FINANCIAL MANAGEMENT AND ANALYSIS

In order to strengthen financial operation integrity and data reliability, DOT produces audited financial statements. The principal financial statements include: the Consolidated Balance Sheets; Consolidated Statement of Net Cost of Operations; Combined Statement of Budgetary Resources; and, the Consolidated Statement of Financing. These principal financial statements, in addition to the financial information in the "Other Supplemental Information" section of the report, summarize DOT financial activities.

Analysis of Financial Statements

An unqualified audit opinion indicates that the agency's information is reliable. The Office of the Inspector General (OIG) has rendered an unqualified opinion on DOT's FY 2003 financial information. DOT had one continuing and three new material weaknesses addressed in its related audit, resulting in a total of four material weaknesses for FY 2003. The Department continues efforts to improve its complaince with the requirements of the Federal Managers Financial Integrity Act (FMFIA). Additionally, DOT's management takes responsibility for the objectivity and integrity of the financial information presented in the financial statements contained in this report.

Total Consolidated Statements of Net Cost

The net cost of DOT operations for FY 2003 was $50 billion ($63 billion in FY 2002), as reflected in the "Consolidated Statement of Net Cost" as of September 30, 2003. This figure was a decrease of about 8 percent compared to the FY 2002 cost of operations. The decrease was due to lower cost for air and maritime transportation.

Of the $58 billion in FY 2003 ($63 billion in FY 2002) for DOT's net cost of operations, 70 percent (63 percent in FY 2002) was from surface transportation, 21 percent (also 21 percent in FY 2002) from air transportation, 1 percent (11 percent in FY 2002) from maritime transportation, about 0 percent (0.2 percent in FY 2002) from crosscutting programs, and 0.6 percent (four percent in FY 2002) from costs not assigned to any particular program.

For surface transportation, a large amount of the net cost was identified in connection with the highway trust fund ($32 billion). The majority of air transportation cost was from FAA ($12 billion).

Assets

Total assets for DOT are $71 billion for FY 2003 (84 billion for FY 2002). The decrease in total assets in FY 2003 is largely attributable to a reduction in investments by almost $13 billion. This $13 billion reduction for FY 2003 is attributable to a reduction in: investments (about $6 billion), loans receivable and related foreclosed property ($2 billion), general property, plant and equipment ($ billion), and other miscellaneous assets.

Total intragovernmental assets for DOT are $55 billion in FY 2003 ($62 billion in FY 2002). A large portion of this funding came from investments ($25 billlion) and a fund balance with Treasury (about $29 billion).

Liabilities and Net Position

Total liabilities for FY 2003 are $13 billion, a decrease of $29 billion from FY 2002 figures. The Federal Employees' Compensation Act liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, and a component for incurred but not reported claims. The Coast Guard Military Retirement System is funded through annual appropriations. The total Federal employee and veteran benefits for FY 2003 were one billion dollars, a $29 billion decrease over FY 2002. Total intragovernmental liabilities experienced a increase from $2.4 billion in FY 2002 to $4.5 billion in FY 2003. Of the $58 billion in FY 2003 for DOT's net position ($42 billion in FY 2002), 6 percent was from unexpended appropriations.

Program Costs

Program costs generally experienced a decrease in FY 2003 compared to FY 2002 in air, maritime, and cross-cutting programs. It remained about the same for surface transportation. From FY 2002 to FY 2003, Surface Transportation experienced a slight increase of about $830,000, Air Transportation decreased by $1.3 billion, and Maritime Transportation decreased by about $6.5 billion.

Loans

DOT gives direct loans and loan guarantees to non-Federal entities for the Amtrak Corridor Improvement Program, Railroad Rehabilitation Improvement Program, Alameda Corridor Transportation Authority Loan, TIFIA Loan, Maritime Guaranteed Loan, and to the Office of Small and Disadvantaged Business Utilization Guaranteed Loan Program.

Intra-Departmental Eliminations

The Department of Treasury is requiring that all agencies confirm and reconcile intragovernmental transactions with their trading partners, including transactions occurring within DOT or outside DOT. This includes fiduciary (investment/borrowing with Treasury, DOL Federal Employees' Compensation Act liabilities, OPM employee benefits) and non-fiduciary (that is buy/sell goods and services, reimbursables, transfers) intragovernmental transactions. Fiduciary confirmation/reconciliations are done through the web-based confirmation system (IFCS). Non-fiduciary confirmations are done manually. Treasury strongly recommends the use of confirmation forms to confirm/reconcile non-fiduciary intragovernmental balances. DOT is requiring its Operating Administrations to report intragovernmental balances in their Treasury FACTS I reports and financial statements, which must be in agreement.

Treasury is also requiring CFO representations for the confirmation/reconciliation of intragovernmental activity and balances. These representations will provide assurances for the intragovernmental balances included in the financial statements. Additionally, the OAs will be required to submit representations using a standard form.

Transportation Equity Act for the 21st Century (TEA-21)

Federal funding for transportation infrastructure—improving the Nation's highways, transit rail and bus systems, intercity passenger rail service, airports and bridges—is the largest component in DOT's budget. Infrastructure funding focuses on ensuring a transportation system that meets vital National interests and enhances the quality of life of the American people.

The Administration is working toward reauthorizing TEA-21 by creating a version that would take effect for 6 years after TEA-21's expiration at the end of FY 2003.

Significant financing features existing under TEA-21 financing include the following:

Guaranteed Investment Levels. Highway and transit discretionary programs are guaranteed a floor (a minimum level of spending) by new budget categories that effectively establish a budgetary "firewall" between each of those programs and all other domestic discretionary programs.

Authorizations and Investment. The minimum spending level for highways is keyed to projected receipts to Highway Account of the Highway Trust Fund and will be adjusted as new receipt projections and actual receipts become available.

Increases and Decreases. Any increase in receipts to the Highway Account is reserved for the Federal-aid highway and highway safety construction programs.

Obligation Limitations. Spending limitations are applied to most programs. However, obligation limitations set aside each year for certain programs (e.g., Woodrow Wilson Memorial Bridge) do not expire if not used by the end of the fiscal year, but can be carried over to future years.

Using Innovative Financing to Supplement Federal Funds. The Transportation Infrastructure Finance and Innovation Act (TIFIA) of TEA-21 continues to use innovative financing techniques that move construction projects ahead faster, and supplement Federal funds with private and non-Federal public investment. TIFIA's purpose is to fill gaps in market funding or to leverage additional non-Federal resources by direct Federal loans, loan guarantees, and standby lines of credit.

Stewardship

DOT's total non-Federal physical property investments were $40 billion, $37 billion from surface transportation non-Federal physical property improvements, and about $3 billion from air transportation physical property investments. Total human capital investments for DOT were $30 million for FY 2003, of which $21 million was from surface transportation capital investments (also $21 million in FY 2002), and $8.7 million was from maritime transportation human capital investments ($8.8 million in FY 2002). Total research and development investments for DOT in FY 2003 were $320 million ($450 million in FY 2002), from which $255 million was from surface transportation investments ($324 million in FY 2002), $64 million was from air transportation investments ($107 million), and $0 million was from maritime transportation investments ($19 million in FY 2002).