	\$ 9,596	\$ 9,543	\$ 7,662	\$ 9,533
Total Human Capital Investments	\$ 290,672	\$ 286,151	\$ 360,755	\$ 534,489	\$ 678,164

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

The 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 increase CMV driver awareness.



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The Idaho Video Program develops video training material utilized by 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 Traffic 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.

(2) FY 2001 and FY 2002 outlay amounts are based on the enacted budget authority for FY 1999, FY 2000, and FY 2001 and on the approved outlay rates for the National Transit Institute (5%, 50%, 40%, and 5%).

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

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2007
Dollars in Thousands

Surface Transportation:	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Federal Highway Administration					
Intelligent Transportation Systems	\$ 126,256	\$ 146,852	\$ 183,634	\$ 129,219	\$ 152,799
Other Applied Research and Development	115,368	142,557	114,315	105,336	74,942
Federal Railroad Administration					
Railroad Research and Development Program	\$ 2,402	\$ 9,342	\$ 6,032	\$ 11,681	\$ 5,551
Federal Transit Administration					
Applied Research and Development - Transit Planning and Research (4)	3,895	3,483	2,546	6,543	3,144
Office of the Secretary					
Applied Research and Development - Emergency Transportation	650	8	-	-	-
Pipeline and Hazardous Materials Safety Administration					
Applied Research and Development					
Pipeline Safety	\$ 5,523	\$ 6,375	\$ 10,810	\$ 12,953	\$ 5,494
Hazardous Materials	1,755	1,489	1,638	2,225	1,072
Research and Innovative Technology Administration					
Applied Research and Development					
Research and Technology	\$ 1,454	\$ 1,134	\$ 1,564	\$ 1,110	\$ 1,036
Surface Transportation Research and Development Investments	\$ 257,303	\$ 311,240	\$ 320,539	\$ 269,067	\$ 244,038

(4) FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.

Air Transportation

Federal Aviation Administration

Research and Development Plant	\$ 2,903	\$ 4,230	\$ 5,287	\$ 3,821	\$ 4,217
Applied Research	29,406	91,743	103,659	106,390	104,782
Development	251	478	547	587	844
Administration	31,669	28,643	29,163	30,566	32,050
Air Transportation Research and Development Investments	\$ 64,229	\$ 125,094	\$ 138,656	\$ 141,364	\$ 141,893
Total Research and Development Investments	\$ 321,532	\$ 436,334	\$ 459,195	\$ 410,431	\$ 385,931

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



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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 in 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.

