



The Maritime Administration Annual Report to Congress 2007



Maritime Administration at a glance

Established:	1950
Headquarters:	1200 New Jersey Avenue, SE Washington, DC 20590 www.marad.dot.gov
FY 2007 Budget:	\$290.837 million
Total Employees:	785
Headquarters:	276
US Merchant Marine Academy:	233
Gateway Offices & Fleet Sites:	276

Mission: To improve and strengthen the U.S. marine transportation system, including infrastructure, industry and labor, to meet the economic and security needs of the nation.

Maritime Administration

Annual Report To Congress Fiscal Year 2007



**U.S. Department of Transportation
Secretary
Mary E. Peters**



**Maritime Administration
Administrator
Sean T. Connaughton**

**U.S. Department of Transportation
Headquarters
1200 New Jersey Avenue, SE
Washington, DC 20590**

Table of Contents

INTRODUCTION	iii
EXECUTIVE SUMMARY	iv
INDUSTRY OVERVIEW	1
REDUCED CONGESTION	3
GLOBAL CONNECTIVITY	9
SECURITY, PREPAREDNESS AND RESPONSE	17
ENVIRONMENTAL STEWARDSHIP	24
Appendix: FINANCIAL STATEMENTS	29-58
PRESIDENTIAL PROCLAMATION	59
ORGANIZATIONAL CHART	60

Introduction:

The Turning of the Tide

A Message from the Administrator

We are seeing important and exciting changes in the U.S. maritime industry, and at the Maritime Administration. The marine transportation industry is a highly sophisticated, global, intermodal transportation network that is absolutely vital to America's economy and continued prosperity. The industry is in a period of renewal and expansion, with a 24-percent increase in industry fixed assets, and more than 10,000 jobs added in the past five years. The Class of 2007 graduates from the Nation's maritime academies found many more opportunities for employment in the maritime industry than they have found in years past. Industry is pointing the way toward greater use of our waterways to relieve congestion on the landside transportation system.

The Class of 2007 graduates from the Nation's maritime academies found many more opportunities for employment in the maritime industry than they have found in years past.

A half-century ago, the maritime industry pioneered the use of the container, now the standard instrument of trade all over the world. That paved the way for double-stacked trains and the development of door-to-door logistical operations, software and tracking systems. This evolution transformed the way we think about the business of moving freight and people, and has completely altered the transportation landscape and the role of transportation in our lives. Marine transportation is now a system of systems—an integrated network, not just within the United States, but around the world. It must operate seamlessly.

The Maritime Administration is developing a framework to help guide involvement and investment in the overall Marine Transportation System. To that end, the Maritime Administration has realigned its offices, programs, resources, and initiatives to respond to this changing dynamic. The Maritime Administration wants to partner with the maritime industry in promoting and facilitating a U.S. maritime transportation system that improves the safe, secure movement of goods and people and promotes transportation solutions enhancing environmental stewardship.



Executive Summary

This Annual Report outlines the financial status of the Maritime Administration, and reports on its accomplishments as they align with the strategic goals of the U.S. Department of Transportation.

This Annual Report outlines the financial status of the Maritime Administration, and reports on its accomplishments as they align with the strategic goals of the U.S. Department of Transportation.

The **Industry Overview** briefly outlines the status of the United States maritime industry.

The accomplishments of the Maritime Administration's **Intermodal System Development** line of business are highlighted in the section on **Reduced Congestion**, which outlines this agency's work in congestion mitigation, the establishment of Gateway Offices, successful projects in port development, and work in developing the Marine Highway, America's network of navigable rivers, lakes, seaways, and coasts.

The section on **Global Connectivity** sets out the accomplishments of the **Business & Workforce Development** line of business; including the Cargo Preference program, the Maritime Administration's support of shipyard work, energy security, and the U.S. mariner development and employment.

This section also notes the accomplishments of the office of the **Assistant Administrator**, covering policy, plans and international activities, specifically the bilateral agreement reached with Vietnam.

The section on **Security, Preparedness and Response** gives the status and accomplishments of the **National Security** line of business; in the Maritime Security Program, the Voluntary Intermodal Sealift Agreement, the Ready Reserve Force, and in support of the U.S. Missile Defense Agency.

The accomplishments of the **Environment & Compliance** line of business are emphasized in the section on **Environmental Stewardship**, which outlines the Maritime Administration's work in international environmental and safety agreements, as well as identifying progress made in battling aquatic invasive species and in ship recycling.



SEA-LAND COMET
NORFOLK VA

MAERSK SEALAND

Industry Overview

Since 2000, the total value of international trade has risen by over 40 percent, and it is becoming a larger part of the national economy. The combined value of foreign trade (imports and exports) represented 13 percent of U.S. Gross Domestic Product (GDP) in 1990, rising to nearly 22 percent in 2006. If this trend continues, it is projected that the value of U.S. foreign trade will be equivalent to 35 percent of the Nation's GDP in 2020, and 60 percent in 2030. Marine transportation will become even more important to the Nation's economy as 95 percent of America's foreign trade is moved by ship.

Marine transportation will become even more important to the nation's economy as 95 percent of America's foreign trade is moved by ship.

America's network of waterways moves more than 2.3 billion tons of domestic and foreign cargo each year. The top 50 ports in the U.S. handle about 84 percent of all waterborne domestic and international cargo tonnage; more than 1.9 billion tons annually. In the coming years, demand at almost all U.S. ports will at least double.

America's great economic growth brings with it enormous challenges. American ports, the critical link in freight movement, are already challenged to face a projected surge in cargo over the next 10 to 15 years. The difficulties posed by increased volume of cargo are compounded by environmental challenges, compelling security mandates, and a limited supply of land on which to expand congested road and rail linkages.

In addition, current levels of dredging do not maintain navigation channels at their fully-authorized depths, which has some definite but unquantified economic impacts. Without improvements, some vessels cannot enter some channels fully loaded and new, larger ocean-going vessels have limited access to some of our ports.

The domestic "Jones Act" component, a fleet of more than 38,000 vessels, is "Made in America" and represents an aggregate \$48 billion investment. Building and maintaining the Jones Act fleet sustains roughly 150,000 jobs throughout the U.S. economy. This fleet is being continuously upgraded and renewed, with domestic maritime carriers moving almost one billion tons of cargo annually along U.S. coasts, rivers and lakes, on the Great Lakes, and both to and from Alaska, Hawaii, Puerto Rico and Guam.

In addition to commercial functions, U.S.-flag ships and the connecting intermodal systems play an integral but often unheralded role in bringing critical supplies to military missions across the globe. The Nation's sealift assets, strategic ports and supporting infrastructure are integral links in the defense-logistics chain, and the projection of American power.

The U.S.-flag industry also brings life-saving food to the world's most impoverished people. U.S. ships furnish support during times of need, such as using vessels in the aftermath of Hurricanes Katrina and Rita to support first responders and those involved in the rebuilding efforts.

As well, the maritime industry supplies jobs for highly trained and qualified American officers and mariners, not only for U.S. commercial interests but for current and future national security needs. The maritime industry provides well-paying shoreside and shipyard jobs as well.



Reduced Congestion

Congestion in the transportation system constrains growth and distorts business decisions. The lack of reliability in the transportation infrastructure drives up costs for retailers, who must hold more inventory to counter supply chain delays. This can lead to increased prices for goods, which has a negative impact on businesses, consumers and the U.S. economy. It means lost export opportunities for American businesses, particularly agricultural products. These are but some of the problems congestion brings, but there are also solutions to them.

The Agency has begun a major effort to examine the Marine Transportation System with the port as the nexus.

It is imperative to develop better and smarter approaches to moving cargo and people through the entire intermodal system and to their eventual destinations. That means it is necessary to look at the entire system, not just the immediate vicinity of a port.

To this end, the U.S. Department of Transportation is developing a framework to help guide decisions on Federal, State, local, and private involvement and investment in the overall Marine Transportation System. This includes: looking at where the major waterside and shoreside bottlenecks exist; identifying the best way to eliminate these bottlenecks; estimating the public and private funds necessary to make a difference; and coordinating project execution.

The Maritime Administration is doing exactly that. The Agency has begun a major effort to examine the Marine Transportation System with the port as the nexus. This is a significant step forward and includes reaching out to interested parties and the public, especially the many stakeholders of the Marine Transportation System and America's ports.

Gateway Presence

There is no better way of gaining insight into the challenges facing the industry and finding ways to address them than by having a presence "on the ground."

The Maritime Administration is providing that presence at major U.S. gateway ports, starting with 10 of the largest ports on the West, East, and Gulf Coasts, the Great Lakes, and the inland river system. Offices are planned or already located in these critical areas. Replicating the model of the Agency's Gateway Office in Southern California, these offices work with headquarters staff, State and local authorities, and a broad range of port, shipper and carrier stakeholders to cooperate on projects, identify Federal and State funding, and work on environmental and community challenges in the ports and their intermodal connections.

The potential success for these offices has been clearly demonstrated in the Maritime Administration's first Gateway Office in Southern California. That office has worked with public and private sector participants to better understand the connection among improved cargo flow, economic vitality, community improvement, and environmental sustainability. The effort has led to an inter-agency (Federal, State and local) agreement to specifically address congestion in and around the Nation's busiest port area.

The Gateway Offices are the Agency's day-to-day presence throughout the Marine Transportation System. They are critical to the viability and effectiveness of the Maritime Administration and its future programs.

Port Development

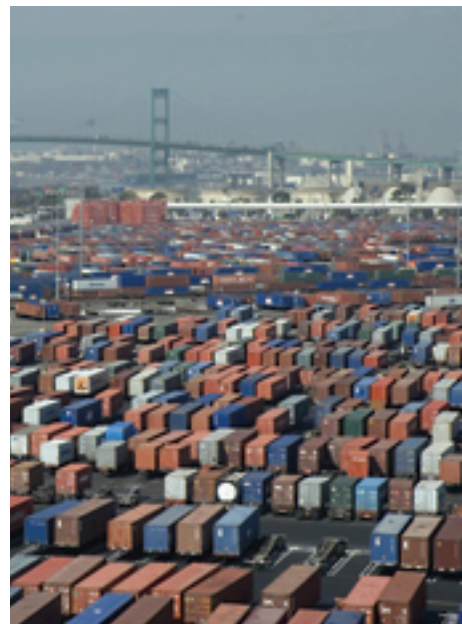
The Maritime Administration has been working with the public and private sectors over the past few years on various initiatives to expand the productive use of land, infrastructure, operations, and technology at U.S. ports and terminals. The Agency's efforts have evolved into an infrastructure development program that has the expertise to manage multi-dimensional and multi-year projects, which will expand capacity at America's ports. The Maritime Administration's primary roles in the management of these projects are:

- Developing partnerships between the Maritime Administration and stakeholders;
- Managing all federal and non-federal funds;
- Providing government oversight of all work performed; and
- Interfacing with all federal and state resource agencies.

It is a major, 10-year, \$500 million infrastructure development project, which will add 135 acres of real estate, provide direct rail access, and improve road access to the port.

The various projects in which this Agency has partnered demonstrate that existing strategies for developing infrastructure are no longer valid and have not taken into account new environmental concerns, the need for greater modal interconnectivity or technology improvements. Increasingly, ports, terminals, and their connections, have developed into bottlenecks, causing highway congestion, impacting air quality, slowing commerce, increasing energy consumption and threatening America's quality of life.

Today there is a need for targeted, regional, major-freight-corridor solutions that are multi-dimensional to address needed system capacity and performance. For example, since 2003, the Maritime Administration has served as the lead Federal agency for the Port of Anchorage Intermodal Expansion Project since 2003 in order to effect significant change beyond the wharf, and to assist in the improvement of the arteries that feed the port. The project is a major, 10-year, \$500 million infrastructure development project, which will add 135 acres of real estate, provide direct rail access, and improve road access to the port. It is expected to be completed in 2013 and will double the economic capacity of the port.



America is blessed with an abundance of navigable rivers, lakes, seaways, and coasts.



The Marine Highway: A Vital Link in the Nation's Economy

America is blessed with an abundance of navigable rivers, lakes, seaways, and coasts. For much of the history of the United States, these waterways were the primary means of interstate commerce and transportation for goods and people. The Maritime Administration supports the development of new North American Marine Highway services, and aligning and integrating them into the national, State and local transportation planning process. During fiscal year 2007, the Maritime Administration produced a short documentary video entitled *America's Marine Highways* and conducted the first showing at the Annual Metropolitan Planning Organization Conference in Little Rock, AR. The Maritime Administration, in cooperation with the Short Sea Shipping Cooperative, also hosted a regional series of one-day workshops in St. Petersburg, FL, and Oakland, CA. These well-attended workshops provided a forum to cultivate a dialogue among domestic shippers, marine entities and public stakeholders regarding issues pertaining to the development of Marine Highway operations.

The Agency is also working with U.S. shipyards to develop and promote new vessel designs and construction efficiencies to build and repair the vessels needed to expand the Marine Highway System.

On Feb. 15, 2007, Maritime Administrator Sean T. Connaughton carried forward President Bush's Ocean Action Plan, which included language to "accelerate short sea shipping," by testifying before the House of Representatives. In his remarks, Mr. Connaughton made the case for increased use of the marine highways and noted that:

"Clearly, the Nation's marine highway can help mitigate this congestion. The world's waterways are an infinite system, and our marine highways have infinite capacity. Unlike rail and roads, there are no fixed infrastructure costs to develop transportation routes, and ships can carry more cargo per dollar than any other method of transport. The full scope of America's Marine Highway – a system that includes not only our coastal waters, but our inland waterway system and the Great Lakes, is enormous – and, if properly utilized and integrated, can help us expand our way out of the crises before us. That is why I am here today and, why I am so pleased that the Members of this Committee have made the decision to investigate the advantages of our marine transportation system."

**Funding
for marine
infrastructure
projects cannot
come from the
government alone.**

A barrier exists in those areas in which the Harbor Maintenance Tax (HMT) is imposed and collected. During fiscal year 2007, Congress began action on bills affecting this tax. The Secretary of Transportation has championed the cause of the America's Marine Highway Initiative, and on July 31, 2007, drafted correspondence to the chairman of the Ways and Means Committee of the House of Representatives supporting HMT reform for the Great Lakes (H.R. 981).

In her letter, the Secretary wrote: *"This proposal would not provide an unwarranted subsidy to freight ferry operators, but would instead remove a market-entry barrier."*

Given landside congestion, soaring trade growth, and limited federal funding for infrastructure, action cannot come soon enough.

Public Private Partnerships

Funding for marine infrastructure projects cannot come from the government alone. In a time of tight Federal, State and local government budgets for the foreseeable future, improved and innovative private financing methods are an absolute necessity.

Public Private Partnerships--also known as P3s--are increasingly viewed as a major component of funding and developing a seamless, reliable and cost-effective 21st century transportation system. Some of these partnerships are also involved in the actual management of these assets, such as ports and terminals. The Maritime Administration has continued its past policies of working with P3s, such as the Short Sea Shipping Cooperative, the Coastwise Coalition, and the I-95 Corridor Coalition.

Fiscal Year 2007 Intermodal System Development Program Accomplishments

- Advanced America's Marine Highway Initiative through industry outreach workshops; educated Congressional staffs, as well as State and local governments; and produced a video documentary to increase public awareness of the Initiative. Coordinated with State, regional, local and private sector entities to identify funding for a Marine Highway project to reduce congestion in Hampton Roads, VA and on I-64. Initiated feasibility studies through partnerships with both the I-95 Corridor Coalition and the U.S. Army Corps of Engineers.

**A priority of the
Department of
Transportation's
*National Strategy to
Reduce Congestion
on America's
Transportation
Network* is to
reduce the freight
bottlenecks
in Southern
California.**

- Led a Federal interagency team that designed an interactive Marine Transportation System (MTS) data inventory Web site. The Web site provides public access to various government and industry links that contain MTS-related data and information for use by stakeholders in decision-making and improving system efficiency.
- Initiated public/private sector dialogue to identify and access the U.S. import cargo data elements needed to accurately map the marine transportation system throughout the U.S. and quantify the economic benefits it brings to the Nation.
- Transitioned the Maritime Administration's regional organizations into Gateway Offices in key U.S. ports to more effectively work with Federal, State and local stakeholders to reduce congestion and address environmental and community challenges in the ports and their intermodal connectors. These offices also worked with Headquarters program staff to improve outreach, advance projects and remove barriers.
- Led the advancement of a multi-year public/private partnership expanding the Port of Anchorage, Alaska; including attainment of essential Clean Water Act permit and endangered species permits, construction projects for a low-sulfur diesel pipeline, a 4-mile long construction road, and the creation of over 45 acres of new port land.

A priority of the Department of Transportation's *National Strategy to Reduce Congestion on America's Transportation Network* is to reduce the freight bottlenecks in Southern California. As lead for DOT on this initiative, the Maritime Administration negotiated for almost a year with the U.S. Environmental Protection Agency-Region 9, and nearly 20 key California's state and local organizations, to improve regional freight throughput capacity in balance with environmental and community concerns. At the close of fiscal year 2007, this landmark multi-agency Cooperation Agreement was approved for signature and set the stage to cooperate toward achieving sustainable and efficient freight transportation operations in the area in harmony with California's Goods Movement Action Plan.



Global Connectivity

While the marine transportation industry is increasingly global in nature, it is critically important to encourage and sustain American involvement and investment in it. This is important for the economy during times of peace and a matter of survival during times of war or national emergency. The maritime industry is also an important source of jobs and positive revenue for America's balance of payments. The Maritime Administration must preserve and expand the U.S. maritime industry and increase investment in U.S. marine transportation infrastructure, including domestic shipping, shipyards and maritime personnel.

The cargo preference programs generated over 10 million revenue tons of cargo and \$1.4 billion of ocean freight revenue.

The Maritime Administration administers a number of statutory programs, such as the Maritime Security Program, cargo preference, shipbuilding loan guarantees, tax deferred funds, training of entry-level licensed mariners, and implementation of U.S. cabotage laws. These programs are intended to foster a strong merchant marine and protect American jobs and investment.

Cargo preference is a good example of how these programs can succeed. For example, in 2007, 118 U.S.-flag vessels carried preference cargoes, which, provided more than 5,500 mariner jobs and a larger number of shoreside maritime and transportation-related jobs. The cargo preference programs generated over 10 million revenue tons of cargo and \$1.4 billion of ocean freight revenue. These cargoes represent from 7 percent to more than 50 percent of some U.S. carrier's annual revenues and are vital to retaining vessels under the U.S. flag.

The U.S.-flag domestic fleet of more than 38,000 vessels transports about a billion metric tons of cargo between U.S. ports on the oceans and along the coasts, inland waterways and the Great Lakes. The business opportunities provided by U.S. cabotage laws, such as the Jones Act, have encouraged large investments in vessels, shipyard modernization and other marine transportation assets.

Over the last five years, U.S. domestic carriers have significantly upgraded their fleets, contributing to a 25-percent increase in the value of the industry's vessel assets, the highest five-year growth in 25 years. The U.S. Jones Act fleet and trades are strong and healthy. The fleet employs tens of thousands of Americans ashore and afloat. It is the backbone of America's merchant marine and a solid foundation upon which to build and expand the U.S. merchant marine into the future. At the same time, U.S. shipyards have made significant investments in infrastructure and building technologies to better serve the Nation's Marine Transportation System.

U.S. shipyards play an important role in bolstering our maritime presence. Not only do they build and repair the domestic fleet, but they have a significant impact on the national economy. Shipyards directly contribute to the output of the U.S. manufacturing sector and also purchase components produced by other industries throughout America. In addition, the shipbuilding and ship-repair industry supports the growth and development of a skilled workforce.

America's shipyards are also successfully building the most efficient and environmentally-sound tankers and tank barges in the world to replace single-hull vessels retired under the Oil Pollution Act of 1990 (OPA 90). Almost \$5 billion worth of double-hull construction and conversion work will take place by 2015 to meet the double-hull requirement under OPA 90.

Maritime Guaranteed Loan (Title XI) Program

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards.

The primary purpose of the Title XI Program is to promote the growth and modernization of the U.S. merchant marine and U.S. shipyards. Title XI authorizes the Federal government to guarantee the repayment of debt obligations, including unpaid interest, obtained in the private sector by:

- (1) U.S. or foreign shipowners for the purpose of financing or refinancing either U.S.-flagged vessels or eligible export vessels constructed, reconstructed, or reconditioned in U.S. shipyards, and
- (2) U.S. shipyards for the purpose of financing advanced and modern shipbuilding technology of a privately owned general shipyard facility located in the United States.

The Title XI Program permits guarantees in an amount not to exceed 87.5 percent of the actual cost of projects eligible for financing. Some eligible projects are limited to 75 percent of actual cost. The maximum guarantee period is 25 years.

Title XI Activities, FY 2007

During fiscal year 2007, the Maritime Administration did not issue any new commitments for Title XI loan guarantees.

The first of two high-speed ferries financed with a loan guarantee was delivered by Austal USA L.L.C. in Mobile, AL to Hawaii SuperFerry, Inc. The 105-meter, high speed Roll-on/Roll-off (RO/RO) vessels will provide passenger, cargo, and vehicle ferry service among the four major Hawaiian Islands. The *Alakai* arrived in Honolulu in July but could not commence service due to an injunction by environmental interests. The company and the Governor achieved special state legislation to enable the company to begin operating. The second vessel is scheduled for delivery in early 2009.

The Maritime Administration litigated issues in two earlier bankruptcies related to two Title XI companies, and one consolidated bankruptcy related to four Title XI companies.

The Maritime Administration litigated issues in two earlier bankruptcies related to two Title XI companies, and one consolidated bankruptcy related to four Title XI companies. That litigation is in its final stages. The plan has been approved, most claims have been settled, and final amended Proofs of Claim are being prepared, which will determine MARAD's share of the distribution of the Estate.

As of September 30, 2007, the Title XI loan guarantee portfolio consisted of \$2.69 billion in loan guarantees outstanding. Currently, all Title XI commitments have been funded. The portfolio consists of 69 projects, which include drill rigs, tankers, barges, containerships, Roll-on/Roll-off vessels, fast ferries, passenger vessels, supply vessels, tugs, and shipyard modernization projects. There currently are no pending applications for Title XI loan guarantees, and \$7.35 million in subsidy appropriations remain available to issue new guarantee commitments. Additional information on the Title XI Program can be reviewed online at the program's Web site: <http://www.marad.dot.gov/Title XI>.

All companies in the Maritime Administration's Title XI portfolio undergo periodic financial reviews; however, companies with a higher potential for default receive additional monitoring. This activity involves the preparation of detailed financial reports for senior management review. Summaries of these programs are presented to the DOT Credit Council. The Credit Council is an oversight and financial guidance body that objectively reviews all discretionary loans and loan guarantees made by DOT. A total of \$156 million in guaranteed projects, or 5.8 percent of the Title XI portfolio, has been identified as experiencing financial difficulties and, as such, is receiving the highest level of monitoring. For the fifth straight year, the Title XI loan guarantee program did not experience any defaults.

During fiscal year 2007, the Maritime Administration continued to implement the recommendations contained in program audits conducted by the DOT's Inspector General and the Government Accountability Office. Included among these activities was advanced development of a computer-based credit program portfolio management system that will be used by all of the DOT's credit programs beginning in fiscal year 2009.

Bilateral Maritime Agreement: Vietnam

The Maritime Administration and Vietnam's maritime policy agency signed a new bilateral maritime agreement on March 15, 2007, that will provide United States' maritime interests with more far-reaching market access into Vietnam's rapidly expanding transportation and logistics sectors.



**After five years,
U.S. companies
will be permitted
to establish their
own wholly-
owned companies
and offer these
services, with
no joint-venture
requirement.**

The agreement was signed by Maritime Administrator Sean T. Connaughton, and Vietnam's national maritime administration chairman, Vuong Dinh Lam. The official joint-signing ceremony took place at the U.S. Department of State's headquarters in Washington, DC. It represents the culmination of four rounds of negotiations that began in 2003 as part of the Bush Administration's continuing effort to strengthen U.S.-Vietnamese relations. The agreement put American ship operators on an equal footing in Vietnam, paved the way to forming U.S.-controlled joint ventures, and set a course to achieve wholly-owned foreign subsidiaries in Vietnam.

Prior to the agreement, U.S. companies were restricted to minority holdings in Vietnamese companies. Under the terms of the new, five-year agreement, U.S. companies are given a controlling 51 percent share of the legal capital in joint venture enterprises. This allows those U.S. companies to take a lead role in providing a wide range of maritime services including cargo agency, cargo documentation, cargo management, ocean freight forwarding, storage/warehouse services, and container station and depot services.



After five years, U.S. companies will be permitted to establish their own wholly-owned companies and offer these services, with no joint-venture requirement.

Energy Security

The Maritime Administration plays a vital role in meeting Presidential energy directives, protecting the environment, building local economies, and improving mobility and safety in the Nation's oceans and ports through the operation and licensure of deepwater port offshore energy receiving facilities.

Importation of liquefied natural gas (LNG) and oil through a system of deepwater-port facilities assists in ensuring an adequate supply of energy for the United States, as well as addressing safety concerns and relieving port congestion. The Maritime Administration's Office of Deepwater Ports and Offshore Activities is responsible for processing applications submitted by private energy companies to construct, own, and operate deepwater ports off the Nation's coasts. The deepwater port licensing process involves coordination with 15 Federal agencies as well as State and local governments of the adjacent coastal states for the proposed projects.

When fully operational, these facilities will provide 1.35 trillion cubic feet per year of natural gas to the Nation's energy supply.



Current Planned Deepwater Ports

During fiscal year 2007, the Office of Deepwater Ports and Offshore Activities evaluated and assessed 10 license applications, participated in public hearings to support the licensing process, attended national and international public energy outreach forums, issued four Records of Decision, and granted three deepwater ports licenses. When fully operational, these facilities will provide 1.35 trillion cubic feet per year of natural gas to the Nation's energy supply.

Further, in an innovative public/private partnership that the Maritime Administration championed with the international LNG industry and maritime labor, companies will provide training and employment opportunities for U.S. citizen officers, cadets, and unlicensed mariners aboard their tanker fleets and at their planned deepwater port terminals in the United States.

There is no better way of gaining insight into the challenges facing the industry and finding ways to address them than by having a presence “on the ground.”

During fiscal year 2007, four major energy companies signed such crewing agreements. These agreements represent sound public policy and open up vital training and employment opportunities for U.S. mariners in the LNG industry.

Finally, the Maritime Administration has also obtained an applicant agreement to place the operation of its facility under the U.S. flag with full U.S. citizen crews. The applicant’s two vessels will be the first LNG tankers to carry the U.S. flag in more than 25 years.

Fiscal Year 2007 Business & Workforce Development Program Accomplishments

- Approved 15 Capital Construction Fund applications.
- Completed development of Credit Program Performance Monitoring System to automate monitoring of the \$2.5 billion Title XI portfolio.
- Cargo preference activities generated over 10 million revenue tons of cargo representing \$1.3 billion of freight revenue for 118 international trading U.S.- flag vessels.
- Provided over \$10 billion of war risk insurance on 126 vessels for the military including numerous vessels working in Iraqi waters.
- Calculated 134 guideline rates for 2 million tons of food aid cargoes carried by 14 operators on 34 different U.S.-flag vessels resulting in savings of \$3.2 million.
- Implemented the Small Shipyards Grant Program, which will make available \$10 million in assistance to small shipyards in fiscal year 2008.
- Produced the first annual “Women on the Water” conference, bringing together current and potential female maritime ship officers and maritime industry leaders.
- Granted 75 waivers under the Small Vessel Waiver Program that allows foreign-built vessels of more than 5 tons and carrying 12 or fewer passengers to engage in limited domestic charter operations.
- Worked with elements of the Defense Department, State Department, Iraq port operators, vendors, and U.S.-flag carriers to smooth the flow of cargoes into Iraq to support both Operation Iraqi Freedom and also Iraqi Reconstruction.
- The Federal and State maritime academies passed their 5-year audits to retain the Standards of Training, Certification and Watchkeeping endorsement.

- The Maritime Administration has entered into several agreements with shipping companies to open up training billets aboard their vessels for U.S. maritime academy cadets.
- The Mariner Outreach System participation more than doubled.
- Maritime Careers Outreach--Worked with Congressman Elijah Cummings and maritime industry personnel in the development of lecture speakers series and implementation of an ROTC program at Maritime Industries Academy in Baltimore, MD.

**The Mariner
Outreach System
participation more
than doubled.**





Security, Preparedness and Response

The U.S. merchant marine has a proud history of protecting the Nation and helping to win the peace. For more than two centuries, America's national defense has relied heavily on the U.S. commercial sector—and continues to do so today. This includes using ships as naval auxiliaries, vessels to transport military personnel and supplies, and trained seafarers for naval service.

For more than two centuries, America's national defense has relied heavily on the U.S. commercial sector—and continues to do so today.

For the Marine Transportation System today, defense mobilization still equates to having a strong industrial base as well as sufficient U.S. commercial ships and civilian crews available to meet defense sealift requirements, but now also includes the shoreside equipment and infrastructure necessary to keep the intermodal system moving.

Within the Maritime Administration, there are four core programs that support Department of Defense sealift requirements:

- The interlocking Maritime Security Program and Voluntary Intermodal Sealift Agreement Program provide the Department of Defense assured access to U.S. commercial ships and crews as well as their intermodal equipment and facilities. The 60-vessel Maritime Security Program also provides employment and training opportunities to U.S. seafarers in order to ensure their availability in times of national crisis.
- The National Defense Reserve Fleet (NDRF) is comprised of government-owned militarily useful cargo vessels that can be used in time of national emergency. The NDRF includes the Ready Reserve Force (RRF) made up of vessels in an enhanced state of readiness that permits them to be under way to support military operations in only a few days time.
- The graduates of U.S. maritime academies with service obligations who are essential to ensuring that sufficient officers are available to meet both commercial and national defense requirements.
- The National Shipping Authority that permits the Maritime Administration to assume responsibility for the Nation's vessels and ports during a national emergency. This responsibility includes the peacetime planning oversight of 15 DOD-designated strategic commercial ports needed by the military for deployment during contingency operations.

Maritime Security Program and Voluntary Intermodal Sealift Agreements

Defense sealift continues to rely heavily on the U.S. commercial sector. The National Security Sealift Policy of October 5, 1989, which remains in force today, states that a vital objective of the Nation is to ensure that sufficient military and civil maritime resources will be available to meet defense deployment and essential economic requirements.

**Defense sealift
continues to rely
heavily on the U.S.
commercial sector.**



Industrial globalization and consolidation have led to the decline of many traditional maritime fleets, including the U.S.-flag general cargo fleet. In order to ensure that an active U.S. fleet of militarily-useful general cargo ships will continue to adequately serve both the economic and na-

tional security objectives of U.S. maritime policy in the future, the Maritime Administration administers the Maritime Security Program (MSP) and Voluntary Intermodal Sealift Agreement (VISA), a complementary sealift readiness program approved by the Secretary of Defense.

The MSP and VISA programs work together to provide militarily-useful commercial vessels and the crews to operate them (and government-owned reserve vessels). MSP vessel operators receive financial support to partially offset the higher operating costs of keeping these vessels under the U.S.-flag and also obtain priority consideration in the award of DOD peacetime cargoes.

Through MSP and VISA, U.S.-flag vessel operators have made an extraordinary commitment. More than 90 percent of all U.S.-flag dry cargo ships are enrolled in one or both programs, obligating two-thirds of the carrying capacity of the entire U.S.-flag dry cargo fleet.

The vessel capacity, crews and intermodal systems made available through MSP and VISA advance the Department of Transportation's Security, Preparedness and Response strategic goal by ensuring that the transportation system can respond to emergency needs. These programs also help ensure that DOD meets its strategic goals. Moreover, the design of MSP and VISA provides for a coordinated seamless transition from peace to war or national emergency while these vessels continue serving in the commerce of the United States.

The MSP also provides support for U.S.-flag tankers operating in international trade. These tankers as well as others participate in the Maritime Administration-sponsored Voluntary Tanker Agreement (VTA). The VTA, like VISA, is a program designed to make commercial vessels (in this case, tankers) available to support contingency operations of DOD.

Fiscal Year 2007 Program Accomplishments

Together these programs have resulted in an improvement in the amount of U.S.-flag sealift capacity that is readily available for U.S. military use.

MSP ships selected by the Maritime Administration in conjunction with the U.S. Transportation Command must be militarily useful and commercially viable. As of September 12, 2007, there were 60 ships enrolled in the MSP fleet, which was composed of 40 containerships, 15 Ro/Ro vessels, two heavy lift vessels, and three tankers.

During fiscal year 2007, eight MSP ships were replaced with newer ships, increasing the MSP fleet militarily-useful capacity by approximately 3,000 TEU and more than 170,000 square feet. Notwithstanding those changes, MSP ships continued to support U.S. troops in Iraq and Afghanistan by transporting military cargoes and cargo supporting the rebuilding of Iraq. To date, 63 current or former MSP ships have contributed to this effort. MSP ships also continued to employ approximately 2,400 mariners, maintaining the pool of mariner positions that are critical to national security crewing requirements.

Prior to implementation of the MSP and VISA programs, projections indicated that the continued decline in the number of U.S.-flag general cargo vessels would reduce the number and types of vessels available to the U.S. military to unacceptable levels. Together these programs have resulted in an improvement in the amount of U.S.-flag sealift capacity that is readily available for U.S. military use. From a qualitative standpoint, these readily available U.S.-flag vessels are also more modern and the mix of vessel types better meets the needs of the military.

Ready Reserve Force

Since 1976, the Ready Reserve Force (RRF) fleet has been an important component of the Maritime Administration's sealift capability that supports DOD sealift requirements.

Sized to support DOD surge requirements, the RRF includes Ro/Ro vessels designed to carry wheeled and tracked vehicles, heavy lift vessels, specialized offshore petroleum discharge ships, auxiliary crane ships, special mission, and aviation logistic support ships.

The RRF has a 99 percent success rate in activations and surpasses its goal of 85 percent of RRF readiness at any given time.

As of October 1, 2007, the Maritime Administration also maintains eight Fast Sealift Ships as surge vessels, bringing the RRF to a total of 52 vessels. The RRF provides approximately half of DOD's "early surge" requirements for 10 million square feet of sealift. DOD also maintains its own sealift vessels that provide the other half of Federally-owned surge sealift capacity.

This government-owned surge fleet provides jobs to U.S merchant mariners. All but two of the vessels have a nucleus crew of 10 mariners per ship, called a Reduced Operating Status (ROS) crew. These highly-skilled mariners work on a daily basis onboard the ships that they also operate during an emergency. When activated, the ROS crews are supplemented by commercial mariners available through U.S. maritime unions.

The RRF has a 99 percent success rate in activations and surpasses its goal of 85 percent of RRF readiness at any given time. Operating RRF vessels maintain over a 98 percent operation responsiveness rate following activations, making them sea power's reliant partner.

New Role, Refitted Ship

The Maritime Administration expanded its role in national security in fiscal year 2007 by providing and managing a vessel to be used by the Missile Defense Agency (MDA). In 2005, the Maritime Administration was asked to provide a vessel that would support the government's missile-testing program, and determined that the retiring Texas Maritime Academy training ship Texas Clipper II was well suited for conversion to MDA's requirements.



The ship's first, fully-operational mission with its new name, Pacific Collector, took place during May 2007 off the West Coast in support of MDA exercises.

While the vessel is not part of the Ready Reserve Force, it is kept in RRF-like status, docked at a commercial facility on the West Coast. Unlike RRF vessels, which are turned over to Military Sealift Command when in use, the Pacific Collector remains under direct control of the Maritime Administration. A second vessel is currently being considered as an addition from the NDRF for the MDA.

Fiscal Year 2007 National Security Program Accomplishments

The Ready Reserve Force activated vessels and successfully completed eight Operation Iraqi Freedom missions for 590 continuous days of operations.

- The Maritime Administration was notified of DOD's decision to transfer eight Fast Sealift Ships. The Maritime Administration will assume custody of the vessels in fiscal year 2008 and will assume full ownership of the vessels in fiscal year 2009.
- The Ready Reserve Force activated vessels and successfully completed eight Operation Iraqi Freedom missions for 590 continuous days of operation.
- Activated four Ready Reserve Force vessels in support of military exercises for 190 days of continuous operations.
- Conducted eight successful Turbo Activations (no-notice); one was a triple activation of the Cape Taylor, the Cape Trinity and the Cape Texas.
- The Pacific Collector conducted its first mission for the Missile Defense Agency (MDA) and successfully tracked the first intercept of an inter-continental ballistic missile.
- Eight Maritime Security Program (MSP) ships were replaced with newer ships, increasing the MSP fleet militarily-useful capacity by approximately 3,000 TEU and more than 170,000 Ro/Ro square feet. Notwithstanding those changes, MSP ships continued to support our troops in Iraq and Afghanistan by transporting military cargoes and cargo supporting the rebuilding of Iraq. To date, 63 current or former MSP ships have contributed to this effort. MSP ships also continued to employ approximately 2,400 mariners, maintaining the pool of mariner positions that are critical to national security crewing requirements.

**MSP participants
provide more than
77 percent of
VISA capacity
commitments.**

- Participation of U.S.-flag operators in the Voluntary Intermodal Sealift Agreement (VISA) program provides DOD with assured access to commercial sealift resources to support Defense Department requirements. MSP participants provide more than 77 percent of VISA capacity commitments. During fiscal year 2007, the Maritime Administration and the U.S. Transportation Command hosted a meeting of the VISA Joint Planning Advisory Group in conjunction with VISA Venture 2007 exercise. The exercise was to test activation of the VISA program to determine whether program participants could meet DOD targets for commercial sealift in a timely manner. The exercise was a success.
- Approved the award of the Merchant Marine Medal for Outstanding Achievement for more than 800 merchant mariners who participated in the 2005 tsunami relief efforts. This recognition went to those mariners who served on Military Sealift Command ships carrying supplies and medical care in support of tsunami relief efforts prompted by one of the worst natural disasters in world history.
- Authorized 151 Merchant Marine Expeditionary Medals to the graduates of the U.S. Merchant Marine Academy. This was the largest number to date. The medals were distributed during the Class of 2007's graduation ceremony. This medal is awarded to mariners who have served in a conflict or war zone, and it was awarded to the largest number ever in a graduating class.

60 Ships Destined for Disposal



Environmental Stewardship

The maritime community must obey an ever growing list of international regulations and conform to building and operating standards affecting not only the environment but extending to global security and safety concerns, as well.

In its recent Agency-wide realignment, the Maritime Administration created a new Office for Environment and Compliance.



In its recent Agency-wide realignment, the Maritime Administration created a new Office for Environment and Compliance. This office is committed to assisting industry in affecting the development of programs and regulations related to safety, security, and environmental protection as

well as developing best management practices to ensure compliance. To achieve these goals, the Office of the Associate Administrator for Environment and Compliance has formed partnerships with the maritime industry, Federal, State, and local governments to foster a positive working environment designed to enhance the overall efficiency and effectiveness of an integrated, safe, secure, and environmentally sound U.S. transportation network.

The U.S. marine transportation industry complies with International Maritime Organization (IMO) safety agreements and protocols to which the United States is a signatory, and to International Labor Organization (ILO) maritime labor conventions.

The Maritime Administration has a key role in developing both the IMO rules and the International Organization for Standardization (ISO) standards by reason of its expertise in ship design and engineering, operations, repair and maintenance experience; its relationship with the marine transportation community; and its contribution of ships for testing platforms. The Maritime Administration is a member of several technical committees in IMO and ISO.

The Agency is a principal in the interagency Ship Structure Committee (SSC). Currently, SSC is examining wind and wave loads and their impact on ship and offshore structures; the fatigue and fracture characteristics of composite, steel and aluminum building materials; hull inspection and maintenance issues; and detail design and fabrication technologies.

The Agency also works in concert with the American Bureau of Shipping Technical Committees to review proposed rule changes governing shipbuilding. Furthermore, the Maritime Administration provides technical assistance to the U.S. Navy Program Office overseeing various technical panels of the National Shipbuilding Research Program/Advanced Shipbuilding Enterprise (NSRP/ASE). This program is designed to address technical, management, training, and other issues related to military and dual-use vessel construction.

Environmental Protection for Maritime Interests

The maritime transportation industry has increasingly become the focus of new environmental rules and regulations.



The maritime transportation industry has increasingly become the focus of new environmental rules and regulations. Civil and criminal litigation against maritime interests has increased, resulting in judicial decisions that have widespread impacts on maritime operations. The Mari-

time Administration is committed to high standards of environmental excellence in the management of its own ships as well as those in its ship disposal program. It is also committed to encouraging and supporting environmental compliance efforts by the maritime community generally.

Vessels that transit through many different countries and ports in different parts of the United States should not be expected to meet different and often conflicting rules and regulations. Further, burdensome local and State regulations may result in diversions of some ships to ports in neighboring countries. Therefore, the Maritime Administration plays a key role in asserting the need for consistent, uniform international and national laws and policies necessary for the protection of the environment.

Aquatic Invasive Species, Ballast Water and Hull Fouling

While carrying goods that people want and need, vessels can also carry unwanted travelers--non-indigenous species. They are transported in ballast water, on vessel hulls and decks, or even in shipping containers. Once introduced into a body of water, they can displace native species causing harm to the local ecosystem, and to commercial and recreational fishing as well.

The Agency is currently in talks with the State of Maryland for developing a long-term testing program for technologies for ballast water treatment.

These aquatic-nuisance species have been identified by the International Maritime Organization as a substantial threat to the world's oceans and waterways. However, ballast water must be carried in order to insure safe and efficient vessel operation by providing balance and stability to ships.

The Maritime Administration continues to provide leadership on both ballast-water policy and treatment technology as they affect marine transportation and freight movement. Although not mandated to do so, the Agency has stepped up to do its part. The Maritime Administration provides its ships as testing platforms for promising technologies for ballast water treatment.

In 2006, the Maritime Administration's Baltimore-based Cape Wrath and Cape Washington were modified to allow skid-mounted technologies easy access to the ships' ballast water systems, without disrupting engine room operations. The Agency is currently in talks with the State of Maryland for developing a long-term testing program for technologies for ballast water treatment. IMO-compliant testing of a treatment technology is scheduled to commence in early 2008.

As in other areas, the Maritime Administration participates in the development of laws and standards both at the national and international level related to ballast water management and hull fouling. It is vital to the Nation to harmonize environmental protection with healthy commerce.

Ship Disposal

Environmental concerns related to ships do not end when they cease operation. The Maritime Administration retains the National Defense Reserve Fleet, a reserve of ships that may be activated to meet shipping requirements in national emergencies. Along with the custody of these ships comes the responsibility of properly disposing of them once they become obsolete. The Maritime Administration continues to pursue all feasible disposal alternatives.

The domestic ship recycling industry (an employer of some 3,000 trained and skilled workers) is heavily dependent on the supply of Maritime Administration ships and the continued robust market demand for ferrous and non-ferrous scrap metal by both domestic and foreign smelters. The Maritime Administration works closely and cooperatively with the EPA and OSHA to ensure that domestic ship recycling facilities have the capability of dismantling ships in a manner that protects the environment, worker safety and health.

The Maritime Administration used four annual performance measures and goals during fiscal year 2007 for its Ship Disposal Program, and the program was more than successful in each of those measures.

The Maritime Administration partnered with other government agencies, industry, and academia to complete innovative research projects.

- Number of obsolete vessels from the National Defense Reserve Fleet (NDRF) sites covered by disposal contract awards for subsequent disposal: The target was 13; the actual number of contracts awarded for obsolete, non-retention ships was 23, exceeding fiscal year 2007's target of 10 ships.
- Number of obsolete vessels removed from the NDRF sites for subsequent disposal: The target was 13 vessels; the actual number of vessels removed in fiscal year 2007 was 20, exceeding fiscal year 2007's target by seven ships.
- Number of obsolete vessels disposed of from the NDRF sites: The target was 15; the actual number of vessels disposed in 2007 was 20, exceeding fiscal year 2007's target by five ships.
- Cost-per-ton for obsolete vessel disposal actions from the NDRF: The target cost was \$200 per ton; the actual cost-per-ton figure fiscal year 2007 was \$73.

The Maritime Administration also has two long-term ship disposal measures. One target is to maintain the number of high-priority ships available for disposal at no more than 5 percent of the total number of obsolete ships in the fleet: the actual result was 2.4 percent.

The second long-term target was to remove more vessels in fiscal year 2007 than previously. The Maritime Administration continues to communicate its disposal plans and impediments to the Congress on a semi-annual basis and continues to address the legal, legislative, and regulatory inter-agency issues to ensure the efficient disposal of ships with due regard for the environment and worker safety.

Moreover, in 2007, as a ship owner, operator and ship disposal agent, and as a representative of a ship-recycling nation, the Maritime Administration has a unique position to promote and fashion international solutions for shaping ship-recycling guidelines based on best management practices that protect the environment, worker safety and health on a global scale.

Fiscal Year 2007 Environment & Compliance Program Accomplishments

- The Maritime Administration partnered with other government agencies, industry, and academia to complete innovative research projects. The Office of Environment provided oversight and technical expertise for the Freight Routing Energy and Emissions Analysis Tool Project.

The focus of the GSI is the development of the technology necessary to prevent the introduction of aquatic-nuisance species into the Great Lakes by ocean-going ships.

- The Maritime Administration participated in various port and vessel emissions studies including: collaborating with the University of Delaware, through a cooperative agreement, to identify optimal incentive strategies to reduce emissions at port facilities; testing water emulsification emission reduction technology on an oceangoing container vessel; and partnering with the EPA and the Port of Los Angeles to analyze and characterize energy sources and air pollution emissions from marine vessels affecting the Port of Shanghai.
- The Maritime Administration participated as an active member of the U.S. delegation to the International Maritime Organization (IMO) Maritime Environment Protection Committee on the working groups for Ballast Water Treatment, Air Emissions Annex VI, and the newly formed Greenhouse Gas group, and has led the delegation on Ship Recycling.
- Served as the Chair of the International Standards Organization (ISO) TC8/SC3 subcommittee on Piping and Machinery. ISO has developed and published 14 international consensus standards. In addition, there are 22 additional proposed standards in various stages of development, adoption, and publication.
- The Ship Operations Cooperative Program, supported and administratively managed by the Maritime Administration, created two new working groups: Energy, and Environment. The workgroups form industry partnerships to tackle environmental issues such as air emissions, energy use and ballast water treatment.
- As a member of the Great Ships Initiative (GSI), the Maritime Administration worked with NOAA, the Northeast-Midwest Institute and the University of Wisconsin-Superior to develop a shore-based testing platform for testing technology in the Great Lakes Region. The focus of the GSI is the development of the technology necessary to prevent the introduction of aquatic-nuisance species into the Great Lakes by ocean-going ships.
- The Maritime Administration, the University of Maryland Center for Marine Biotechnology, and the State of Maryland are working together in the Port of Baltimore to conduct shipboard test of ballast water research and technology.

Financial Statements

As of September 30, 2007 and 2006

The Financial Statements include:

Balance Sheet	pp. 30-31
Statement of Net Cost	p. 31
Statement of Changes in Net Position	pp. 32-33
Statement of Budgetary Resources	pp. 34-35
Notes to Financial Statement	pp. 36-58

There are 23 Notes to the Financial Statement, and 4 Supplemental Financial Information documents. They are available online for review at <http://www.marad.dot.gov/Publications/genref.htm>. The Notes are also included in this document.

Maritime Administration Financial Statements

Balance Sheet As of September 30, 2007 and 2006 (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	578,432	639,732
Investments (Note 4)	35,181	151,766
Accounts Receivable, Net (Note 5)	43,752	45,949
Loans Receivable	0	0
Other Assets (Note 6)	545	507
Total Intragovernmental Assets	657,910	837,954
Cash and Other Monetary Assets	10	10
Investments (Note 4)	74,085	0
Accounts Receivable, Net (Note 5)	508	0
Loans Receivable and Related Foreclosed Property, Net (Note 7)	28,201	28,357
Inventory and Related Property, Net (Note 8)	253,559	257,798
General Property, Plant and Equipment, Net (Note 9)	583,223	641,254
Other Assets (Note 6)	0	0
Total Assets	<u>1,597,496</u>	<u>1,765,373</u>
Stewardship PP&E (Note 10)		
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	3,757	277
Debt (Note 12)	194,409	271,307
Other Intragovernmental Liabilities (Note 13)	354,034	229,292
Total Intragovernmental Liabilities	552,200	500,876
Accounts Payable	48,645	36,165
Loan Guarantee Liability (Note 7)	336,410	345,342
Federal Employee and Veterans' Benefits (Note 11)	21,523	20,730
Environmental Cleanup and Disposal Liabilities (Note 15)	285,480	380,371
Grant Accrual (Note 14)	0	0
Other Liabilities (Notes 13, and 17)	57,363	124,863
Total Liabilities	<u>1,301,621</u>	<u>1,408,347</u>
Commitments and Contingencies (Note 17)		

Maritime Administration Financial Statements

Balance Sheet As of September 30, 2007 and 2006 – Cont. (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Net Position		
Unexpended Appropriations - Earmarked funds (Note 18)	0	0
Unexpended Appropriations - Other funds	99,031	197,812
Cumulative Results of Operations - Earmarked funds (Note 18)	58,358	53,792
Cumulative Results of Operations - Other funds	138,486	105,422
Total Net Position	<u>295,875</u>	<u>357,026</u>
Total Liabilities and Net Position	<u>1,597,496</u>	<u>1,765,373</u>

The accompanying Notes are an integral part of the financial statement.

Maritime Administration Financial Statements

Statement of Net Cost for Periods Ended September 30, 2007 and September 30, 2006 (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Program Costs (Notes 19 and 20):		
Gross Costs	931,137	851,955
Less: Earned Revenues	<u>360,410</u>	<u>394,430</u>
Net Cost of Operations	<u>570,727</u>	<u>457,525</u>

The accompanying Notes are an integral part of the financial statement.

Maritime Administration Financial Statements

Statement of Changes in Net Position for Periods Ended September 30, 2007 and September 30, 2006 (Dollars in Thousands)

Cumulative Results of Operations

	<u>FY 2007</u>	<u>FY 2006</u>
Beginning Balances	159,214	145,088
Adjustments (+/-)	0	0
Changes in Accounting Principle	0	0
Corrections of Errors	0	-200
Beginning Balances, Adjusted	<u>159,214</u>	<u>144,888</u>
Budgetary Financing Sources:		
Other Adjustments (Rescissions, etc.) (+/-)	0	0
Appropriations Used	605,877	564,778
Non-Exchange Revenue	194	0
Donations and Forfeitures of Cash and Cash Equivalents	2,422	2,151
Transfers-In/Out Without Reimbursement (+/-)	-58	10,700
Other Budgetary Financing Sources (+/-)	0	-263
Other Financing Sources:		
Donations and Forfeitures of Property	0	0
Transfers-In/Out Without Reimbursement (+/-)	-1,000	-104,943
Imputed Financing From Costs Absorbed by Others	921	7,308
Other (+/-)	0	-7,880
Total Financing Sources	<u>608,357</u>	<u>471,851</u>
Net Cost of Operations	<u>570,727</u>	<u>457,525</u>
Net Change	<u>37,630</u>	<u>14,326</u>
Cumulative Results of Operations	<u>196,844</u>	<u>159,214</u>

Maritime Administration Financial Statements

Statement of Changes in Net Position for Periods Ended September 30, 2007 and September 30, 2006 (Dollars in Thousands)

Unexpended Appropriations	<u>FY 2007</u>	<u>FY 2006</u>
Beginning Balances	197,812	203,255
Adjustments (+/-)		
Changes in Accounting Principle	0	-114
Corrections of Errors	0	0
Beginning Balances, Adjusted	<u>197,812</u>	<u>203,141</u>
Budgetary Financing Sources:		
Appropriations Received	584,840	560,653
Appropriations Transferred-In/Out (+/-)	0	5,342
Other Adjustments (Rescissions, etc.) (+/-)	-77,744	-6,546
Appropriations Used	-605,877	-564,778
Total Budgetary Financing Sources	<u>-98,781</u>	<u>-5,329</u>
Total Unexpended Appropriations	<u>99,031</u>	<u>197,812</u>

The accompanying Notes are an integral part of the financial statement.

Above Statement of Changes in Net Position for FY 2007 and FY 2006 reflects the total of MARAD's earmark funds and other funds.

Maritime Administration Financial Statements

Statement of Budgetary Resources for Periods Ended September 30, 2007 and September 30, 2006 (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Budgetary Resources:		
Unobligated Balance, Brought forward, October 1 (+/-)	516,882	553,165
Recoveries of Prior Year Unpaid Obligations	3,240	32,008
Budget Authority:		
Appropriations Received	585,480	560,653
Borrowing Authority	225,000	269,300
Contract Authority	0	0
Spending Authority From Offsetting Collections:		
Earned	0	0
Collected	390,738	469,736
Change in receivables from Federal Sources	-2,731	6,820
Change in Unfilled Customer Orders	0	0
Advance Received	-6,262	-3,106
Without Advance from Federal Sources	-3,788	-51,980
Expenditure transfers from trust funds	0	10,700
Anticipated for Rest of Year, Without Advances	0	0
Previously unavailable	<u>0</u>	<u>0</u>
Subtotal	1,188,438	1,262,123
Non Expenditure transfers, Net, Anticipated and Actual	0	5,342
Temporarily Not Available Pursuant to Public Law	-4,945	0
Permanently Not Available	<u>-376,529</u>	<u>-261,573</u>
Total Budgetary Resources	<u>1,327,086</u>	<u>1,591,065</u>

Maritime Administration Financial Statements

Statement of Budgetary Resources for Periods Ended September 30, 2007 and September 30, 2006 – Cont. (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Status of Budgetary Resources:		
Obligations Incurred:		
Direct:	585,643	692,894
Reimbursable:	314,065	381,289
Subtotal	899,708	1,074,183
Unobligated Balance:		
Apportioned	11,747	0
Exempt from apportionment	1,359	6,378
Subtotal	13,106	6,378
Unobligated Balance Not Available:	414,272	510,504
Total Status of Budgetary Resources	<u>1,327,086</u>	<u>1,591,065</u>
Change in Obligated Balance:		
Obligated Balance, Net,		
Unpaid obligations, brought forward, Oct 1st (+)	297,866	344,414
Uncollected customer payments from Fed sources, brought forward, Oct 1(-)	-123,141	-168,301
Total, unpaid obligated balance, brought forward, net	<u>174,725</u>	<u>176,113</u>
Obligations Incurred (+):	899,708	1,074,184
Gross Outlays (-)	-896,050	-1,088,723
Obligated Balance Transfers, Net:	0	0
Actual transfers, unpaid obligations (+ or -)	0	0
Actual transfers, uncollected customer payments from Federal sources (+ or -)	0	0
Total, unpaid obligated balance transferred, net	0	0
Recoveries of prior-year unpaid obligations, actual (-)	-3,240	-32,008
Change in uncollected customer payments from Federal sources (+/-)	6,519	45,159
Obligated Balances, Net, End of Period:	0	0
Unpaid Obligations (+)	298,285	297,866
Uncollected Customer Payments from Federal Sources (-)	-116,622	-123,141
Total, unpaid obligated balance, net, end of period	<u>181,663</u>	<u>174,725</u>
NET OUTLAYS		
Gross Outlays (+)	896,050	1,088,723
Less: Offsetting Collections (-)	-384,477	477,330
Less: Distributed offsetting receipts	-17,638	-13,616
Net Outlays	<u>493,935</u>	<u>625,009</u>

Above Statement of Budgetary Resources for FY 2007 and FY 2006 reflects the total of budgetary resources and non-budgetary resources.

Notes to the Financial Statement

Note 2. Non-Entity Assets: (Dollars in Thousands)

	<u>9/30/2007</u>	<u>9/30/2006</u>
Intragovernmental:		
Fund Balance with Treasury	(268)	186
Investments	-	-
Accounts Receivable	-	-
Other Assets	-	-
Total Intragovernmental	<u>(268)</u>	<u>186</u>
Cash and Other Monetary Assets	-	-
Accounts Receivable	-	-
Loans Receivable and Related Foreclosed Property	-	-
Inventory and Related Property	-	-
General Property, Plant and Equipment	-	-
Other Assets	-	-
Total Non-Entity Assets	(268)	186
Total Entity Assets	<u>1,597,496</u>	<u>1,765,374</u>
Total Assets	<u>1,597,496</u>	<u>1,765,374</u>

Entity Assets are assets which the reporting entity has authority to use in its operations.

Non-Entity Assets are held by the reporting entity, but are not available to the entity.

Non-Entity Asset amounts indicated above should agree with non-entity amounts indicated in other notes, such as accounts receivable, other assets, etc.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 3. Non-Entity Assets: (Dollars in Thousands)

Fund Balances:	<u>Entity</u> <u>Assets</u>	<u>Non-Entity</u> <u>Assets</u>	<u>9/30/07</u> <u>Total</u>	<u>9/30/06</u> <u>Total</u>
Trust Funds	\$ 9,980	\$ -	\$ 9,980	\$ 6,454
Revolving Funds	429,935	-	429,935	408,391
General Funds	139,061	-	139,061	240,707
Other Fund Types	(276)	(268)	(544)	(15,820)
Total	<u>\$578,700</u>	<u>\$(268)</u>	<u>\$578,432</u>	<u>\$639,732</u>

Status of Fund Balance with Treasury:

Unobligated Balance				
Available			\$(52,524)	\$33,259
Unavailable			(544)	(15,820)
Obligated Balance Not Yet Disbursed			300,694	294,799
Non-Budgetary FBWT (Credit Reform Financing Accounts or other FBWT that do not have budget authority)			<u>330,806</u>	<u>327,494</u>
Total			<u>\$578,432</u>	<u>\$639,732</u>

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.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 4. Investments: (Dollars in Thousands)

As of September 30, 2007

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Investments (Net)</u>	<u>Other Adjustments</u>	<u>Market Value Disclosure</u>
Intragovernmental Securities:					
Marketable	\$35,299	\$244	\$35,543	\$(615)	\$34,928
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	\$35,299	\$244	\$35,543	\$(615)	\$34,928
Accrued Interest	253		253		253
Total Intragovernmental Investments	<u>\$35,552</u>	<u>\$244</u>	<u>\$35,796</u>	<u>\$(615)</u>	<u>\$35,181</u>

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Investments (Net)</u>	<u>Other Adjustments</u>	<u>Market Value Disclosure</u>
Investments with the Public :					
Marketable	\$75,252	\$484	\$75,736	\$(1,650)	\$74,085
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	\$75,252	\$484	\$75,736	\$(1,650)	\$74,085
Accrued Interest	=		=		=
Total Investments with the Public	<u>\$75,252</u>	<u>\$484</u>	<u>\$75,736</u>	<u>\$(1,650)</u>	<u>\$74,085</u>

As of September 30, 2006

	<u>Cost</u>	<u>Amortized (Premium) Discount</u>	<u>Investments (Net)</u>	<u>Other Adjustments</u>	<u>Market Value Disclosure</u>
Intragovernmental Securities:					
Marketable	\$152,615	\$2,037	\$154,652	\$(3,233)	\$151,419
Non-Marketable:					
Par Value	-	-	-	-	-
Market-Based	-	-	-	-	-
Subtotal	\$152,615	\$2,037	\$154,652	\$(3,233)	\$151,419
Accrued Interest	347		347		347
Total Intragovernmental Investments	<u>\$152,962</u>	<u>\$2,037</u>	<u>\$154,999</u>	<u>\$(3,233)</u>	<u>\$151,766</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 5. Accounts Receivable: (Dollars in Thousands)

As of September 30, 2007	Gross Amount Due	Allowance for Uncollectible Amounts	Net Amount Due
Intragovernmental:			
Entity:			
Accounts Receivable	\$43,752	\$-	\$43,752
Accrued Interest	-	-	-
Total Entity Intragovernmental	<u>\$43,752</u>	<u>\$-</u>	<u>\$43,752</u>
Non-Entity:			
Accounts Receivable	\$-	\$-	\$-
Accrued Interest	-	-	-
Total Non-Entity Intragovernmental	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total Intragovernmental Receivables	<u>\$43,752</u>	<u>\$-</u>	<u>\$43,752</u>
Public:			
Entity:			
Accounts Receivable	\$508	\$-	\$508
Accrued Interest	-	-	-
Total Entity Public	<u>\$508</u>	<u>\$-</u>	<u>\$508</u>
Non-Entity:			
Accounts Receivable	\$-	\$-	\$-
Accrued Interest	-	-	-
Total Non-Entity Public	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total Public Receivables	<u>\$508</u>	<u>\$-</u>	<u>\$508</u>
Total Receivables	<u>\$44,260</u>	<u>\$-</u>	<u>\$44,260</u>
As of September 30, 2006			
Intragovernmental:			
Entity			
Accounts Receivable	\$45,949	\$-	\$45,949
Accrued Interest	-	-	-
Total Entity Intragovernmental	<u>\$45,949</u>	<u>\$-</u>	<u>\$45,949</u>
Non-Entity:			
Accounts Receivable	\$-	\$-	\$-
Accrued Interest	-	-	-
Total Non-Entity Intragovernmental	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total Intragovernmental Receivables	<u>\$45,949</u>	<u>\$-</u>	<u>\$45,949</u>
Public:			
Entity			
Accounts Receivable	\$-	\$-	\$-
Accrued Interest	-	-	-
Total Entity Public	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Non-Entity:			
Accounts Receivable	\$-	\$-	\$-
Accrued Interest	-	-	-
Total Non-Entity Public	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total Public Receivables	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Total Receivables	<u>\$45,949</u>	<u>\$-</u>	<u>\$45,949</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 6. Other Assets (Dollars in Thousands)

Intragovernmental:

	<u>09/30/07</u>	<u>09/30/06</u>
Entity:		
Advances and Prepayments	\$545	\$507
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Entity Intragovernmental	<u>\$545</u>	<u>\$507</u>
Non-Entity:		
Advances and Prepayments	\$-	\$-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Non-Entity Intragovernmental	<u>\$-</u>	<u>\$-</u>
Total Intragovernmental Other Assets	<u>\$545</u>	<u>\$507</u>

Public:

Entity:		
Advances to the States	\$-	\$-
Other Advances and Prepayments	-	-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Entity Public	<u>\$-</u>	<u>\$-</u>
Non-Entity:		
Advances and Prepayments	\$-	\$-
Undistributed Assets and Payments	-	-
Other (Fully Describe Below)	-	-
Other (Fully Describe Below)	-	-
Total Non-Entity Public	<u>\$-</u>	<u>\$-</u>
Total Public Other Assets	<u>\$-</u>	<u>\$-</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers: (Dollars in Thousands)

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

- (1) Railroad Rehabilitation Improvement Program
- (2) Amtrak Loans
- (3) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan 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:

Defaulted Guaranteed Loans from Post-1991 Guarantees

	FY2007 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
(4) Fed Ship Financing Fund (Title XI)	\$7,501	\$200	\$19,000	\$1,500	\$28,201
Total	<u>\$7,501</u>	<u>\$200</u>	<u>\$19,000</u>	<u>\$1,500</u>	<u>\$28,201</u>

	FY2006 Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy	Value of Assets Related to Loans Receivable
(4) Fed Ship Financing Fund (Title XI)	\$7,713	\$144	\$19,000	\$1,500	\$28,357
Total	<u>\$7,713</u>	<u>\$144</u>	<u>\$19,000</u>	<u>\$1,500</u>	<u>\$28,357</u>

Guaranteed Loans Outstanding

	of Guaranteed Loans, Face Value	Outstanding Principal Amount of Outstanding Principal Guaranteed
(3) TIFIA Loans	\$-	\$-
(4) Fed Ship Financing Fund (Title XI)	2,687,186	2,936,187
(5) OST Minority Business Res	-	-
(6) Fed Ship Liquidating Fund (Title XI)	2,204	6,781
Subtotal	<u>\$2,689,390</u>	<u>\$2,942,968</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 7 continued. Direct Loans and Loan Guarantees, Non-Federal Borrowers: (Dollars in Thousands)

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

Loan Guarantee Programs	FY 2007 Liabilities for Post-1991 Guarantees, Present Value	FY 2006 Liabilities for Post-1991 Guarantees, Present Value
(4) Fed Ship Financing Fund (Title XI)	\$336,410	\$345,342
(5) OST Minority Business Res	-	-
Total	<u>\$336,410</u>	<u>\$345,342</u>

Subsidy Expense for Loan Guarantees by Program and Component

Loan Guarantee Programs	FY2007 Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Modifications/ Re-Estimates	Total
(3) TIFIA Loans	\$-	\$-	\$-	\$-	\$-	\$-
(4) Fed Ship Financing Fund (Title XI)	-	891	774	20,499	(31,096)	(8,932)
(5) OST Minority Business Res	-	-	-	-	-	-
Subtotal	<u>\$-</u>	<u>\$891</u>	<u>\$774</u>	<u>\$20,499</u>	<u>\$(31,096)</u>	<u>\$(8,932)</u>
Loan Guarantee Programs	FY2006 Interest Supplements	Defaults Net	Fees and Other Collections	Other Subsidy Costs	Modifications/ Re-Estimates	Total
(3) TIFIA Loans	\$-	\$-	\$-	\$-	\$-	\$-
(4) Fed Ship Financing Fund (Title XI)	3,377	-	12,707	(75,210)	106,654	47,528
(5) OST Minority Business Res	-	-	-	-	-	-
Subtotal	<u>\$3,377</u>	<u>\$-</u>	<u>\$12,707</u>	<u>\$(75,210)</u>	<u>\$106,654</u>	<u>\$47,528</u>

Budget Subsidy Rates for Loan Guarantees for the Current Year Cohort

Loan Guarantee Programs	FY2007 Interest Differential	Defaults	Fees and Other Collections	Other	Total
(3) TIFIA Loans	0.00%	0.00%	0.00%	0.00%	0.00%
(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	<u>0.00%</u>	<u>12.05%</u>	<u>-4.88%</u>	<u>0.00%</u>	<u>7.17%</u>

Notes to the Financial Statement

Note 7 continued. Direct Loans and Loan Guarantees, Non-Federal Borrowers: (Dollars in Thousands)

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

Beginning Balance, Changes, and Ending Balance

	<u>FY 2007</u>	<u>FY 2006</u>
Beginning Balance of the Loan Guarantee Liability	\$345,342	\$392,870
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Interest Supplement Costs	-	-
Default Costs (net of recoveries)	891	(3,377)
Fees and Other Collections	774	(12,707)
Other Subsidy Costs	3,298	75,210
Total of the Above Subsidy Expense Components	<u>\$4,963</u>	<u>\$59,126</u>
Adjustments:		
Loan Guarantee Modifications	-	-
Fees Received	-	-
Interest Supplements Paid	-	-
Foreclosed Property and Loans Acquired	-	-
Claim Payments to Lenders	-	-
Interest Accumulation on the Liability Balance	17,201	-
Other	-	-
Ending Balance of the Loan Guarantee Liability Before Reestimates	<u>\$367,506</u>	<u>\$451,996</u>
Add or Subtract Subsidy Reestimates by Component:		
Interest Rate Reestimate	-	-
Technical/Default Reestimate	(31,096)	(106,654)
Total of the Above Reestimate Components	<u>\$(31,096)</u>	<u>\$(106,654)</u>
Ending Balance of the Loan Guarantee Liability	<u>\$336,410</u>	<u>\$345,342</u>

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.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 8. Inventory and Related Property: (Dollars in Thousands)

	<u>Cost</u>	<u>Allowance for Loss</u>	<u>09/30/07 Net</u>	<u>09/30/06 Net</u>
Inventory:				
Inventory Held for Current Sale	\$-	\$-	\$-	\$-
Inventory Held in Reserve for Future Sale	-	-	-	-
Excess, Obsolete and Unserviceable Inventory	-	-	-	-
Inventory Held for Repair	-	-	-	-
Inventory Work In Process	-	-	-	-
Other	-	-	-	-
Total Inventory	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>	<u>\$-</u>
Operating Materials and Supplies:				
Items Held for Use (SGL 1511)	\$182,786	\$3,099	\$179,688	\$184,557
Items Held in Reserve for Future Use (SGL 1512)	69,998	-	69,998	69,414
Excess, Obsolete and Unserviceable Items (SGL 1513)	-	-	-	-
Items Held for Repair (SGL 1514)	3,873	-	3,873	3,827
Other	-	-	-	-
Total Operating Materials & Supplies	<u>\$256,658</u>	<u>\$3,099</u>	<u>\$253,559</u>	<u>\$257,798</u>
Total Inventory and Related Property			<u>\$253,559</u>	<u>\$257,798</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 9. General Property, Plant and Equipment: (Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	09/30/07 Net Book Value	09/30/06 Net Book Value
Land	\$3,962	\$-	\$3,962	\$3,962	
Buildings and Structures	20 SL	128,434	54,366	74,068	54,681
Furniture and Fixtures		-	-	-	-
Equipment	5-10 SL	23,329	23,062	267	327
ADP Software		1,012	532	480	682
Electronics	5-10 SL	738	738	-	1
Assets Under Capital Lease		-	-	-	-
Leasehold Improvements		-	-	-	-
Aircraft		-	-	-	-
Ships and Vessels	25 SL	1,656,764	1,176,540	480,225	543,358
Small Boats	10 SL	17,564	14,712	2,852	1,408
Other Vehicles		-	-	-	-
Construction in Progress		21,370	-	21,370	36,835
Property Not in Use		-	-	-	-
Other Miscellaneous Property		-	-	-	-
Total		\$1,853,173	\$1,269,950	\$583,223	\$641,254

* Key:

Range of Service Life

1-5 - 1 to 5 years
6-10 - 6 to 10 years
11-20 - 11 to 20 years
>20 - Over 20 years

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 10. Stewardship Property, Plant and Equipment (Heritage Assets):

- 1) Explain in a concise statement how the stewardship assets relate to the mission of the entity.

Implied within the agency'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.

- 2) Provide a description of the stewardship policies for the heritage assets. Stewardship policies for heritage assets are goals and principles the entity established to guide its acquisition, maintenance, use, and disposal of heritage assets consistent with statutory requirements, prohibitions, and limitations governing the entity and the heritage assets.

MARAD has established a list of artifact-type items that are typically found aboard agency-owned ships. As ships are assigned to a non-retention status in preparation for disposal, artifact items are collected, inventoried, photographed and relocated to secure shoreside storage facilities. This resulting inventory of artifacts is made available for long-term loan to qualified organizations for public display purposes. Qualified organizations have access to the artifact inventory via web-based system. The artifact loan process is also managed on-line via this system. The program is also supports required NHPA 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.

Notes to the Financial Statement

Note 11. Liabilities Not Covered by Budgetary Resources: (Dollars in Thousands)

	<u>09/30/07</u>	<u>09/30/06</u>
Intragovernmental:		
Accounts Payable	\$-	\$-
Debt	1,726	4,841
Other Liabilities	<u>226,598</u>	<u>146,346</u>
Total Intragovernmental	<u>\$228,324</u>	<u>\$151,187</u>
Accounts Payable	\$-	\$-
Federal Employee and Veterans' Benefits Payable	21,523	20,730
Environmental and Disposal Liabilities	285,480	380,371
Other Liabilities	<u>80,371</u>	<u>117,527</u>
Total Liabilities Not Covered by Budgetary Resources	\$685,924	\$669,815
Total Liabilities Covered by Budgetary Resources	<u>1,301,622</u>	<u>738,532</u>
Total Liabilities	<u>\$1,916,703</u>	<u>\$1,408,347</u>

Liabilities Not Covered by Budgetary Resources are Liabilities incurred which are not covered by realized budgetary resources as of the Balance Sheet date.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 12. Debit: (Dollars in Thousands)

Intragovernmental Debit:

As of September 30, 2007

	FY 2007 Beginning <u>Balance</u>	Net Change During <u>Fiscal Year</u>	FY 2007 Ending <u>Balance</u>
Covered by Budgetary Resources:			
Debt to the Treasury	\$271,307	\$(76,899)	\$194,408
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
 Total Covered by Budgetary Resources	 <u>\$271,307</u>	 <u>\$(76,899)</u>	 <u>\$194,408</u>
Not Covered by Budgetary Resources:			
Debt to the Treasury	\$-	\$-	\$-
Debt to the Federal Financing Bank	-	-	-
Debt to Other Federal Agencies	-	-	-
Total Not Covered by Budgetary Resources	\$-	\$-	\$-
Total Intragovernmental Debt	<u>\$271,307</u>	<u>\$(76,899)</u>	<u>\$194,408</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 13. Other Liabilities: (Dollars in Thousands)

As of September 30, 2007

	Non-Current Liabilities	Current Liabilities	FY 2007 Total
Intragovernmental:			
Covered by Budgetary Resources:			
Advances and Prepayments	\$-	\$89,939	\$89,939
Accrued Pay and Benefits	-	-	-
Undisbursed Loans	-	-	-
Federal Employees Compensation Act Billings	-	-	-
Uncleared Disbursements and Collections	-	(3,444)	(3,444)
Deferred Credits	-	34,972	34,972
Deposit Funds	-	-	-
Other - Employer Contribution and Payroll Taxes Payable	-	-	-
Other Liabilities	-	5,970	5,970
Total Intragovernmental Covered by Budgetary Resources	<u>\$-</u>	<u>\$127,437</u>	<u>\$127,437</u>
Not Covered by Budgetary Resources:			
Federal Employees Compensation Act (FECA)			
2006 Bill (Current)	\$-	2,506	\$2,506
2007 Bill (Non-Current)	2,162	-	2,162
4th Quarter of FY 2007 (Non-Current)	479	-	479
Unbilled Accrued Benefits (Non-Current)	-	-	-
Total FECA Liabilities	<u>\$2,641</u>	<u>\$2,506</u>	<u>\$5,147</u>
Other Accrued Liabilities - Ocean Freight Differential from USDA	-	221,000	221,000
Other Accrued Liabilities - Deferred Credits	-	-	-
Other Accrued Liabilities - Advances and Prepayments	-	-	-
Other Accrued Liabilities - Custodial Liabilities	-	3	3
Other Unfunded Employment Related Liabilities	-	447	447
Total Intragovernmental Not Covered by Budgetary Resources	<u>\$2,641</u>	<u>\$223,956</u>	<u>\$226,598</u>
Total Intragovernmental Other Liabilities	<u>\$2,641</u>	<u>\$351,393</u>	<u>\$354,034</u>
Public:			
Covered by Budgetary Resources:			
Accrued Unbilled State Payments	\$-	\$-	\$-
Other Accrued Unbilled Payments	-	-	-
Accrued Pay and Benefits	-	3,261	3,261
Uncleared Disbursements and Collections	-	3,588	3,588
Advances and Prepayments	-	\$248	248
Deposit Funds	-	-	-
Deferred Credits	(30,104)	-	(30,104)
Capital Leases	-	-	-
Other (FULLY DESCRIBE BELOW)	-	-	-
Other (FULLY DESCRIBE BELOW)	-	-	-
Total Public Covered by Budgetary Resources	<u>\$(30,104)</u>	<u>\$7,097</u>	<u>\$(23,007)</u>
Not Covered by Budgetary Resources:			
Accrued Pay and Benefits	\$-	\$-	\$-
Deposit Funds	-	-	-
Legal Claims	2,146	-	2,146
Capital Leases	-	-	-
Other - Unfunded Leave	7,044	-	7,044
Other - Other Deferred Revenue	71,183	-	71,183
Other - Custodial Liabilities	-3 10/87	-	(3)
Total Public Not Covered by Budgetary Resources	<u>\$80,371</u>	<u>\$-</u>	<u>\$80,371</u>
Total Public Other Liabilities	<u>\$50,267</u>	<u>\$7,097</u>	<u>\$57,363</u>

Notes to the Financial Statement

Note 13 Continued. Other Liabilities: (Dollars in Thousands)

As of September 30, 2006

	Non-Current Liabilities	Current Liabilities	FY 2007 Total
Intragovernmental:			
Covered by Budgetary Resources:			
Advances and Prepayments	\$-	\$95,694	\$95,694
Accrued Pay and Benefits	-	-	-
Undisbursed Loans	-	-	-
Federal Employees Compensation Act Billings	-	-	-
Uncleared Disbursements and Collections	-	(19,249)	(19,249)
Deferred Credits	-	-	-
Deposit Funds	-	-	-
Other Employer Contribution & Payroll Taxes Payable	-	532	532
Other Liabilities	-	<u>5,970</u>	<u>5,970</u>
Total Intragovernmental Covered by Budgetary Resources	<u>\$-</u>	<u>\$82,947</u>	<u>\$82,947</u>
Not Covered by Budgetary Resources:			
Federal Employees Compensation Act (FECA)			
2005 Bill (Current)	\$-	\$1,921	\$1,921
2006 Bill (Non-Current)	2,506	-	2,506
4th Quarter of FY 2006 (Non-Current)	622	-	622
Unbilled Accrued Benefits (Non-Current)	<u>97</u>	<u>-</u>	<u>97</u>
Total FECA Liabilities	\$3,225	\$1,921	\$5,146
Other - Ocean Freight Differential Financing	141,679	-	141,679
Other - Unfunded Employment Related Liabilities	(479)	-	(479)
Total Intragovernmental Not Covered by Budgetary Resources	<u>\$144,425</u>	<u>\$1,921</u>	<u>\$146,346</u>
Total Intragovernmental Other Liabilities	<u>\$144,425</u>	<u>\$84,868</u>	<u>\$229,292</u>
Public:			
Covered by Budgetary Resources:			
Accrued Unbilled State Payments	\$-	\$-	\$-
Other Accrued Unbilled Payments	-	-	-
Accrued Pay and Benefits	-	2,526	2,526
Uncleared Disbursements and Collections	-	3,482	3,482
Advances and Prepayments	-	88	88
Deposit Funds	-	-	-
Deferred Credits	-	1,172	1,172
Capital Leases	-	-	-
Other Employer Contribution & Payroll Taxes Payable	-	68	68
Other (FULLY DESCRIBE BELOW)	-	-	-
Total Public Covered by Budgetary Resources	<u>\$-</u>	<u>\$7,336</u>	<u>\$7,336</u>
Not Covered by Budgetary Resources:			
Accrued Pay and Benefits	\$-	\$-	\$-
Deposit Funds	-	-	-
Legal Claims (Contingent Liabilities)	3,276	-	3,276
Capital Leases	-	-	-
Other - Deferred Credits	115,175	-	115,175
Other - Unfunded Employment Related Liabilities	(280)	-	(280)
Unfunded Leave	(645)	-	(645)
Total Public Not Covered by Budgetary Resources	<u>\$117,526</u>	<u>\$-</u>	<u>\$117,526</u>
Total Public Other Liabilities	<u>\$117,526</u>	<u>\$7,336</u>	<u>\$124,863</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 15. Environmental and Disposal Liabilities: (Dollars in Thousands)

	<u>9/30/2007</u>	<u>9/30/2006</u>
Covered by Budgetary Resources:		
Environmental Cleanup Liabilities:		
Environmental Cleanup (Describe)	\$-	\$-
Asset Disposal Liabilities:		
Asset Disposal (Describe)	-	-
Total Covered by Budgetary Resources	<u>\$-</u>	<u>\$-</u>
Not Covered by Budgetary Resources:		
Environmental Cleanup Liabilities:		
Environmental Cleanup (Describe)	\$285,480	\$380,371
Environmental Cleanup (Describe)	-	-
Asset Disposal Liabilities:		
Asset Disposal (Describe)	-	-
Total Not Covered by Budgetary Resources	\$285,480	<u>\$380,371</u>
Total	<u>\$285,480</u>	<u>\$380,371</u>

Disclose Environmental Cleanup and Asset Disposal Liabilities in accordance with Statements of Federal Financial Accounting Standards No. 5 and 6. For environmental hazards resulting from ongoing operations, include the: (1) Sources of cleanup requirements, (2) Method for assigning estimated total cleanup costs to current operating periods, (3) Unrecognized portion of estimated total cleanup cost associated with General Property, Plant and Equipment, (4) Material changes in total estimated cleanup costs due to changes in laws, technology, or plans, and the portion of the change in estimate that relates to prior period operations, and (5) Nature of estimates and the disclosure of information regarding possible changes due to inflation, deflation, technology, or applicable laws and regulations.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 17. Contingencies and Commitments:

Describe any contingencies. A loss contingency is an existing condition, situation, or set of circumstances involving uncertainty as to possible loss to an entity. The uncertainty should ultimately be resolved when one or more future events occur or fail to occur. The likelihood that the future event or events will confirm the loss or the incurrence of a liability can range from probable to remote. Statement of Federal Financial Accounting Standards (SFFAS) No. 5, as amended by SFFAS No. 12,

contains the criteria for recognition and disclosure of contingent liabilities. In addition to the contingent liabilities required by SFFAS No. 5, the following shall also be disclosed: (1) An estimate of obligations related to canceled appropriations for which the reporting entity has a contractual commitment for payment, and (2) Amounts for contractual arrangements which may require future financial obligations (commitments), e.g., undelivered orders.

1. Legal Claims - Probable (SGL 2920) 2,146
2. Legal Claims - Reasonably Possible 6
3. **MARAD faces liability primarily by virtue of the actions of its predecessor, the War Ship Administration, for its share of liability for remediation under CERCLA at various sites. We are currently unable to quantify our liability in this area.**

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 18. Earmarked Funds:

Notes to OA: If your organization has more than one earmarked fund, please provide a separate explanation for each earmarked fund in Sections A-C. If the category of earmarked funds is not listed for your OA, please add as appropriate.

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, and administer gifts and bequests of property, both real and personal for the purpose of aiding or facilitating the work of Department of Transportation.

Section B: The sources of revenue or other financing for the period and an explanation of the extent to which they are inflows of resources to the Government or the result of intragovernmental flows.

Section D:

Balance Sheet as of September 30, 2007

Assets	<u>Maritime Administration</u>
Fund Balance with Treasury	\$18,595
Investments, Net	35,817
Accounts Receivable, Net	-
Property, Plant & Equipment	3,946
Other	-
Total Assets	<u>\$58,357</u>
Liabilities and Net Position	
Liabilities (explain the types of liabilities)	\$-
Accounts Payable	-
FECA Liabilities	-
Grants Accrual	-
Other Liabilities	-
Unexpended Appropriations	-
Cumulative Results of Operations	<u>58,357</u>
Total Liabilities and Net Position	<u>58,357</u>
Statement of Net Cost for the Period Ended September 30, 2007	
Program Costs	\$2,943
Less Earned Revenue	4,893
Net Program Costs	(1,949)
Costs Not Assigned to Programs	-
Less Earned Revenues Not Assigned to Programs	-
Net Cost of Operations	\$(1,949)
Statement of Changes in Net Position For the Period Ended September 30, 2007	
Beginning Net Position	\$53,792
Budgetary Financing Sources	2,616
Other Financing Sources	-
Net Cost of Operations	(1,949)
Net Position End of Period	<u>\$58,357</u>

Notes to the Financial Statement

Note 18 continued. Earmarked Funds:

Balance Sheet as of September 30, 2006

Assets

	Maritime <u>Administration</u>
Fund Balance with Treasury	\$12,156
Investments, Net	37,412
Accounts Receivable, Net	-
Property, Plant & Equipment	4,225
Other	-
Total Assets	<u>\$53,793</u>

Liabilities and Net Position

Liabilities (explain the types of liabilities)	\$-
Accounts Payable	1
FECA Liabilities	-
Grants Accrual	-
Other Liabilities	-
Unexpended Appropriations	-
Cumulative Results of Operations	53,792
Total Liabilities and Net Position	<u>\$53,793</u>

Statement of Net Cost for the Period Ended September 30, 2006

Program Costs	\$2,699
Less Earned Revenue	1,286
Net Program Costs	<u>1,413</u>
Costs Not Assigned to Programs	-
Less Earned Revenues Not Assigned to Programs	-
Net Cost of Operations	<u>\$1,413</u>

Statement of Changes in Net Position For the Period Ended September 30, 2006

Beginning Net Position	\$53,054
Budgetary Financing Sources	2,151
Other Financing Sources	-
Net Cost of Operations	1,413
Net Position End of Period	<u>\$53,792</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 19. Net Program Costs: (Dollars in Thousands)

Maritime

Program 1 (Ship Construction - 1708)	\$(5,697)	\$(2,977)
Program 2 (Operating Diff. Subsidy - 1709)	2,595	220
Program 3 (Ready Reserve Fleet - 1710)	1,182	691
Program 4 (Maritime Security Program - 1711)	155,597	154,700
Program 5 (Operations & Training - 1750)	104,865	149,242
Program 6 (Ocean Freight Diff. - 1751)	272,766	161,088
Program 7 (Federal Ship Financing Fund - 4301)	(20)	(258)
Program 8 (War Risk Insurance - 4302)	(1,318)	(1,238)
Program 9 (Vessel Op. Revolving Fund - 4303)	6,344	31,144
Program 10 (MGL Program - 1752)	17,704	46,003
Program 11 (MGL Financing - 4304)	(1,000)	(104,943)
Program 12 (Gift and Bequest - 8503)	2,853	2,371
Program 13 (Special Studies - 8547)	(3,484)	281
Program 14 (Ship Disposal - 1768)	18,339	21,201
Program 15 (MGL Escrow Fund - 6040)	-	-
Program 16 (General Fund Proprietary Receipt - 3220)	-	-
 Total Maritime Program Costs	 <u>\$570,727</u>	 <u>\$457,525</u>

Notes to the Financial Statement

Cross-Cutting	06/30/07	06/30/06
Program 1 (Describe)	\$-	\$-
Program 2 (Describe)	-	-
Program 3 (Describe)	-	-
Program 4 (Describe)	-	-
Program 5 (Describe)	-	-
Program 6 (Describe)	-	-
Program 7 (Describe)	-	-
 Total Cross-Cutting Program Costs	 <u>\$-</u>	 <u>\$-</u>

Full Costs should be allocated to programs.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 20. Intragovernmental Costs and Exchange Revenues: (Dollars in Thousands)

	<u>FY 2007</u>	<u>FY 2006</u>
Maritime Transportation:		
Intragovernmental Gross Costs	344,189	226,079
Less: Intragovernmental Earned Revenue	<u>354,214</u>	<u>393,609</u>
Intragovernmental Net Costs	(10,025)	(167,530)
Gross Costs with the Public	586,739	625,876
Less: Earned Revenues from the Public	<u>5,988</u>	<u>821</u>
Net Costs with the Public	580,752	625,055
Total Net Cost	<u>\$570,727</u>	<u>\$457,525</u>
Cross-Cutting Programs:		
Intragovernmental Gross Costs	-	-
Less: Intragovernmental Earned Revenue	-	-
Intragovernmental Net Costs	-	-
Gross Costs with the Public	-	-
Less: Earned Revenues from the Public	-	-
Net Costs with the Public	-	-
Total Net Cost	<u>\$-</u>	<u>\$-</u>
Costs Not Assigned to Programs	-	-
Less Earned Revenues Not Attributed to Programs	-	-
Net Cost of Operations	<u>\$570,727</u>	<u>\$457,525</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 21. Statement of Changes in Net Position: (Dollars in Thousands)

Prior Period Adjustments:

	<u>09/30/07</u>	<u>09/30/06</u>
(1) Prior Period Adjustment for Cumulative Result <i>(\$13,632 of year-end closing entries for FY 2006 were recorded improperly.)</i>	\$-	\$(200)
(2) Prior Period Adjustment for Unexpended Appropriation	-	114
(3) Other (FULLY DESCRIBE BELOW)	-	-
(4) Other (FULLY DESCRIBE BELOW)	-	-
Total	<u>\$-</u>	<u>\$(86)</u>

Fully describe the nature of any prior period adjustments and any other information relative to prior period adjustments.

Correction of prior year Revenue		-65
----------------------------------	--	-----

Non-Exchange Revenue:

	<u>09/30/07</u>	<u>09/30/06</u>
Taxes and Other Non-Exchange Revenue:		
Gasoline	\$-	\$-
Diesel and Special Motor Fuels	-	-
Passenger Ticket	-	-
Trucks	-	-
Gasohol	-	-
International Departure	-	-
Fuel (Air)	-	-
Waybill	-	-
Fines and Penalties	-	-
Investment Income	-	-
Other Non-Exchange Revenue (Describe)	-	-
Total Taxes	<u>\$-</u>	<u>\$-</u>
Less: Transfers	-	-
Gross Taxes	<u>\$-</u>	<u>\$-</u>
Less: Refunds and Other Credits	-	-
Net Non-Exchange Revenue	<u>\$-</u>	<u>\$-</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Note 22. Statement of Budgetary Resources: (Dollars in Thousands)

	<u>09/30/07</u>	<u>09/30/06</u>
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of the end of the period:	\$899,708	\$1,074,184

THIS AMOUNT SHOULD AGREE WITH THE AMOUNTS REPORTED ON LINES 8A AND 8B IN THE STATEMENT OF BUDGETARY RESOURCES.

Available Contract Authority as of the end of the period:	\$-	\$-
Available Borrowing Authority as of the end of the period:	\$225,000	\$269,300,000
Undelivered orders, Unpaid at the end of the period:	\$240,728	\$251,427

Describe repayment requirements, financing sources for repayment, and other terms of borrowing authority used:

Adjustments during the fiscal year to Beginning Balance of Budgetary Resources:

Cumulative Authorizations in Excess of Obligation Limitation	\$-	\$-
Rescissions	-	-
Prior Year Recoveries	-	-
Temporarily Not Available	-	-
Cancelled Authority	-	-
Permanently Not Available	-	-
Other Adjustments (Describe)	-	-
 Total Adjustments to Beginning Balance of Budgetary Resources	 <u>\$-</u>	 <u>\$-</u>

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Deferred Maintenance: (Dollars in Thousands)

<u>DOT Entity</u>	<u>Major Class of Asset</u>	<u>Method of Measurement</u>	<u>Asset Condition*</u>	<u>Cost to Return to Acceptable Condition**</u>
FAA	Buildings	Condition Assessment Survey	4 & 5	\$-
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	-
	Other (Describe)		-	
MARAD	Vessels, Ready Reserve Force	Condition Assessment Survey	2	22,600
	Real Property, 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	Other (Heritage Assets)	Condition Assessment Survey	3 & 4	200
			Total	<u>\$40,250</u>

*Asset Condition Rating Scale:

- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

**Acceptable Condition is:

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, Anchorage	3 - Fair - Adequate water depth, shore power, and mooring capabilities.
MARAD, Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.
Other (Describe)	

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.

The accompanying Notes are an integral part of the financial statement.

Notes to the Financial Statement

Heritage Assets Summary: Annual Stewardship Information, September 30, 2007

Number of Physical Units

Heritage Assets:	Units as of <u>09/30/06</u>	<u>Additions</u>	<u>Withdrawals</u>	Units as of <u>09/30/07</u>
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	<u>597</u>	<u>2</u>	<u>1</u>	<u>598</u>

Heritage Assets:	Units as of <u>09/30/06</u>	<u>Additions</u>	<u>Withdrawals</u>	Units as of <u>09/30/07</u>
Real Property:				
Buildings and Structures	-	-	-	-
Total Real Property				
Heritage Assets	=	=	=	=

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 heritage assets is included in the Deferred Maintenance section of the Required Supplementary Information.

The accompanying Notes are an integral part of the financial statement.



National Maritime Day 2007

A Proclamation by the President of the United States of America

America has a proud maritime history, and the United States Merchant Marine has played a vital role in helping meet our country's economic and national security needs. On National Maritime Day, we honor merchant mariners for their dedication to promoting commerce and protecting our freedom.

During times of peace, the U.S. Merchant Marine helps ensure our economic security by keeping the oceans open to trade. Ships operated by merchant mariners transport goods across our Nation's waterways and on the high seas around the world to connect American businesses and consumers with valuable foreign markets and commodities. The skill and expertise of merchant mariners facilitates trade and helps to strengthen our economy.

In times of war, the Merchant Marine is the lifeline of our troops overseas. By carrying critical supplies, equipment, and personnel, merchant mariners provide essential support to our Armed Forces and help advance the cause of freedom. Today, merchant mariners are supporting operations in Afghanistan and Iraq, and their devotion to duty is a tribute to the generations of men and women who have served our Nation with courage and determination in every conflict in America's history. On this day, and throughout the year, America is grateful for their service.

In recognition of the importance of the U.S. Merchant Marine, the Congress, by joint resolution approved on May 20, 1933, as amended, has designated May 22 of each year as "National Maritime Day," and has authorized and requested that the President issue an annual proclamation calling for its appropriate observance.

NOW, THEREFORE, I, GEORGE W. BUSH, President of the United States of America, do hereby proclaim May 22, 2007, as National Maritime Day. I call upon the people of the United States to mark this observance by honoring the service of merchant mariners and by displaying the flag of the United States at their homes and in their communities. I also request that all ships sailing under the American flag dress ship on that day.

IN WITNESS WHEREOF, I have hereunto set my hand this eighteenth day of May, in the year of our Lord two thousand seven, and of the Independence of the United States of America the two hundred and thirty-first.

GEORGE W. BUSH

Maritime Administration

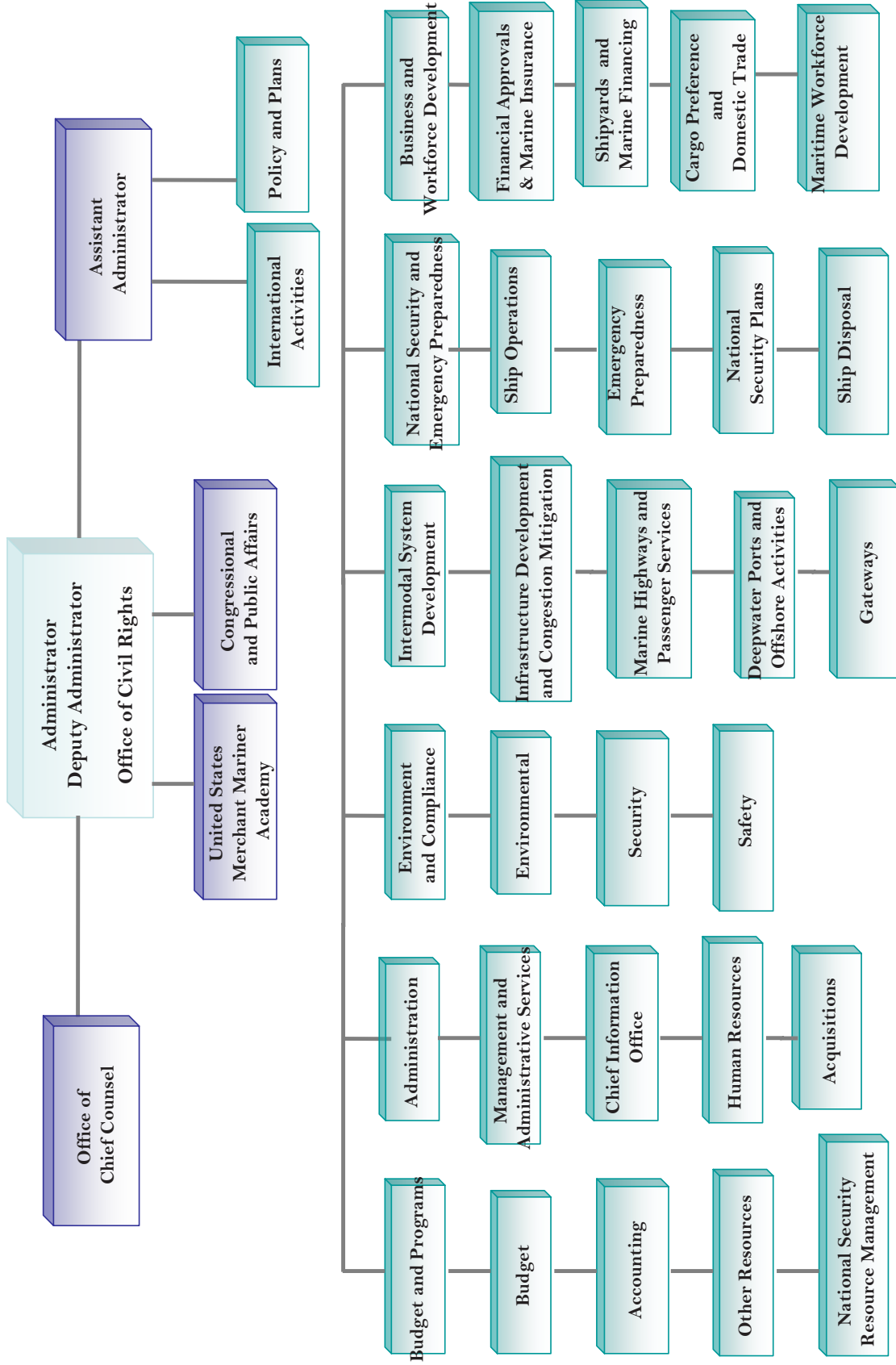


Photo Credits

Cover *(left to right):*

Trailer Bridge, U.S. Department of Transportation official photo,
Marty Skrocki, United States Merchant Marine Academy,
Port of New Orleans, Donn Young
Susan Clark, Maritime Administration
Great Lakes Fire Training School

Maersk Sealand

U.S. Military Sealift Command

Alaska Tanker Company

Charles Csavossy, Port of Los Angeles/Long Beach

California Marine and Intermodal Systems Advisory Council

Susan Clark, Maritime Administration

Greg Hall, Maritime Administration

Windsor Star

Port of Anchorage

American Waterways Operators

White House website

U.S. Agency for International Development

Donn Young, Port of New Orleans

Seafarers International Union

BoatNerd.com

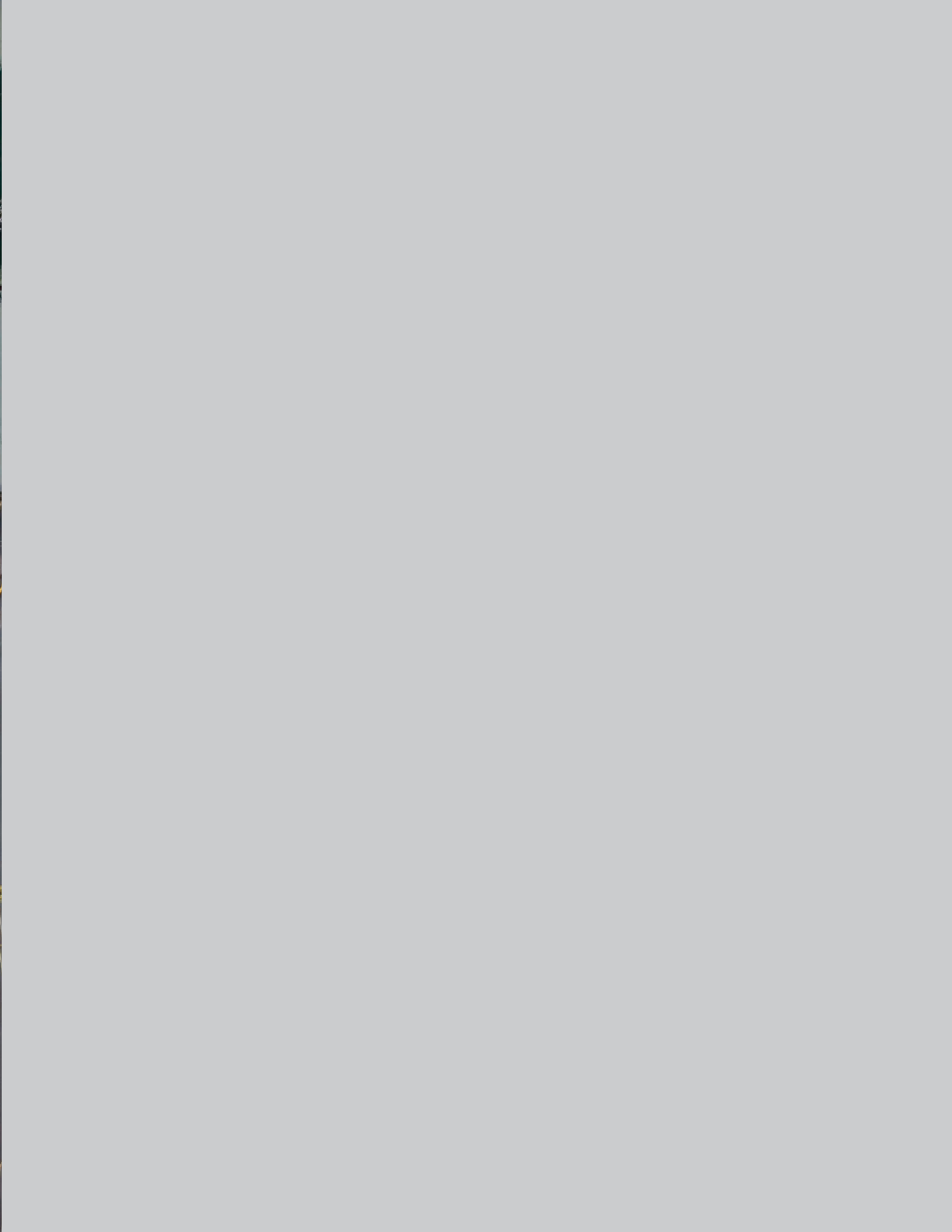
Aker Philadelphia Shipyard

California Maritime Academy

James Tourtellotte, U.S. Customs and Border Protection

Dominion Cove Point LNG, LP







U. S. Department of Transportation
Maritime Administration
1200 New Jersey Avenue SE