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*Office of Inspector General*

***Audit Report***

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*Fiscal Year 1999*  
*Financial Statements*

*Highway Trust Fund*

*Report Number: FE-2000-056*  
*Date Issued: February 28, 2000*





# Memorandum


U.S. Department of  
Transportation

Office of the Secretary  
of Transportation

Office of Inspector General

Subject: INFORMATION: Report on Fiscal Year 1999  
Financial Statements, Highway Trust Fund  
FE-2000-056

Date: February 28, 2000

  
From: Kenneth M. Mead  
Inspector General

Reply To  
Attn. of: Meche:x61496

To: The Secretary  
Thru: The Deputy Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Highway Trust Fund (HTF) Financial Statements for the Fiscal Year (FY) 1999 ended September 30, 1999. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

The audit report is the responsibility of the OIG. All other information--including the Management Discussion and Analysis, Financial Statements, Notes, and Supplemental Information--is the responsibility of the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), National Highway Traffic Safety Administration, and the Federal Railroad Administration (the HTF agencies).

This report presents our unqualified opinion on the HTF Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 1999.

To assist us, the Department of Treasury (Treasury) Office of Inspector General audited the schedule of assets and liabilities, and the related schedule of activity for the HTF accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these FY 1999 schedules. The General Accounting Office performed agreed-upon procedures on the tax revenue receipts at the Internal Revenue Service and distributions to the HTF Corpus account, and identified no material discrepancies.

During FY 1999, the HTF agencies overcame major problems with the Statement of Budgetary Resources and Statement of Financing. The HTF agencies provided sufficient evidence to support all material line items on the Statement of Budgetary Resources, and reconciled the Statement of Budgetary Resources with the Statement of

Net Cost on the Statement of Financing for FY 1999. We identified four areas involving weaknesses in internal controls and compliance with laws and regulations. While these issues are important, they did not affect our audit opinion.

- In November 1998, FTA implemented a new grants management system (TEAM). We examined the computer security controls, and found improved controls were needed to ensure the integrity, availability, and continuity of FTA grants management operations. A separate report addressing these weaknesses will be issued later.
- The HTF agencies had not established procedures to fully estimate and accrue liabilities, thereby underestimating goods and services received by states and transit authorities. As a result, both liabilities and expenses would have been understated by about \$1.1 billion. The HTF agencies made the appropriate adjustments on the FY 1999 HTF Financial Statements.
- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost effectiveness of programs, and did not relate to the Statement of Net Cost. The nine performance measures were based on 1998 rather than 1999 performance data. None of the nine measures was linked to the cost of achieving targeted results.
- The HTF agencies were not in compliance with the Federal Financial Management Improvement Act of 1996 because liabilities were not fully accrued at yearend, the Department's accounting system did not provide all data used to prepare the HTF Financial Statements, and a managerial cost accounting system was not implemented. The Department plans to have a compliant system fully operational by June 30, 2001.

We are making no recommendations in this report. Because the control weaknesses and compliance issues we identified are common to the HTF and other Department of Transportation (DOT) Operating Administrations, we will address these issues in our report on the FY 1999 DOT Consolidated Financial Statements.

A draft of this report was provided to the FHWA Acting Chief Financial Officer on February 18, 2000. He agreed with the report.

We appreciate the cooperation and assistance of representatives of the HTF agencies and DOT. If we can answer questions or be of any further assistance, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachments

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**DEPARTMENT OF TRANSPORTATION**  
**INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT**  
**ON THE HIGHWAY TRUST FUND**  
**FISCAL YEAR 1999 FINANCIAL STATEMENTS**

To the Federal Highway Administrator,  
Federal Transit Administrator,  
National Highway Traffic Safety Administrator, and  
Federal Railroad Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the Highway Trust Fund (HTF) Financial Statements as of, and for the year ended, September 30, 1999. In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

We also are reporting on internal controls over the HTF within the HTF agencies, and compliance with laws and regulations applicable to the Fiscal Year (FY) 1999 HTF Financial Statements. We performed audit work in the Headquarters offices of the Federal Highway Administration (FHWA), Federal Transit Administration (FTA), and the National Highway Traffic Safety Administration (NHTSA). We examined, on a test basis, evidence supporting the amounts and disclosures in the HTF Financial Statements. We assessed the accounting principles and estimates used by management. We evaluated the overall presentation of the HTF Financial Statements.

We examined the validity of financial transactions and interviewed financial management officials in FHWA Division and state Department of Transportation offices in Richmond, Virginia; Sacramento, California; Albany, New York; Harrisburg, Pennsylvania; and Atlanta, Georgia. We also examined financial transactions in FTA regional offices and five transit authorities: San Francisco Bay Area Rapid Transit; Los Angeles County Metropolitan Transportation Authority; New York City Metropolitan Transportation Authority; Southeastern Pennsylvania Transportation Authority; and Metropolitan Atlanta Rapid Transit Authority, and in the NHTSA and California Highway Patrol offices in Sacramento, California.

We examined the computer security controls in FTA's new grants management system (TEAM), a financial and management information system implemented in November 1998. We found improved controls were needed to ensure the integrity, availability, and continuity of FTA grants management operations. The weaknesses we identified will be addressed in a separate report to be issued later.

We performed the audit in accordance with Government Auditing Standards prescribed by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 98-08, Audit Requirements for Federal Financial Statements, as amended.

Our audit objectives for the FY 1999 HTF Financial Statements were to determine whether (1) the principal HTF Financial Statements are presented fairly, in all material respects, in conformance with Generally Accepted Accounting Principles; (2) the HTF agencies have adequate internal controls over financial reporting, including the safeguarding of assets; (3) the HTF agencies have complied with laws and regulations that could have a direct and material effect on the HTF Financial Statements or have been specified by OMB; (4) the financial information in the Management Discussion and Analysis is materially consistent with the information in the principal HTF Financial Statements; (5) the internal control structure ensured the existence and completeness of reported data supporting performance measures; and (6) HTF stewardship information is consistent with management representations and the HTF Financial Statements.

Except for performance measures, which were based on 1998 performance data (Part C of this report), the financial information in the Management Discussion and Analysis was materially consistent with the FY 1999 HTF Financial Statements. The HTF stewardship information was consistent with management representations and the HTF Financial Statements.

We are including our reports on the internal control structure, and compliance with laws and regulations, in Parts B and C of this report.

## **A. OPINION ON FINANCIAL STATEMENTS**

In our opinion, the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing as of, and for the year ended, September 30, 1999, were fairly presented, in all material respects, in conformance with Generally Accepted Accounting Principles.

## **B. REPORT ON INTERNAL CONTROL STRUCTURE**

While the purpose of our work was not to express, and we do not express, an opinion on internal controls, we found one material internal control weakness. Our work was limited to applicable internal controls designed to ensure reliable financial reporting, including the safeguarding of assets against loss from unauthorized use. We obtained an understanding of the design of the internal controls, determined whether the controls have been placed in operation, assessed control risk relevant to the assertions embodied in the Financial Statements, and performed tests of the internal controls. Because of

inherent limitations in any internal control structure, misstatements and losses may occur and not be detected.

## **MATERIAL WEAKNESS**

The following section describes a material weakness we identified and its impact on the HTF Financial Statements and management of HTF operations. The financial statement weaknesses were reported to The President and Congress on December 29, 1999, as part of the Department's report required by the Federal Managers' Financial Integrity Act of 1982.

### **Accrual of Liabilities to States and Transit Authorities**

Statement of Federal Financial Accounting Standard Number 1 requires agencies to recognize a liability for unpaid goods and services that have been accepted at yearend. For two of the HTF agencies (FHWA and FTA), goods and services are accepted and paid by states and transit authorities, and subsequently reimbursed by the HTF agencies. Invoices for goods and services that are not available when financial statements are prepared should be estimated for financial statement purposes. The intent of accruing liabilities at yearend is to properly report liabilities and expenses in the appropriate accounting period.

The HTF agencies had not established procedures to fully accrue liabilities at yearend. During FY 1999, the HTF agencies estimated and accrued liabilities of \$900 million for goods and services received by states and transit authorities at yearend. We tested the estimate and found it did not include all goods and services that had been accepted but not yet billed to the HTF agencies. As a result, both liabilities and expenses would have been understated on the Balance Sheet and Statement of Net Cost by about \$1.1 billion. The HTF agencies revised the estimate and appropriately reported liabilities on the Balance Sheet and expenses on the Statement of Net Cost as of September 30, 1999. The HTF agencies also adjusted liabilities that were underestimated prior to FY 1999.

## **C. REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would have a direct and material effect on the HTF Financial Statements or have been specified by OMB, and would not necessarily disclose all material noncompliances.

## **Performance Data**

Under OMB Bulletin 98-08, our responsibility is to obtain an understanding of internal controls relating to the existence and completeness of performance data. The HTF agencies are responsible for establishing and maintaining adequate internal controls. The FY 1999 DOT Performance Plan contained 70 performance measures, of which 9 were in the FY 1999 HTF Financial Statements. The presentation complied with the requirements of OMB Bulletin 97-01 to report performance measures consistent with goals and objectives from agencies' strategic plans.

### *Linking to the Statement of Net Cost and Measuring Cost-Effectiveness*

OMB Bulletin 97-01 states:

Entities should strive to develop and report objective measures that . . . provide information about the cost effectiveness of programs. The reported measures . . . should be linked to the programs featured in the Statement of Net Cost. . . . To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned . . . to improve financial or program performance.

The HTF agencies did not have systems in place to allocate costs by major program. Consequently, the performance measures could not be linked to the Statement of Net Cost. For example, one FTA goal is to increase the percentage of key rail stations that are compliant with the Americans with Disabilities Act. FTA did not report the FY 1999 cost data for increasing the percentage of compliant key stations.

The performance measures presented in the HTF Financial Statements also did not provide information about cost-effectiveness. None of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost. For example, one FHWA goal is to improve the condition of bridges so that, in 10 years, less than 20 percent are classified as deficient. FHWA did not report the FY 1999 cost data for improving deficient bridges.

The Departmental Accounting and Financial Information System (DAFIS) does not have the capability to track program costs. However, DOT is in the process of replacing DAFIS, and plans to have the new accounting system in full operation by June 30, 2001.

### *Internal Control Environment*

We performed various procedures to assess the internal control environment relating to performance data. While our work disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance



data as part of the HTF Financial Statement audit. However, the HTF agencies are facing a significant management challenge to ensure the incoming data are complete. The HTF agencies are relying on third party organizations outside the Federal Government for most of their performance data. Performance data could be coming from hundreds of organizations, such as states; grantees; and transit authorities.

Although not part of the Financial Statement audits, the OIG began performing audits during FY 1999 addressing performance measures and data. More of these audits will be accomplished as part of selected program audits. Although not one of the nine performance measures in the HTF Financial Statements, OIG recently completed a performance audit and found the Safety Status Measurement System (SafeStat) cannot target motor carriers with the worst records because the database is incomplete and inaccurate.

The Department is in the process of implementing a system to further enhance the quality of all performance data.

#### Reporting of Planned Actions

To enhance the usefulness of performance information, OMB Bulletin 97-01 encourages entities to include an explanation of what is planned to improve financial or program performance. The Management Discussion and Analysis overview of the HTF Financial Statements included general comments on how to improve performance; however, specific plans to improve financial performance, by performance measures, were not included. For example, planned actions to improve the pavement quality of the National Highway System was not addressed.

#### **Federal Financial Management Improvement Act of 1996**

The Federal Financial Management Improvement Act (FFMIA) of 1996 requires auditors to report whether agencies' financial management systems comply substantially with Federal financial management system requirements, Federal accounting standards, and the Government's standard general ledger at the transaction level. The HTF agencies were not in compliance because liabilities were not fully accrued at yearend, DAFIS did not provide the data necessary for preparation of the HTF Financial Statements, and a managerial cost accounting system had not been implemented. The HTF agencies made 77 adjustments, totaling \$4.6 billion, outside DAFIS to prepare the Financial Statements. These adjustments were recorded in the financial statements module, a tool used to prepare the annual financial statements, but were not recorded or retained in DAFIS.

On December 29, 1999, the Secretary of Transportation reported that the Department was not in substantial compliance with FFMIA because the existing core accounting

system was not the primary source of information used for preparation of Financial Statements. The Secretary also reported the Department had not fully implemented the requirements of Managerial Cost Accounting Standards, because the Department's accounting system did not have the capability to capture cost by program. The Department is working to correct these conditions by June 30, 2001, when a new, commercial off-the-shelf, FFMIA compliant, accounting system is planned to be fully implemented.

#### **D. PRIOR AUDIT COVERAGE**

Our reports on the FY 1997 and FY 1998 HTF Financial Statements contained no recommendations. However, one recommendation from our FY 1996 report relating to automated data processing controls and safeguards has not been fully implemented. FHWA still needs to prepare adequate security and disaster recovery plans, and perform required certification and accreditation reviews. FHWA officials stated corrective actions would be completed by September 30, 2000.

We issued two reports last year that impact the HTF Financial Statements. On September 27, 1999, we issued Report FE-1999-131 identifying \$672 million of recorded obligations departmentwide that no longer represented valid financial liabilities. We recommended a departmentwide policy requiring at least annual reviews of inactive obligations. On December 28, 1999, the Department issued a policy for annual reviews of obligations. The HTF agencies either deobligated or reprogrammed a total of \$174 million to other active projects.

On February 14, 2000, we issued Report FE-2000-053 identifying 42 duplicate payments totaling \$1.6 million to the State of Georgia. We recommended that FHWA determine whether additional duplicate payments occurred, recover at least \$1.6 million, verify the new accounting system has been reprogrammed, review all disbursements to the State of Georgia, and alert all FHWA Division Financial Managers to review controls in new accounting systems. The duplicate payments were recouped, and FHWA and State of Georgia officials were taking corrective actions.

This report is intended for the information of the HTF agencies and DOT. However, this report is a matter of public record, and its distribution is not limited.



Kenneth M. Mead  
Inspector General

**HIGHWAY TRUST FUND**  
**Consolidated Balance Sheet**

As of September 30, 1999

(Dollars in Thousands)

**Assets** (Note 2)

**Entity Assets:**

Intragovernmental Assets:

Fund Balance with Treasury (Note 3)	\$ 890,349
Investments (Note 4)	28,082,618
Accounts Receivable Net (Note 5)	2,766
Other Assets (Note 6)	21,683
<b>Total Intragovernmental Assets</b>	<b>\$ 28,997,416</b>

Governmental Assets:

Accounts Receivable Net (Note 5)	7,940
General Property, Plant and Equipment Net (Note 10)	42,919
Advances to States for Rights of Way (Note 6)	154,956
Other Assets (Note 6)	2,070

**Total Assets**

**\$ 29,205,301**

**Liabilities** (Note 11)

Intragovernmental Liabilities:

Accounts Payable (Note 12)	\$ 38,608
Other Intragovernmental Liabilities (Note 15)	11,800
<b>Total Intragovernmental Liabilities</b>	<b>\$ 50,408</b>

Accounts Payable (Note 12)	137,971
Federal Employee and Veterans' Benefits Payable (Note 16)	13,799
Other Liabilities (Note 15)	1,891,341

**Total Liabilities**

**\$ 2,093,519**

**Net Position**

Cumulative Results of Operations (Note 19)	\$ 27,111,782
<b>Total Net Position</b>	<b>\$ 27,111,782</b>

**Total Liabilities and Net Position**

**\$ 29,205,301**

**Highway Trust Fund**  
**Consolidated Statement of Net Cost**  
For the Period Ended September 30, 1999  
(Dollars in Thousands)

**Program Costs** (Notes 20 & 21)

**Surface Transportation:**

Intragovernmental	\$	62,519
Public Programs:		
Interstate Maintenance		3,556,494
National Highway System		4,044,667
Bridge Programs		2,154,118
Surface Transportation		6,209,297
Congestion Mitigation & Air Quality		807,532
High Priority Projects		163,952
Minimum Guarantee		1,373,203
Mass Transit		1,502,446
Federal Lands Highways		226,120
Planning		193,967
Emergency Relief		455,808
Minimum Allocation		525,042
State Infrastructure Bank		157,331
Research		231,628
Other Highway Programs		3,238,751
Less Earned Revenues		(82,713)
Net Program Costs	<u>\$</u>	<u>24,820,162</u>

**Cost Not Assigned to Programs**

\$ 57,432

**Less Earned Revenue Not  
Attributed to Programs**

\$ (1,693)

**Net Cost of Operations**

\$ 24,875,901

**Highway Trust Fund**  
**Consolidated Statement of Changes in Net Position**  
For the Period Ended September 30, 1999  
(Dollars in Thousands)

<b>Net Cost of Operations</b>	\$	24,875,901
<b>Financing Sources:</b>		
Taxes (net) (Note 22)		39,292,607
Other Non Exchange Revenue (Note 22)		10,505
Imputed Financing		23,973
Transfers-In		26,461,400
Transfers-Out		(30,717,390)
Other		(1,243)
		0
<b>Net Results of Operations</b>	\$	10,193,951
<b>Prior Period Adjustments (Note 23)</b>	\$	(1,027,279)
<b>Net Change in Cumulative Results of Operations</b>	\$	9,166,672
<b>Increase (Decrease) in Unexpended Appropriations</b>		0
<b>Change in Net Position</b>	\$	9,166,672
<b>Net Position, Beginning of Period</b>		17,945,110
<b>Net Position, End of Period</b>	\$	27,111,782

**Highway Trust Fund**  
**Consolidated Statement of Budgetary Resources**

As of September 30, 1999  
(Dollars in Thousands)

**Budgetary Resources (Note 24):**

Budget Authority (Line 1)	\$ 35,877,119
Unobligated Balances - Beginning of Period (Line 2A)	44,369,795
Spending Authority From Offsetting Collections (line 3)	102,866
Adjustments (Lines 4-6)	<u>(43,711,930)</u>
Total Budgetary Resources (Line 7)	<u>\$ 36,637,850</u>

**Status of Budgetary Resources:**

Obligations Incurred (Line 8)	\$ 31,576,811
Unobligated Balances-Available (Line 9)	5,056,824
Unobligated Balances-Not Available (Line 10)	4,215
Total, Status of Budgetary Resources (Line 11)	<u>\$ 36,637,850</u>

**Outlays:**

Obligations Incurred (Line 8)	\$ 31,576,811
Less: Spending Authority From Offsetting Collections and Adjustments (Lines 3A, B, D & 4A)	(152,882)
Subtotal	31,423,929
Obligated Balance, Net Beginning of Period (Line 12)	36,442,471
Obligated Balance Transferred, Net (Line 13)	0
Less: Obligated Balance, Net - End of Period (Line 14)	<u>(38,957,604)</u>
Total Outlays (Line 15)	<u>\$ 28,908,796</u>

**Highway Trust Fund**  
**Consolidated Statement of Financing**  
For the Period Ended September 30, 1999  
(Dollars in Thousands)

**Obligations and Nonbudgetary Resources:**

Obligations Incurred :	\$ 31,576,811
Less: Transfers to the General Fund	(4,251,800)
<b>Net Obligations Incurred</b>	<b>\$ 27,325,011</b>
Less: Spending Authority for Offsetting Collections & Adj	(152,882)
Transfers-In (Out)	(4,251)
Financing Imputed for Cost Subsidies	23,973
Other	6,954

<b>Total Obligations as Adjusted, and Non-Budgetary Resources</b>	<b>\$ 27,198,805</b>
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**Resources That Do Not Fund Net Cost of Operations:**

Change in Amt of Goods, Services & Benefits Ordered But Not Provided/Received	\$ (2,344,811)
Costs Capitalized on Balance Sheet	2,553
Financing Sources that Fund Costs of Prior Periods	15,889

<b>Total Resources That Do Not Fund Cost of Operations</b>	<b>\$ (2,326,369)</b>
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**Cost That Do Not Require Resources:**

Depreciation & Amortization	\$ (826)
Bad Debts Related to Uncollectable Non Credit Reform Receivables	288
Revaluation of Assets/Liabilities	8,781
Other	

<b>Total Costs That Do Not Require Resources</b>	<b>\$ 8,243</b>
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<b>Financing Sources Yet To Be Provided</b>	<b>\$ (4,778)</b>
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<b>Net Cost of Operations</b>	<b>\$ 24,875,901</b>
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**NOTES TO THE PRINCIPAL  
FINANCIAL STATEMENTS FY99**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The principal statements have been prepared to report the financial position and results of operations of the Highway Trust Fund, as required by the Chief Financial Officers Act of 1990. They have been prepared from the books and records of the FHWA, NHTSA, FTA and FRA in accordance with Generally Accepted Accounting Principles, DOT Guidelines, and accounting policies summarized in this note. These statements may be different from those reports prepared pursuant to other OMB directives, that are used to monitor and control the use of budgetary resources.

**B. Reporting Entity**

For purposes of this financial statement the principal reporting entity is the Highway Trust Fund, not the performing agencies. The Highway Trust Fund was created in 1956 with the Highway Revenue Act of 1956 with the main objective of funding the construction of the Dwight D. Eisenhower System of Interstate and Defense Highways. Over the years use of the fund has been expanded to embrace highway safety and mass transit programs.

**Federal Highway Administration**

Federal Aid Highways, 69X8083; Other Miscellaneous Trust Fund Accounts (25 Accounts)

**National Highway Traffic Safety Administration**

Safety Grants, 69X8020; Operations and Research, 69\_8016

**Federal Transit Administration**

Discretionary Grants, 69X8191; Formula Grants, 69X8350

**Federal Railroad Administration**

Federal Rail Trust Fund, 69X8552

**C. Budgets and Budgetary Accounting**

The Federal Aid Highway program is financed from authorizations enacted in highway authorizing legislation and codified in Title 23 United States Code. Funds apportioned to states under Title 23 U.S.C. by the Secretary of Transportation for highway construction activities in



**Notes to the Principal  
Financial Statements FY99**

advance of liquidating appropriations are available for a specific time period. Annual appropriation acts establish the level of obligations which States can obligate against their Federal Aid funds in any single year. Obligations are incurred based on these annual limitations under allotment control procedures. Liquidating appropriations enable Federal aid payments to be made to states as claims are submitted and approved for payment.

**D. Basis of Accounting**

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

**E. Revenue and Other Financing Sources**

All programs and activities covered by these financial statements are financed from excise taxes collected on specific motor fuels and tires. Annual appropriations make available these tax revenues collected for programs and activities as authorized by law. A small portion of activities are financed from offsetting collections for reimbursable work performed under agreement.

Taxes are recognized as revenues at the time they are deposited in the Corpus Highway Trust Fund account.

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

Funds appropriated for Federal Aid Highways remain invested in non-interest bearing securities by the U. S. Treasury. As approved claims are submitted and approved for payment, requests for cash are made to treasury, securities are divested and funds made available for payment of claims. Small amounts of cash receipts are deposited daily through a commercial lockbox bank. No cash is held outside the U.S in foreign currency, gold or other monetary assets.

**G. Accounts Receivable**

Accounts receivables consist principally of services performed for other Federal agencies under general working agreement with Federal agencies responsible for designated Federal domain areas such as Park Roads and Parkways, Forest Highways, etc. Administrative reimbursable receivables represent technical services billed, Motor Carrier fines and penalties and miscellaneous refunds.

**Notes to the Principal  
Financial Statements FY99**

**H. Inventories**

Inventories consist of supplies and small amounts of materials held and applied through Federal Land Highway's reimbursable operations in furnishing technical and testing services to other federal agencies.

**I. Investments in U. S. Government Securities**

It is the responsibility of the Secretary of the Treasury to invest such portions of the trust fund that exceed current needs. Such investments may only be made in non-marketable obligations of the United States or in obligations guaranteed as to both principal and interest by the United States.

**J. Property and Equipment**

The reporting agencies recognize depreciation over the life of fixed assets. Depreciation expense is recouped through rates assessed against Federal Lands Highway projects.

Personal property is capitalized and inventoried when acquisition costs exceed \$25,000. Acquisitions with a cost of less than \$25,000 are charged to operating expense when purchased. An inventory of "sensitive" personal property (e.g. computers, calculators, etc.) is maintained outside the accounting system by a property manager without regard to capitalization criteria.

**K. Prepaid and Deferred Charges**

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

**L. Liabilities**

Liabilities represent estimated amounts that are owed to grantees and contractors for work performed under agreement, but not yet disbursed. Contingent liabilities are footnoted for highway projects approved under advance construction provisions and for transit projects participating under full funding grant agreements.

**M. Contingencies**

Highway Trust Fund agencies are parties in various

**Notes to the Principal  
Financial Statements FY99**

administrative proceedings, legal actions, environmental suits, and claims brought against it. In the opinion of Highway Trust Fund agency management and legal counsel, the ultimate resolution of these proceedings, actions and claims, will not materially affect the financial position or results of the Highway Trust Fund operations.

**N. Annual, Sick and Other Leave**

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect /current pay rates. To the extent current or prior year appropriations are not available to fund annual leave earned but not taken, funding will be obtained from future financing sources.

Sick leave and other types of non-vested leave are expended as taken.

**O. Retirement Plan**

The majority of employees whose salaries are paid from the trust fund participate in the Federal Employees Retirement System (FERS). This system went into effect pursuant to Public Law 99-335 on January 1, 1984. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, can elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which the agencies automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. The remaining forty-five percent (45%) of employees whose salaries are paid from the trust fund participate in the Civil Service Retirement System (CSRS), to which agencies make matching contribution equal to seven percent (7%) of their pay.

For most employees hired since December 31, 1983, agencies also contribute the employer's matching share for Social Security. Agencies do not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any applicable to it employees. Reporting such amounts is the responsibility of the Office of Personnel Management and the Federal Employees Retirement System.

**Note 2. Entity Assets:**

(Dollars in Thousands)

	<u>Total</u>
<b>Intragovernmental:</b>	
Fund Balance with Treasury	\$ 890,349
Investments	28,082,618
Accounts Receivable	2,766
Other	<u>21,683</u>
<b>Total Intragovernmental</b>	<b><u>\$28,997,416</u></b>
Accounts Receivable	\$ 7,940
General Property, Plant and Equipment	42,919
Advances to States for Rights of Way	154,956
Other Assets	<u>2,070</u>
<b>Total Assets</b>	<b><u><u>\$29,205,301</u></u></b>

**Note 3. Fund Balances with Treasury:**

**A. Fund Balances**

(Dollars in Thousands)

	<u>Entity Assets</u>	<u>Non-Entity Assets</u>	<u>Total</u>
(1) Trust Funds	\$ 890,349	\$ -	\$ 890,349
Total	<u>\$ 890,349</u>	<u>\$ -</u>	<u>\$ 890,349</u>

The undisbursed fund balance with Treasury consists of the following amounts by program agency:

FHWA	\$ 764,093
Corpus	(55,373)
FTA	8,689
NHTSA	167,840
FRA	5,100
	<u>\$ 890,349</u>

Note 4. Investments:

(Dollars in Thousands)

	<u>Cost</u>	Unamortized (Premium) <u>Discount</u>	Investments (Net)	Other Adjustments	Market Value <u>Disclosure</u>
A. Intragovernmental Securities:					
1. Entity					
(1) Non-Marketable:					
Highway	\$18,319,852		\$18,319,852		\$18,319,852
Mass Transit	9,762,766		9,762,766		9,762,766
Market-Based	-	-	-	-	-
Subtotal	<u>\$28,082,618</u>	<u>\$ -</u>	<u>\$28,082,618</u>	<u>\$ -</u>	<u>\$28,082,618</u>
(4) Accrued Interest	-	-	-	-	-
Total Entity Intragovernmental	<u>\$28,082,618</u>		<u>\$28,082,618</u>		<u>\$28,082,618</u>

Securities represent non marketable market based U. S. Treasury Certificates of Indebtedness in the amount of \$28,082,618,000. These certificates do not earn interest as of October 1, 1998. They mature on June 30, 2000. Of this amount, a total of \$6,174,402,000 has been appropriated, but not yet transferred to DOT.

Agency Balances of Liquidating Contract Authority:

Federal Aid Highways	\$ 4,725,000
Other Highway Trust	57,402
FTA	<u>1,392,000</u>
	<u>\$ 6,174,402</u>

Note 5. Accounts Receivable:

(Dollars in Thousands)

	Gross Amount <u>Due</u>	Allowance for Uncollectible <u>Amounts</u>	Net Amount <u>Due</u>
A. Intragovernmental:			
1. Entity:			
Accounts Receivable	\$ 2,766	\$ -	\$ 2,766
Accrued Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total Entity Intragovernmental	<u>\$ 2,766</u>	<u>\$ -</u>	<u>\$ 2,766</u>
<b>Total Intragovernmental Receivables</b>	<b><u>\$ 2,766</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 2,766</u></b>
B. Public:			
1. Entity:			
Accounts Receivable	\$ 9,387	\$ 1,447	\$ 7,940
Accrued Interest	<u>-</u>	<u>-</u>	<u>-</u>
Total Entity Public	<u>\$ 9,387</u>	<u>\$ 1,447</u>	<u>\$ 7,940</u>
<b>Total Public Receivables</b>	<b><u>\$ 9,387</u></b>	<b><u>\$ 1,447</u></b>	<b><u>\$ 7,940</u></b>
<b>Total Receivables</b>	<b><u>\$ 12,153</u></b>	<b><u>\$ 1,447</u></b>	<b><u>\$ 10,706</u></b>

C. Reconciliation of Uncollectible Amounts

Uncollectible Amounts:

	Entity <u>Intragov</u>	Non-Entity <u>Intragov</u>	Entity <u>Public</u>	Non-Entity <u>Public</u>
Beginning Balance	\$ -	\$ -	\$ 1,292	\$ -
Additions	-	-	424	-
Reductions	-	-	<u>269</u>	-
Ending Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,447</u>	<u>\$ -</u>

Allowance for doubtful accounts are actual accounts that are determined to be uncollectible. These accounts receivables are determined to be uncollectible when three demand letters have been sent and no response has been received. An account is also doubtful when the chief counsels office has determined that the account is uncollectible.

**Note 6. Other Assets:**

(Dollars in Thousands)

**A. Intragovernmental:**

**1. Entity:**

(1) Advances and Prepayments	\$ 21,683
<b>Total Entity Intragovernmental</b>	<b><u>\$ 21,683</u></b>

**B. Public:**

**1. Entity:**

(1) Advances and Prepayments	\$ 2,070
(2) Advances to States for Rights of Way	154,956
<b>Total Entity Public</b>	<b><u>\$ 157,026</u></b>

**Total Other Assets** **\$ 178,709**

Intragovernmental other assets consist of advances paid to other government agencies. The breakdown by agency is:

FHWA	\$ 2,677
FTA	281
NHTSA	18,725
	<u>\$ 21,683</u>

Public other assets consist of \$154,956,000 of loans to the states for acquiring rights of way, \$76,000 in travel advances to employees and \$1,994,000 in advances to contractors for a total of \$157,026,000.



Note 10. General Property, Plant and Equipment:

(Dollars in Thousands)

<u>Major Classes</u>	<u>Depreciation Method*</u>	<u>Service Life *</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
A. Land			\$ 36	\$ -	\$ 36
B. Buildings and Structures			17,408	-	17,408
C. Furniture and Fixtures	SL	Various	5,426	24	5,402
D. Equipment	SL	Various	28,834	9,013	19,821
E. ADP Software	SL	Various	262	10	252
Total			<u>\$ 51,966</u>	<u>\$ 9,047</u>	<u>\$ 42,919</u>

**\* Keys:**

Depreciation Method

SL = Straight Line

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

FHWA recognizes amortization of costs (depreciation) over the life of fixed assets. Capital expenditures for property are recognized as expended when applied to projects and/or upon disposal of assets.

Road construction equipment used on Federal Lands Highway supervised projects account for the largest portion of equipment/depreciation expense. The recorded construction equipment expense is based on the number of hours of total useful operating life.

Buildings consist of the Turner Fairbank Research Station located in Langley, Virginia and a historically designated Mule Barn located in Vancouver, Washington.

**Note 11. Liabilities Not Covered by Budgetary Resources:**

(Dollars in Thousands)

	<u>Total</u>
<b>Intragovernmental:</b>	
Accounts Payable	\$ -
Environmental and Disposal	-
Debt	-
Other	<u>2,462</u>
<b>Total Intragovernmental</b>	<b>\$ 2,462</b>
Accounts Payable	\$ -
Loan Guarantees	-
Federal Employee and Veterans' Benefits Payable	13,799
Environmental and Disposal	-
Other Liabilities	<u>26,151</u>
<b>Total Liabilities Not Covered by Budgetary Resources</b>	<b>\$ 42,412</b>
<b>Total Liabilities Covered by Budgetary Resources</b>	<b><u>2,051,107</u></b>
<b>Total Liabilities</b>	<b><u>\$2,093,519</u></b>

**Note 12. Accounts Payable:**

**A. Covered by Budgetary Resources:**

(Dollars in Thousands)

	<u>Accounts Payable</u>	<u>Interest, Penalties &amp; Administrative Fees</u>	<u>Total</u>
1. Intragovernmental:			
(1) Miscellaneous Agencies	<u>38,608</u>	<u>-</u>	<u>38,608</u>
<b>Total Intragovernmental Covered by Budgetary Resources</b>	<b><u>\$ 38,608</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 38,608</u></b>
2. Public:			
(1.) Miscellaneous Vendors	<u>137,971</u>	<u>-</u>	<u>137,971</u>
<b>Total Public Covered by Budgetary Resources</b>	<b><u>\$ 137,971</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 137,971</u></b>
<b>Total Covered by Budgetary Resources</b>	<b><u>\$ 176,579</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 176,579</u></b>

Public Accounts Payable includes \$101,133,022 of accrued unpaid program claims from the states in Federal Aid Highways.

Note 15. Other Liabilities:

A. Intragovernmental:

(Dollars in Thousands)

	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
1. Covered by Budgetary Resources:			
(1) Advances and Prepayments from Others	\$ -	\$ 9,338	\$ 9,338
Total Intragovernmental Covered by Budgetary Resources	<u>\$ -</u>	<u>\$ 9,338</u>	<u>\$ 9,338</u>
2. Not Covered by Budgetary Resources:			
(1) Federal Employees Compensation Act			
(A) 1998 Billing (Current)	\$ -	\$ 1,010	\$ 1,010
(B) 1999 Billing (Non-Current)	1,183	-	1,183
(C) 4th Quarter of FY 1999 (Non-Current)	269	-	269
Total Intragovernmental Not Covered by Budgetary Resources	<u>\$ 1,452</u>	<u>\$ 1,010</u>	<u>\$ 2,462</u>
Total Intragovernmental Other Liabilities	<u>\$ 1,452</u>	<u>\$ 10,348</u>	<u>\$ 11,800</u>
1. Covered by Budgetary Resources:			
(1) Accrued Pay & Benefits to Employees	\$ -	\$ 14,383	\$ 14,383
(2) Accrued Unbilled State Payments	-	1,842,540	1,842,540
(3) Advances and Prepayments from Others	-	8,267	8,267
Total Public Covered by Budgetary Resources	<u>\$ -</u>	<u>\$ 1,865,190</u>	<u>\$ 1,865,190</u>
2. Not Covered by Budgetary Resources:	<u>Non-Current Liabilities</u>	<u>Current Liabilities</u>	<u>Total</u>
(1) Unfunded Annual Leave	25,819		25,819
(2) Other Liabilities	<u>\$ 332</u>		<u>\$ 332</u>
Total Public Not Covered by Budgetary Resources	<u>\$ 26,151</u>		<u>\$ 26,151</u>
Total Public Other Liabilities	<u>\$ 26,151</u>	<u>\$ 1,865,190</u>	<u>\$ 1,891,341</u>

Federal Highway Administration had a total of 2,471 authorized advance construction projects in the amount of \$13,658,876,000 as of September 30, 1999. These projects have been initiated by the states, but have not gone through the formal authorization process. These projects could be obligated in the future through normal project authorization process by the states.

Federal Transit Administration had Full Funding Grant Agreements in the amount of \$5,844,320,000 as of September 30, 1999.

**Note 16. Federal Employee and Veterans Benefits:**

**A. Not Covered by Budgetary Resources:**

<b>1. Other Post-Employment Benefits:</b>	
<b>Federal Employees Compensation Act</b>	
<b>Actuarial Liability</b>	<b>13,799</b>
<b>Total Not Covered by Budgetary Resources</b>	<b><u>\$ 13,799</u></b>
<b>Total Federal Employee and Veterans Benefits</b>	<b><u>\$ 13,799</u></b>

**Note 19. Cumulative Results of Operations**

**A. Cumulative Results**

(Dollars in Thousands)

(1) Unobligated	
a. Available	\$ 45,187
b. Unavailable Program	4,214
c. Unavailable Corpus	21,858,378
(2) Undelivered Orders	<u>5,204,003</u>
Total	<u>\$ 27,111,782</u>

**Unobligated Balances**

Available	
Federal Aid Highways	\$ 14,668
Other Trust Funds	<u>30,519</u>
	\$ 45,187

Unavailable	
Federal Aid Highways	\$ 4,214

Total Unobligated	\$ 49,401
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**Funded Obligated Balances**

Federal Aid Highways	\$ 3,394,366
Other Trust Funds	364,675
FTA	1,265,338
NHTSA	174,524
FRA	<u>5,100</u>
	<u>\$ 5,204,003</u>

Corpus Trust Fund Balance of \$21,748,643,000 has not been made available to the program accounts.

**Note 20. Gross Cost and Earned Revenue by Budget Functional Classification:**

**A. Gross Cost and Earned Revenue by Budget Functional Classification:**

(Dollars in Thousands)

	<u>Gross Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Functional Classification:			
050 National Defense	\$ -	\$ -	\$ -
150 International Affairs	-	-	-
300 National Resources and Environment	-	-	-
400 Transportation	24,960,307	84,406	24,875,901
450 Community and Regional Development	-	-	-
800 General Government	-	-	-
Total	<u>\$ 24,960,307</u>	<u>\$ 84,406</u>	<u>\$ 24,875,901</u>

Costs represent surface transportation programs performed by FHWA, FTA, NHTSA and FRA. Costs not assigned to programs are depreciation expenses, uncollectable accounts, receivables, expenses, cash management improvement act payments and benefit program expenses.

Earned revenue is for reimbursable work done for other government agencies.

**Note 21 Net Cost by Program:**

**Program Costs**

**1. Public**

Interstate Maintenance	\$ 3,556,494
National Highway System	4,044,667
Bridge Program	2,154,118
Surface Transportation	6,209,297
Congestion Mitigation & Air Quality	807,532
High Priority Projects	163,952
Minimum Guarantee	1,373,203
Federal Lands Highways	226,120
Planning	193,967
Emergency Relief	455,808
Minimum Allocation	525,042
State Infrastructure Bank	157,331
Research	231,628
Mass Transit	1,502,446
Other Highway Programs	<u>3,238,751</u>
Total Public	\$ 24,840,356

**2. Intragovernmental**

(20,194)

Total Surface Program Costs

**\$ 24,820,162**

The present accounting system does not provide identifiable links to strategic goals and performance measures, but identifies costs to major program delivery to the states.



**Note 22. Taxes and Other Non-Exchange Revenue:**

(Dollars in Thousands)

<b>A. Taxes and Other Non-Exchange Revenue:</b>	
1. Gasoline, Fuel, Tires, etc.	\$ 39,292,607
2. Fines and Penalties	6,688
3. Other Non-Exchange Revenue (Describe)	
CMIA Interest	1,890
Billed Uncollected Fines and Penalties	1,927
<b>Total Taxes and Other Non-Exchange Revenue</b>	<b>\$ 39,303,112</b>

**Tax Receipts:**

Excise Taxes were collected in the following categories:

Diesel Fuel	\$ 9,165,312
Tires	416,034
Use of Certain Vehicles	813,698
Trucks	2,809,900
Gasoline	25,430,676
Gasohol	2,067,968
<b>Total Taxes</b>	<b>\$ 40,703,588</b>

Less Transfers:

Land and Water	\$ (1,000)
Aquatic Resources	(275,658)
<b>Total Transfers</b>	<b>\$ (276,658)</b>

**Gross Tax Revenue** \$ 40,426,930

Less Reimbursements to the General Fund

Diesel powered Vehicle	\$ (779)
Gasoline 9.1/14.1	(361,049)
Gasohol 3.1/8.7	(21,869)
Diesel 15.1/20.1	(665,732)
Special Motor Fuel 9.1/14.1	(16,103)
Gas to make Gasohol	(32,962)
Diesel Fuel Bus Use	(35,829)
<b>Total Reimbursement Tax Receipts</b>	<b>\$ (1,134,323)</b>

**Net Tax Receipts** \$ 39,292,607

Note 23. Prior Period Adjustments:

		(Dollars in Thousands)
A. Prior Period Adjustments:		
(1) Grant Administration Transfers NHTSA	\$	14,990
(2) FY 1998 Accrual Adjustment FHWA		(886,659)
(3) FY 1998 Accrual Adjustment FTA		(155,610)
Total	\$	<u>(1,027,279)</u>

Grant Administration transfers from the Highway Trust Fund to the General Fund for prior periods for NHTSA.

A change in accounting estimates for the unbilled program costs identified that the FY 1998 accrual was understated for both FHWA and FTA. Identification that the change in accounting estimate was needed to more fairly present the financial information contained in these financial statements. FY 1999 costs have been adjusted accordingly. Policy has been developed to recognize actual expenses for the current period.

**Note 24. Statement of Budgetary Resources:**

	(Dollars in Thousands)
A. Net Amount of Budgetary Resources Obligated for Undelivered Orders as of September 30, 1999:	37,095,912
B. Available Contract Authority as of September 30, 1999:	5,005,963
C. Adjustments During FY 1999 to Budgetary Resources Available at the Beginning of the Year:	(8,868)

Provide a Complete Itemization and Explanation of These Adjustments:

<b>Cumulative Authorizations in Excess of Obligation Limitation</b>	<b>\$ -</b>
Rescissions	(441)
Prior Year Recoveries	-
Other Adjustments (Lapses)	<u>(8,427)</u>
<b>Total Adjustments to Budgetary Resources</b>	<b><u>\$ (8,868)</u></b>
D. Unfunded Contract Authority	
Unobligated balances program accounts	\$ 20,846,591
Obligated balances, program accounts	<u>38,957,604</u>
Total Budgetary Resource, program accounts	59,804,195
Less: Cash balances program accounts	(945,722)
Less: Unrequisitioned liquidating cash	<u>(6,174,402)</u>
Total Unfunded Contract Authority	<b><u>\$ 52,684,071</u></b>