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

400 Seventh St., S.W.
Washington, D.C. 20590

January 28, 2004

MEMORANDUM TO: Kenneth M. Mead
Inspector General

FROM Phyllis Scheinberg
Acting Assistant Secretary for Budget and Programs/CFO

SUBJECT: Management Response – Report of the Office of Inspector General (IG) on the Consolidated Financial Statements for Fiscal Years (FY) 2002 and 2003

The Department is please to respond to your audit report on the Consolidated Financial Statements for FY 2002 and 2003. For the third consecutive year we have achieved an unqualified audit on the Consolidated Financial Statements.

We concur with the four material weaknesses and five reportable conditions contained in the report. Corrective actions have already been initiated to address many of these items. The Department will submit a detail Action Plan to your office by February 15th to address the findings contained in the report. We agree, in general, with the recommendations listed in the report and will utilize them to create corrective action measures.

The Department recognizes that achieving an unqualified audit was accomplished through our joint efforts by employing, in several critical areas, labor intensive procedures in order to compensate for financial management weaknesses. We will be working with the Operating Administrations, and the various audit groups to ensure that steps are taken that will improve the financial reporting and financial management throughout the Department.

I would like to express my appreciation for the professionalism displayed by your office and your contractors during the course of the audit.

CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEARS 2003 AND 2002

DEPARTMENT OF TRANSPORTATION

Report Number: FI-2004-031

Date Issued: January 30, 2004

U.S. Department of Transportation
Consolidated Balance Sheet
As of September 30, 2003
(Dollars in Thousands)

	FY 2003 DOT Total	FY 2002 DOT Total
Assets (Note 2)		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 29,256,238	$ 29,968,650
Investments (Note 4)	24,974,776	31,338,570
Accounts Receivable, Net (Note 5)	495,405	612,172
Other Assets (Note 6)	117,440	91,564
Total Intragovernmental Assets:	54,843,859	62,010,956
Cash and Other Monetary Assets (Note 7)	19,001	25,208
Investments (Note 4)	-	27
Accounts Receivable, Net (Note 5)	122,964	330,441
Loans Receivable and Related Foreclosed Property, Net (Note 8)	1,020,823	1,205,244
Inventory and Related Property, Net (Note 9)	909,212	1,957,935
General Property, Plant and Equipment, Net (Note 10)	14,407,761	18,522,444
Other Assets (Note 6)	103,304	411,542
Total Assets	$ 71,426,924	$ 84,463,797
Liabilities (Note 11)		
Intragovernmental:		
Accounts Payable	$ 8,307	$ 108,870
Debt (Note 12)	1,112,815	1,157,090
Other Intragovernmental Liabilities (Note 13)	3,403,602	1,149,953
Total Intragovernmental Liabilities:	4,524,724	2,415,913
Accounts Payable	808,457	2,361,655
Loan Guarantees (Note 8)	293,276	384,288
Federal Employee and Veterans' Benefits Payable (Note 14)	1,112,550	30,138,868
Environmental and Disposal Liabilities (Note 15)	1,344,453	1,041,322
Grant Accrual	4,166,634	4,148,794
Other Liabilities (Notes 13 & 16)	790,766	1,736,572
Total Liabilities	$ 13,040,860	$ 42,227,412
Contingencies (Note 17)		
Net Position		
Unexpended Appropriations	$ 3,655,290	$ 14,076,956
Cumulative Results of Operations	54,730,774	28,159,429
Total Net Position	58,386,064	42,236,385
Total Liabilities and Net Position	$ 71,426,924	$ 84,463,797

U.S. Department of Transportation
Consolidated Statement of Net Cost
As of September 30, 2003
(Dollars in Thousands)

Program Costs (Notes 18 & 19)**:**	**FY 2003 DOT TOTAL**	**FY 2002 DOT TOTAL**
Surface Transportation:		
Intragovernmental Gross Costs	$ 450,246	$ 231,694
Less: Intragovernmental Earned Revenue	67,444	88,972
Intragovernmental Net Costs	382,802	142,722
Gross Costs with the Public	40,205,671	39,760,081
Less: Earned Revenues from the Public	173,951	320,738
Net Costs with the Public	40,031,720	39,439,343
Total Net Cost	$ 40,414,522	$ 39,582,065
Air Transportation:		
Intragovernmental Gross Costs	$ 1,366,806	$ 1,475,002
Less: Intragovernmental Earned Revenue	10,288	99,063
Intragovernmental Net Costs	1,356,518	1,375,939
Gross Costs with the Public	10,894,332	13,556,439
Less: Earned Revenues from the Public	252,264	1,671,716
Net Costs with the Public	10,642,068	11,884,723
Total Net Cost	$ 11,998,586	$ 13,260,662
Maritime Transportation:		
Intragovernmental Gross Costs	$ 169,189	$ 1,654,898
Less: Intragovernmental Earned Revenue	469,167	538,142
Intragovernmental Net Costs	(299,978)	1,116,756
Gross Costs with the Public	997,836	6,109,969
Less: Earned Revenues from the Public	1,712	29,620
Net Costs with the Public	996,124	6,080,349
Total Net Cost	$ 696,146	$ 7,197,105
Cross-Cutting Programs:		
Intragovernmental Gross Costs	$ 52,765	$ 124,619
Less: Intragovernmental Earned Revenue	680,713	361,614
Intragovernmental Net Costs	(627,948)	(236,995)
Gross Costs with the Public	632,224	341,798
Less: Earned Revenues from the Public	4,105	2,386
Net Costs with the Public	628,119	339,412
Total Net Cost	$ 171	$ 102,417

U.S. Department of Transportation
Consolidated Statement of Net Cost
As of September 30, 2003
(Dollars in Thousands)

Program Costs (Notes 18 & 19)**:**	**FY 2003 DOT TOTAL**	**FY 2002 DOT TOTAL**
Costs Not Assigned to Programs	$ 325,363	$ 2,451,881
Less Earned Revenues Not Attributed to Programs	22,388	6,304
Net Cost of Continuing Operations	$ 53,412,400	$ 62,587,826
Transferred Operations:		
Gross Cost of Transferred Operations	$ 5,401,411	$ -
Less: Earned Revenue From Transferred Operations	839,508	-
Net Cost of Transferred Operations	$ 4,561,903	-
Net Cost of Operations	$ 57,974,303	$ 62,587,826

U.S. Department of Transportation
Consolidated Statement of Changes in Net Position
As of September 30, 2003
(Dollars in Thousands)

	FY 2003		FY 2002	
	Cumulative Result of Operations	Unexpended Appropriations	Cumulative Result of Operations	Unexpended Appropriations
Beginning Balances	$ 28,622,832	$ 14,058,364	$ 32,198,417	$ 13,042,782
Prior Period Adjustments (+/-) (Note 20)	872,897	4,634	1,389,360	11
Beginning Balances, As Adjusted	29,495,729	14,062,998	$ 33,587,777	$ 13,042,793
Budgetary Financing Sources:				
Appropriations Received		18,239,037		16,862,323
Appropriations Transferred-In/Out (+/-)		(10,707,856)		500,688
Other Adjustments (Rescissions, etc.) (+/-)	47,387	(227,492)	15,472	(1,293,362)
Appropriations Used	18,265,644	(17,711,397)	14,496,269	(15,035,486)
Non-Exchange Revenue (Note 20)	43,493,565		41,895,048	
Donations/Forfeitures of Cash/Cash Equivalents	7,762		744	
Transfers-In/Out Without Reimbursement (+/-)	267,595		(238,801)	
Other Budgetary Financing Sources	(455)		327,178	
Other Financing Sources:				
Donations and Forfeitures of Property	32,218		11,944	
Transfers-In/Out Without Reimbursement (Note 20)	20,526,148		56,148	
Imputed Financing From Costs Absorbed by Others	570,022		582,158	
Other (+/-)	(538)		13,318	
Total Financing Sources	83,209,348	(10,407,708)	57,159,478	1,034,163
Net Cost of Operations (+/-)	57,974,303		62,587,826	
Ending Balances	$ 54,730,774	$ 3,655,290	$ 28,159,429	$ 14,076,956

U.S. Department of Transportation
Combined Statement of Budgetary Resources
As of September 30, 2003
(Dollars in Thousands)

	FY 2003		FY 2002 as Restated	
Budgetary Resources (Note 21):	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts
Budget Authority:				
Appropriations Received	$ 61,508,409	$ 7,470	$ 46,525,559	$ -
Borrowing Authority	169,698	72,671	217,473	1,328,108
Contract Authority	40,822,324	-	44,374,187	-
Net Transfers	(8,646,843)	-	(1,005,604)	-
Other	-	-	-	-
Unobligated Balance:				
Beginning of Period	64,778,217	173	81,052,842	7,785
Net Transfers, Actual	(1,087,867)	348	1,487,584	-
Spending Authority From Offsetting Collections:				
Earned				
Collected	3,316,338	366,827	4,359,356	34,003
Receivable from Federal Sources	(286,001)	(14,558)	192,189	25,552
Change in Unfilled Customer Orders				
Advance Received	2,729,887	-	(79,577)	-
Without Advance from Federal Sources	142,728	-	92,585	-
Transfers from Trust Funds	6,928,348	-	6,712,993	106
Subtotal	$ 12,831,300	$ 352,269	$ 11,277,546	$ 59,661
Recoveries of Prior Year Obligations	421,859	388,009	577,097	24,000
Temporarily Not Available Pursuant to Public Law	(2,293)	-	(72,100)	-
Permanently Not Available	(42,556,356)	(564,013)	(39,622,897)	(609,188)
Total Budgetary Resources	$ 128,238,448	$ 256,927	$ 144,811,687	$ 810,366

U.S. Department of Transportation
Combined Statement of Budgetary Resources
As of September 30, 2003
(Dollars in Thousands)

	FY 2003		FY 2002 as Restated	
Status of Budgetary Resources:	**Budgetary**	**Non-Budgetary Financing Accounts**	**Budgetary**	**Non-Budgetary Financing Accounts**
Obligations Incurred				
Direct	$ 68,679,911	$ 230,473	$ 77,806,931	$ 809,850
Reimbursable	1,791,566	-	2,467,059	-
Subtotal	$ 70,471,477	$ 230,473	$ 80,273,990	$ 809,850
Unobligated Balance:				
Apportioned	14,573,793	24,030	13,232,195	-
Exempt from Apportionment	8,877,679	-	9,799,655	-
Other Available	-	-	32,899	-
Unobligated Balance Not Available	34,315,499	2,424	41,472,948	516
Total Status of Budgetary Resources	$ 128,238,448	$ 256,927	$ 144,811,687	$ 810,366
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period	$ 67,980,786	$ 2,719,617	$ 61,552,427	$ 2,956,058
Obligated Balance Transferred, Net (+/-)	(910,755)	-	-	-
Obligated Balance, Net, End of Period:				
Accounts Receivable	(290,814)	(167,683)	(687,120)	(194,181)
Unfilled Customer Orders from Federal Sourc	(765,087)	-	(683,124)	-
Undelivered Orders	61,187,358	2,608,186	62,474,904	3,521,561
Accounts Payable	5,346,681	-	7,187,105	3,450
Outlays:				
Disbursements	73,461,771	136,136	78,462,208	238,678
Collections	(16,710,919)	(366,827)	(16,782,216)	(27,355)
Subtotal	$ 56,750,852	$ (230,691)	$ 61,679,992	$ 211,323
Less: Offsetting Receipts	692,137	46,914	659,765	6,754
Net Outlays	$ 56,058,715	$ (277,605)	$ 61,020,227	$ 204,569

U.S. Department of Transportation
Consolidated Statement of Financing
As of September 30, 2003
(Dollars in Thousands)

Resources Used to Finance Activities:	FY 2003 DOT Total	FY 2002 DOT Total
Budgetary Resources Obligated:		
Obligations Incurred	$ 70,701,950	$ 81,083,840
Less: Spending Authority From Offsetting Collections and Recoveries	13,993,437	11,938,304
Obligations Net of Offsetting Collections and Recoveries	$ 56,708,513	$ 69,145,536
Less: Offsetting Receipts	739,051	666,519
Net Obligations	$ 55,969,462	$ 68,479,017
Other Resources:		
Donations and Forfeitures of Property	$ 32,218	$ 11,944
Transfers In/Out Without Reimbursement	20,526,148	56,148
Imputed Financing from Costs Absorbed by Others	570,022	582,158
Other:		
Other Highway Resources	-	12,694
Other Transit Resources	-	684
Other Miscellaneous Resources	(538)	(60)
Net Other Resources Used to Finance Activities	$ 21,127,850	$ 663,568
Total Resources Used to Finance Activities	$ 77,097,312	$ 69,142,585
Resources Used to Finance Items Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated for Goods, Services and Benefits Ordered But Not Yet Provided	$ 1,015,111	$ 6,330,766
Resources that Fund Expenses Recognized in Prior Periods	29,261,734	587,833
Budgetary Offsetting Collections and Receipts That Do Not Affect Net Cost of Operations:		
Credit Program Collections Which Increase Liabilities for Loan Guarantees or Allowances for Subsidy	(485,026)	(323,017)
Other	(28,271)	(136,850)
Resources That Finance the Acquisition of Assets or Liquidation of Liabilities (+/-)	(5,097,351)	3,134,564
Other Resources or Adjustments to Net Obligated Resources That Do Not Affect Net Cost of Operations	(2,785,322)	524,700
Total Resources Used to Finance Items Not Part of the Net Cost of Operations	$ 21,880,875	$ 10,117,996
Total Resources Used to Finance the Net Cost of Operations	$ 55,216,437	$ 59,024,589

U.S. Department of Transportation
Consolidated Statement of Financing
As of September 30, 2003
(Dollars in Thousands)

Components of the Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	**FY 2003 DOT Total**	**FY 2002 DOT Total**
Components Requiring/Generating Res. in Future Periods:		
Increase in Annual Leave Liability	$ 73,897	$ 206,294
Increase in Environmental and Disposal Liability	397,277	372,500
Upward/Downward Reestimates of Credit Subsidy Expense	(87,354)	(103,158)
Increase in Exchange Revenue Receivable from the Public	125,197	(134,559)
Other:		
Increase in Coast Guard Liabilities	123	1,594,002
Increase in FAA Liabilities	55,774	135,571
Other Miscellaneous Increases	888,026	41,241
Total Components of Net Cost of Operations That Will Require or Generate Resources in Future Periods	$ 1,452,940	$ 2,111,891
Components Not Requiring or Generating Resources:		
Depreciation and Amortization	$ 1,184,215	$ 1,207,738
Revaluation of Assets or Liabilities	(3,532)	108,671
Other:		
Other WCF Components	139,539	125,088
Other FAA Components	50,967	16,883
Other Miscellaneous Components	(66,263)	(7,034)
Total Components of Net Cost of Operations That Will Not Require or Generate Resources	$ 1,304,926	$ 1,451,346
Total Components of Net Cost of Operations That Will Not Require or Generate Resources in the Current Period:	$ 2,757,866	$ 3,563,237
Net Cost of Operations	$ 57,974,303	$ 62,587,826

Note 1. Significant Accounting Policies:

A. Basis of Presentation

The Departmental consolidated financial statement has been prepared to report the financial position and results from operations of the Department of Transportation (DOT), as required by the Chief Financial Officers Act of 1990 (CFO Act), as amended by the Federal Financial Management Act of 1994 (FFMA), Title IV of the Government Management Reform Act of 1994 (GMRA). The statement has been prepared from the books and records of DOT in accordance with Office of Management and Budget (OMB) requirements for form and content for entity financial statements and DOT's accounting policies and procedures. OMB Bulletin No. 01-09, "Form and Content of Agency Financial Statements," has been used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. They are different from the financial reports prepared pursuant to OMB directives that are used to monitor and control the use of budgetary resources.

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

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

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

The Statement of Budgetary Resources provides information about how budgetary resources were made available as well as their status at the end of the period. Recognition and measurement of budgetary information reported on this statement is based on budget terminology, definitions, and guidance in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," dated July 2003.

The Statement of Financing is intended to be a bridge between an entity's budgetary and financial (i.e., proprietary) accounting. The Statement of Financing illustrates the relationship between net obligations derived from an entity's budgetary accounts and net cost of operations derived from an entity's proprietary accounts by identifying and explaining key differences between the two numbers. Since DOT custodial activity is incidental to Departmental operations and not material, a Statement of Custodial Activity was not prepared. However, sources and dispositions of collections have been disclosed in Note 22 to the financial statements.

The Department is required to be in substantial compliance with all applicable accounting principles and standards established, issued, and implemented by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish Generally Accepted Accounting Principles (GAAP) for the Federal Government. The Federal Financial Management Improvement Act (FFMIA) of 1996 requires the

Department to comply substantially with (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger at the transaction level.

B. Reporting Entity

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

The Department is comprised of the Office of the Secretary and the DOT Operating Administrations, each having its own management and organizational structure and collectively providing the necessary services and oversight to ensure the best transportation system possible. The Departmental consolidated financial statement represents the financial data, including various trust funds, revolving funds, appropriations and special funds of the following organizations:

Office of The Secretary (OST) (includes OST Working Capital Fund)
Federal Aviation Administration (FAA)
Federal Highway Administration (FHWA)
Federal Motor Carrier Safety Administration (FMCSA)
Federal Railroad Administration (FRA)
National Highway Traffic Safety Administration (NHTSA)
Maritime Administration (MARAD)
Federal Transit Administration (FTA)
Bureau of Transportation Statistics (BTS)
Surface Transportation Board (STB)
Office of Inspector General (OIG)
Research and Special Programs Administration (RSPA) (includes Volpe National Transportation System Center (VNTSC)

Effective March 1, 2003, the U.S. Coast Guard (USCG) and the Transportation Security Administration (TSA) were transferred from DOT to the newly created Department of Homeland Security (DHS) as mandated under P.L. 107-296, the *Homeland Security Act of 2002*. The Departmental consolidated financial statements contain their activities through the date of the transfer.

The Saint Lawrence Seaway Development Corporation (SLSDC) is also an entity of DOT. However, since it is subject to separate reporting under the Government Corporation Control Act and the dollar value of its activities is not material to Departmental totals, SLSDC's financial data have not been consolidated in the DOT financial statements. However, condensed information about SLSDC's financial position is included in Note 23.

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular No. A-11, "Preparation, Submission, and Execution of the

Budget," dated July 2003. Budgetary accounting facilitates compliance with legal constraints and controls over the use of Federal funds. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 2003, the Department was accountable for trust fund appropriations, general fund appropriations, revolving funds and borrowing authority. DOT recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through warrants and trust fund transfers.

D. Basis of Accounting

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

E. Revenues and Other Financing Sources

DOT receives the majority of the funding needed to support all of its programs through appropriations. The Highway Trust Fund, Airport and Airway Trust Fund, and the Treasury General Fund fund some of these appropriations. DOT receives annual, multi-year and no-year appropriations that may be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from offsetting collections and user fees (e.g., landing and registry fees) and through reimbursable agreements for services performed for domestic and foreign governmental entities. Additional revenue is earned from gifts from donors, sales of goods and services to other agencies and the public, the collection of fees and fines, interest/dividends on invested funds, loans and cash disbursements to banks. Interest income received is recognized as revenue on the accrual basis. Appropriations are recognized as revenues as the related program or administrative expenses are incurred.

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

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

G. Receivables

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

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

H. Inventory and Operating Materials and Supplies

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

I. Investments in U.S. Government Securities

Investments that consist of U.S. Government Securities are reported at cost or amortized cost net of premiums or discounts. Premiums or discounts are amortized into interest income over the term of the investment using the interest or straight-line method. The Department's intent is to hold investments to maturity, unless they are needed to cover losses on loan guarantees, finance programs, or otherwise sustain the operation of the organization. Investments, redemptions, and reinvestments are controlled and processed by the Department of the Treasury.

J. Property and Equipment

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

FASAB standards require DOT stewardship assets to be omitted from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is presented in the Required Supplementary Stewardship Reporting section of this statement.

Effective for FY 2003, FASAB eliminated the category of National Defense Property, Plant and Equipment. This has resulted in MARAD's National Defense Reserve Fleet Vessels now being reported as General Property, Plant and Equipment on the Balance Sheet.

K. Prepaid and Deferred Charges

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

L. Liabilities

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

The grant accrued liability consists of requests for payments from grantees outstanding at September 30, 2003, plus an accrual for grantee expenses incurred but not yet reported to the Department as of September 30, 2003.

M. Contingencies

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

N. Annual, Sick, and Other Leave

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

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

O. Retirement Plan

For DOT employees who participate in the Civil Service Retirement System (CSRS), DOT contributes a matching contribution equal to 7 percent of pay. On January 1, 1987, FERS went into effect pursuant to Public Law (P.L.) 99-335. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS. A primary feature of FERS is that it offers a savings plan to which DOT automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For most employees hired since December 31, 1983, DOT also contributes the employer's matching share for Social Security.

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

P. Comparative Data

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

Q. Use of Estimates

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

Note 2. Non-Entity Assets:

(Dollars in Thousands)

	FY 2003	FY 2002
Intragovernmental:		
Fund Balance with Treasury	$ (21,560)	$ 62,181
Accounts Receivable	263	38,773
Other	104	104
Total Intragovernmental	$ (21,193)	$ 101,058
Accounts Receivable	2,057	19,288
Total Non-Entity Assets	$ (19,136)	$ 120,346
Total Entity Assets	71,446,060	84,343,451
Total Assets	$ 71,426,924	$ 84,463,797

Note 3. Fund Balance with Treasury.

Fund Balances:		FY 2003		FY 2002
Trust Funds	$	5,700,034	$	4,260,272
Revolving Funds		401,671		293,664
Appropriated Funds		22,323,975		24,610,996
Other Fund Types		830,558		803,718
Total	$	29,256,238	$	29,968,650

Status of Fund Balance with Treasury:		FY 2003		FY 2002
Unobligated Balance				
Available	$	9,292,262	$	7,740,176
Unavailable		1,008,107		1,155,138
Obligated Balance Not Yet Disbursed		18,955,869		21,073,336
Total	$	29,256,238	$	29,968,650

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

Note 4. Investments:

(Dollars in Thousands)

As of September 30, 2003: Intragovernmental Securitie	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 189,059	$ (743)	$ 188,316	$ -	$ 188,316
Non-Marketable: Par Value	10,517,891	-	10,517,891	-	10,517,891
Market-Based	14,163,246	(506)	14,162,740	-	14,162,740
Subtotal	$ 24,870,196	$ (1,249)	$ 24,868,947	$ -	$ 24,868,947
Accrued Interest	105,829		105,829		105,829
Total Intragovernmental	$ 24,976,025	$ (1,249)	$ 24,974,776	$ -	$ 24,974,776

As of September 30, 2002:

Intragovernmental Securities:	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
Marketable	$ 277,715	$ (1,237)	$ 276,478	$ (635)	$ 275,843
Non-Marketable: Par Value	12,001,271	2,339	12,003,610	-	12,003,610
Market-Based	18,932,314	(454)	18,931,860	-	18,931,860
Subtotal	$ 31,211,300	$ 648	$ 31,211,948	$ (635)	$ 31,211,313
Accrued Interest	127,257		127,257		127,257
Total Intragovernmental	$ 31,338,557	$ 648	$ 31,339,205	$ (635)	$ 31,338,570
Other Securities:					
Private Stock	$ 27	$ -	$ 27	$ -	$ 27
Total Public	$ 27	$ -	$ 27	$ -	$ 27

Investments in Federal securities include non-marketable par value Treasury securities, market-based Treasury securities, marketable Treasury securities, and securities issued by other Federal entities. Non-Federal securities include those issued by state and local governments, Government-sponsored enterprises, and other private corporations.

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

Note 5. Accounts Receivable :

(Dollars in Thousands)

Intragovernmental:	Gross Amount Due	Allowance for Uncollectible Amounts	FY 2003 Net Amount Due	FY 2002 Net Amount Due
Accounts Receivable	$ 480,303	$ 16	$ 480,287	$ 612,172
Accrued Interest	15,118	-	15,118	-
Total Intragovernmental	$ 495,421	$ 16	$ 495,405	$ 612,172
Public:				
Accounts Receivable	$ 140,212	$ 17,311	$ 122,901	$ 330,255
Accrued Interest	63	-	63	186
Total Public	$ 140,275	$ 17,311	$ 122,964	$ 330,441
Total Receivables	$ 635,696	$ 17,327	$ 618,369	$ 942,613

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

Note 6. Other Assets

	(Dollars in Thousands)	
Intragovernmental:	FY 2003	FY 2002
Advances and Prepayments	$ 117,143	$ 53,744
Undistributed Assets and Payments	297	37,820
Total Intragovernmental	$ 117,440	$ 91,564
Public:		
Advances to the States	$ 97,613	$ 97,573
Other Advances and Prepayments	5,691	156,056
Undistributed Assets and Payments	-	157,913
Total Public	$ 103,304	$ 411,542

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

Note 7. Cash, Foreign Currency and Other Monetary Assets:

	FY 2003	FY 2002
Cash	$ 19,001	$ 24,765
Total Other Monetary Assets	-	443
Total Cash and Other Monetary Assets	$ 19,001	$ 25,208

Cash consists of undeposited collections and imprest fund balances. Other Monetary Assets consist of USCG Cadet Savings Accounts.

Note 8. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

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

(1) Railroad Rehabilitation Improvement Program
(2) Alameda Corridor Transportation Authority Loan
(3) Transportation Infrastructure Finance Innovation Act (TIFIA) Loan
(4) Federal Ship Financing Fund (Title XI)
(5) OST Minority Business Resource Center Guaranteed Loan Program

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

Direct Loans Obligated Prior to FY 1992 (Present Value Method):

(Dollars in Thousands)

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
(1) Railroad Rehab Improv	$ 34,962	$ 981	$ -	$ -	$ 35,943
Total	$ 34,962	$ 981	$ -	$ -	$ 35,943

Direct Loans Obligated After FY 1991:

Direct Loan Programs	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
(1) Railroad Rehab Improv	$ 111,718	$ 2,201	$ -	$ 544	$ 114,463
(2) Alameda Corridor	400,000	151,842	-	145,380	697,222
(3) TIFIA Loan	102,622	-	-	(9,115)	93,507
Total	$ 614,340	$ 154,043	$ -	$ 136,809	$ 905,192

Total Amount of Direct Loans Disbursed (Post-1991):

Direct Loan Programs	Current Year	Prior Year
(1) Railroad Rehab Improv	$ 9,583	$ -
(3) TIFIA Loan	51,906	151,847
Total	$ 61,489	$ 151,847

Subsidy Expense for Direct Loans by Program and Component:

Subsidy Expense for New Direct Loans Disbursed (Current reporting year):

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehab Improv	$ -	$ -	$ 20	$ -	$ 20
(3) TIFIA Loan	-	-	-	1,238	1,238
Total	$ -	$ -	$ 20	$ 1,238	$ 1,258

Subsidy Expense for New Direct Loans Disbursed (Prior reporting year):

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total
(1) Railroad Rehab Improv	$ -	$ -	$ 7	$ -	$ 7
(3) TIFIA Loan	-	-	-	106	106
Total	$ -	$ -	$ 7	$ 106	$ 113

Modifications and Reestimates (Current reporting year):

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(3) TIFIA Loan	$ -	$ -	$ 3,600	$ 3,600
Total	$ -	$ -	$ 3,600	$ 3,600

Modifications and Reestimates (Prior reporting year):

Direct Loan Programs	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates
(5) OST Min Bus Guar Ln	-	(56)	78	22
Total	$ -	$ (56)	$ 78	$ 22

Total Direct Loan Subsidy Expense:

Direct Loan Programs	Current Year	Prior Year
(3) TIFIA Loan	$ 1,238	$ 106
Total	$ 1,238	$ 106

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

Beginning Balance, Changes, and Ending Balance	FY 2003	FY 2002
Beginning Balance of the Subsidy Cost Allowance	$ 7,876	$ 7,770
Add: Subsidy Expense for Direct Loans Disbursed during the Reporting Years by Component:		
Other Subsidy Costs	1,238	106
Total of the Above Subsidy Expense Components	$ 1,238	$ 106
Ending Balance of the Subsidy Cost	$ 9,114	$ 7,876

Defaulted Guaranteed Loans from Post-1991 Guarantees:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Defaulted Guaranteed Loans Receivable, Net
(4) Fed Ship Fin Fund	$ 429,088	$ 5,977	$ 14,000	$ (369,377)	$ 79,688
Total	$ 429,088	$ 5,977	$ 14,000	$ (369,377)	$ 79,688

Guaranteed Loans Outstanding:

Loan Guarantee Programs	Outstanding Principal of Guaranteed Loans, Face Value	Amount of Outstanding Principal Guaranteed
(4) Fed Ship Fin Fund	$ 3,546,194	$ 3,546,194
(5) OST Min Bus Guar Loan	10,246	7,713
Total	$ 3,556,440	$ 3,553,907
New Guaranteed Loans Disbursed (Current reporting year):		
(4) Fed Ship Fin Fund	$ 249,651	$ 249,651
(5) OST Min Bus Guar Loan	8,941	6,735
Total	$ 258,592	$ 256,386
New Guaranteed Loans Disbursed (Prior reporting year):		
(4) Fed Ship Fin Fund	$ 724,734	$ 724,734
(5) OST Min Bus Guar Loan	4,791	3,593
Total	$ 729,525	$ 728,327

Liability for Loan Guarantees (Present Value Method for pre-1992 guarantees):

Loan Guarantee Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(4) Fed Ship Fin Fund	$ 292,740	$ 292,740
(5) OST Min Bus Guar Loan	536	536
Total	$ 293,276	$ 293,276

Subsidy Expense for Loan Guarantees by Program and Component:

Subsidy Expense for New Loan Guarantees (Current reporting year):

Loan Guarantee Programs	Defaults	Fees and Other Collections	Total
(4) Fed Ship Fin Fund	$ 26,975	$ 34,184	$ 61,159
(5) OST Min Bus Guar Ln	241	-	241
Total	$ 27,216	$ 34,184	$ 61,400

Subsidy Expense for New Loan Guarantees (Prior reporting year):

Loan Guarantee Programs	Defaults	Fees and Other Collections	Total
(4) Fed Ship Fin Fund	$ (285,641)	$ 67,166	$ (218,475)
(5) OST Min Bus Guar Ln	129	-	129
Total	$ (285,512)	$ 67,166	$ (218,346)

Modifications and Reestimates (Current reporting year):

Loan Guarantee Programs	Technical Reestimates	Total
(4) Fed Ship Fin Fund	$ (153,530)	$ (153,530)
	$ (153,530)	$ (153,530)

Modifications and Reestimates (Prior reporting year):

Loan Guarantee Programs	Technical Reestimates	Total
(4) Fed Ship Fin Fund	$ 77,883	$ 77,883
	$ 77,883	$ 77,883

Total Loan Guarantee Subsidy Expense

Loan Guarantee Programs	Current Year	Prior Year
(4) Fed Ship Fin Fund	$ (92,371)	$ (140,592)
(5) OST Min Bus Guar Loan	241	129
Total	$ (92,130)	$ (140,463)

Subsidy Rates for Loan Guarantees by Program and Component:

Budget Subsidy Rates for Loan Guarantees for the Current Year's Cohorts:

Loan Guarantee Programs	Interest Supplements	Defaults	Fees and Other Collections	Other	Total
(4) Fed Ship Fin Fund	0%	5.92%	0%	0%	5.92%
(5) OST Min Bus Guar Ln	0%	3%	0%	0%	3%

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

Beginning Balance, Changes, and Ending Balance	FY 2003	FY 2002
Beginning Balance of the Loan Guarantee Liability	$ (383,698)	$ (400,192)
Add: Subsidy Expense for Guaranteed Loans Disbursed during the Reporting Years by Component:		
Default Costs (net of recoveries)	(26,734)	285,770
Fees and Other Collections	(34,184)	(67,166)
Total of the Above Subsidy Expense Components	$ (60,918)	$ 218,604
Adjustments:		
Foreclosed Property and Loans Acquired	14,000	-
Interest Accumulation on the Liability Balance	(15,118)	(31,106)
Other	-	(93,121)
Ending Balance of the Loan Guarantee Liability Before Reestimates	$ (445,734)	$ (305,815)
Add or Subtract Subsidy Reestimates by Component:		
Technical/Default Reestimate	153,530	(77,883)
Total of the Above Reestimate Components	$ 153,530	$ (77,883)
Ending Balance of the Loan Guarantee Liability	$ (292,204)	$ (383,698)

Administrative Expense:

Loan Guarantee Programs	
(5) OST Min Bus Guar Loan	$ 218
Total	$ 218

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.

<u>Note 9. Inventory and Related Property</u>:

(Dollars in Thousands)

	Cost	Allowance for Loss	FY 2003 Net	FY 2002 Net
Inventory:				
Inventory Held for Current Sale	$ 89,443	$ -	$ 89,443	$ 126,443
Inventory Held in Reserve for Future Sale	-	-	-	3,409
Excess, Obsolete and Unserviceable Inventory	18,802	4,760	14,042	18,585
Inventory Held for Repair	414,038	83,849	330,189	336,133
Inventory Work In Process	-	-	-	(307)
Other	13,632	-	13,632	13,643
Total Inventory	$ 535,915	$ 88,609	$ 447,306	$ 497,906
Operating Materials and Supplies:				
Items Held for Use	$ 458,664	$ 12,167	$ 446,497	$ 1,127,543
Items Held in Reserve for Future Use	-	-	-	15,546
Excess, Obsolete and Unserviceable Items	76,073	60,664	15,409	24,817
Items Held for Repair	-	-	-	292,123
Total Operating Materials & Supplies	$ 534,737	$ 72,831	$ 461,906	$ 1,460,029
Total Inventory and Related Property			$ 909,212	$ 1,957,935

All DOT inventory is in FAA and the OST Working Capital Fund. Valuation methods used include weighted moving average cost and the periodic inventory method.

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

The decrease in Inventory and Related Property is attributed to the Coast Guard transfer to the Department of Homeland Security on March 1, 2003.

Note 10. General Property, Plant and Equipment:

(Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	FY 2003 Net Book Value	FY 2002 Net Book Value
Land		$ 96,155	$ -	$ 96,155	$ 133,630
Buildings and Structures	Various	3,967,428	1,931,942	2,035,486	2,935,417
Furniture and Fixtures	Various	286	18	268	22,806
Equipment	Various	12,324,162	5,672,554	6,651,608	6,667,826
ADP Software	Various	150,563	44,548	106,015	125,330
Electronics	6-10	738	672	66	53,433
Assets Under Capital Lease	>20	125,923	63,328	62,595	70,751
Leasehold Improvements	Various	53,202	13,245	39,957	29,200
Aircraft	11-20	431,351	255,627	175,724	811,518
Ships and Vessels	>20	1,813,444	1,019,345	794,099	2,131,812
Small Boats	Various	24,989	23,569	1,420	198,868
Other Vehicles	1-5	27	5	22	2,133
Construction in Progress	Various	4,425,855	-	4,425,855	5,338,709
Property Not in Use		18,292	4,379	13,913	1,011
Other Misc. Property		6,146	1,568	4,578	-
Total		$ 23,438,561	$ 9,030,800	$ 14,407,761	$ 18,522,444

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

FASAB has eliminated the stewardship asset classification of National Defense Property, Plant and Equipment. The Maritime Administration's implementation of this proposal has resulted in the addition of approximately $800 million net book value of National Defense Reserve Fleet Vessels to DOT's General Property, Plant and Equipment.

The decrease in Property, Plant and Equipment is attributed to the Coast Guard transfer to the Department of Homeland Security on March 1, 2003.

*** 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

Note 11. Liabilities Not Covered by Budgetary Resources:

	(Dollars in Thousands)	
Intragovernmental:	FY 2003	FY 2002
Accounts Payable	$ 673	$ -
Debt	849,690	774,460
Other Liabilities	290,754	233,867
Total Intragovernmental	$ 1,141,117	$ 1,008,327
Accounts Payable	$ 86	$ 1
Federal Employee and Veterans' Benefits Payabl	1,112,550	30,138,478
Environmental and Disposal Liabilities	1,344,453	1,041,322
Other Liabilities	954,132	1,531,154
Total Liabilities Not Covered by Budgetary Resource	$ 4,552,338	$ 33,719,282
Total Liabilities Covered by Budgetary Resources	8,488,522	8,508,130
Total Liabilities	$ 13,040,860	$ 42,227,412

The decrease in Liabilities is attributed to the Coast Guard transfer to the Department of Homeland Security on March 1, 2003.

Note 12. Debt:

(Dollars in Thousands)

Intragovernmental Debt:	FY 2002 Beginning Balance	Net Change During Fiscal Year	FY 2002 Ending Balance	Net Change During Fiscal Year	FY 2003 Ending Balance
Debt to the Treasury	$ 897,886	$ 255,957	$ 1,153,843	$ (44,105)	$ 1,109,738
Debt to the Fed Financing Bank	3,407	(160)	3,247	(170)	3,077
Total Intragovernmental Debt	$ 901,293	$ 255,797	$ 1,157,090	$ (44,275)	$ 1,112,815

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

Note 13. Other Liabilities:

(Dollars in Thousands)

Intragovernmental:	Non-Current	Current	FY 2003 Total
Advances and Prepayments	$ -	$ 2,864,363	$ 2,864,363
Accrued Pay and Benefits	1,209	34,332	35,541
Undisbursed Loans	-	157,743	157,743
FECA Billings	120,199	94,453	214,652
Uncleared Disbursements and Collections	-	9,188	9,188
Deferred Credits	-	19	19
Deposit Funds	-	(23,787)	(23,787)
Other Accrued Liabilities	74,965	70,918	145,883
Total Intragovernmental	$ 196,373	$ 3,207,229	$ 3,403,602

Public:	Non-Current	Current	FY 2003 Total
Accrued Unbilled Payments	$ -	$ 127,085	$ 127,085
Accrued Pay and Benefits	123,893	222,132	346,025
Federal Lands Accrual	-	-	-
Legal Claims	54,506	25,335	79,841
Deferred Credits	-	10,017	10,017
Capital Leases	59,685	9,159	68,844
Advances and Prepayments	-	15,427	15,427
Uncleared Disbursements and Collections	-	(73,221)	(73,221)
Deposit Funds	-	(873)	(873)
Other Accrued Liabilities	206,540	11,081	217,621
Total Public	$ 444,624	$ 346,142	$ 790,766

Intragovernmental:	Non-Current	Current	FY 2002 Total
Advances and Prepayments	$ -	$ 171,488	$ 171,488
Accrued Pay and Benefits	1,354	264,106	265,460
Undisbursed Loans	194,180	-	194,180
FECA Billings	130,586	100,297	230,883
Uncleared Disbursements and Collections	15	6,567	6,582
Deferred Credits	-	4,739	4,739
Deposit Funds	-	(433)	(433)
Other Accrued Liabilities	-	277,054	277,054
Total Intragovernmental	$ 326,135	$ 823,818	$ 1,149,953

Public:			
Accrued Unbilled Payments	$ 25,491	$ 24,875	$ 50,366
Accrued Pay and Benefits	345,561	645,022	990,583
Legal Claims	94,498	76,422	170,920
Deferred Credits	245,712	71	245,783
Capital Leases	64,398	13,698	78,096
Advances and Prepayments	-	17,781	17,781
Uncleared Disbursements and Collections	65,133	12,152	77,285
Deposit Funds	-	(7,339)	(7,339)
Other Accrued Liabilities	105,425	7,672	113,097
Total Public	$ 946,218	$ 790,354	$ 1,736,572

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

Note 14. Federal Employee and Veterans' Benefits:

	(Dollars in Thousands)	
	Value of Projected Plan Benefits	
	FY 2003	FY 2002
Pensions:		
USCG Retired Pay	$ -	$ 17,663,500
Other Retirement Benefits:		
USCG Military Health Care	-	11,323,000
Other Post-Employment Benefits:		
Federal Employees Compensation Act Actuarial Liat	1,112,550	1,152,368
Total Federal Employee and Veterans Benefits	$ 1,112,550	$ 30,138,868

The Coast Guard Military Retirement System (covering both retirement pay and health care benefits) is funded through annual appropriations and, as such, is essentially a pay-as-you-go system. Consequently, the only assets in the system are unintentional overpayments in the past which are due to be repaid by participants. The unfunded figures reported above reflect the actuarial accrued liability for both retired pay and health care benefits. Calculation of these numbers is a multi-step process. First, an "actuarial present value of accumulated plan benefits" is derived from the future payments that are attributable under the retirement plan's provisions to a member's credited service as of the valuation date (e.g., benefits to retired members or their beneficiaries). The accumulated plan benefits are converted to a present value of future benefits by applying assumptions to reflect the time value of money and the probability of payment between the valuation date and expected date of payments. The significant actuarial assumptions used in this conversion include: life expectancy, cost of living increases, and investment return. The present value of future benefits is then converted to an unfunded accrued liability by subtracting the present value of future employer/employee normal contributions as well as any assets in the system. Effective March 1, 2003, the Coast Guard was transferred from DOT to the newly created Department of Homeland Security (DHS). Therefore, Coast Guard Retired Pay and Military Health Care are now reported as DHS liabilities.

Federal Employees' Compensation Act liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The liability is determined using a method that utilizes historical benefit payment patterns related to a specific incurred period to predict the ultimate payments related to that period. Consistent with past practice, these projected annual benefit payments have been discounted to present value using the Office of Management and Budget's economic assumptions for 10-year Treasury notes and bonds.

Note 15. Environmental and Disposal Liabilities:

(Dollars in Thousands)

	FY 2003	FY 2002
Environmental Cleanup Liabilities:		
FAA Environmental Remediation	$ 372,125	$ 311,914
FAA Environmental Cleanup and Decommissioning	249,828	262,762
USCG Environmental Remediation and Cleanup	-	94,146
MARAD Environmental Cleanup (PCB, Lead, Oil)	722,500	372,500
Total	$ 1,344,453	$ 1,041,322

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

In FY 2003, the Maritime Administration's National Defense Reserve Fleet retention and non-retention ships are included in DOT's environmental and disposal liabilities. In prior years, only non-retention ships had been reported as environmental liabilities, because the retention ships were in a sellable condition and the net environmental liability after the sale was expected to be immaterial. However, the likelihood of selling the retention ships has diminished in FY 2003, and it is now probable that an environmental liability will be incurred.

Note 16. Leases:

ENTITY AS LESSEE:

Capital Leases: (Dollars in Thousands)

Summary of Assets Under Capital Lease by Category:	FY 2003	FY 2002
(1) Land and Buildings	$ 124,841	$ 125,991
(2) Machinery and Equipment	1,082	1,152
(3) Other	-	-
Accumulated Depreciation	(63,328)	(56,392)
Net Assets Under Capital Lease	$ 62,595	$ 70,751

Description of Lease Arrangements: Capital leases cover land and buildings at FAA's Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technical Center (WJHTC) located in Pomona, New Jersey. FAA's capital lease payments are funded annually. FAA also has capital leases on machinery and equipment.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2004)	$ 13,425	$ 273	$ -	$ 13,698
Year 2 (2005)	13,346	273	-	13,619
Year 3 (2006)	11,417	187	-	11,604
Year 4 (2007)	9,380	-	-	9,380
Year 5 (2008)	8,973	-	-	8,973
After 5 Years (2009+)	41,125	-	-	41,125
Total Future Lease Payments	$ 97,666	$ 733	$ -	$ 98,399
Less: Imputed Interest	29,406	149	-	29,555
Executory Costs	-	-	-	-
Net Capital Lease Liability	$ 68,260	$ 584	$ -	$ 68,844
Liabilities Covered by Budgetary Resources				$ -
Liabilities Not Covered by Budgetary Resources				$ 68,844

Operating Leases:

Description of Lease Arrangements: Operating leases include a RSPA lease for the Transportation Safety Institute North Campus and FAA leases for property, aircraft, equipment, and telecommunications.

Future Payments Due:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2004)	$ 50,172	$ 44	$ 829	$ 51,045
Year 2 (2005)	43,310	44	654	44,008
Year 3 (2006)	36,596	43	374	37,013
Year 4 (2007)	33,802	44	369	34,215
Year 5 (2008)	32,313	43	366	32,722
After 5 Years (2009+)	51,012	117	2,322	53,451
Total Future Lease Payments	$ 247,205	$ 335	$ 4,914	$ 252,454

ENTITY AS LESSOR:

Capital Leases:

N/A

Operating Leases:

Description of Lease Arrangements FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 for $3 million per year for a 50-year term. Subsequent annual rental payments are adjusted by applying the Implicit Price Deflator for the Gross National Product published by the Department of Commerce. Additionally, the parties may renegotiate the level of lease payments attributable to inflation costs every ten years. Upon lease expiration, the airports and facilities, originally valued at $244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

Future Projected Receipts:

	Asset Category			
Fiscal Year	(1)	(2)	(3)	Totals
Year 1 (2004)	$ 14,540	$ 90	$ 1	$ 14,631
Year 2 (2005)	11,232	90	-	11,322
Year 3 (2006)	11,261	90	-	11,351
Year 4 (2007)	11,116	90	-	11,206
Year 5 (2008)	10,670	90	-	10,760
After 5 Years (2009+)	140,152	448	-	140,600
Total Future Operating Lease Receivables	$ 198,971	$ 898	$ 1	$ 199,870

Note 17. Contingencies:

Legal Claims. As of September 30, 2003 and 2002, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $325.5 million and $499.8 million, respectively. FAA does not have material amounts of known unasserted claims. MARAD has a legal liability of $606,200 as a result of civil rights claims against the Department.

Grant Programs. FHWA pre-authorizes states to establish construction budgets without having received appropriations from Congress for such projects. FHWA does not guarantee the ultimate funding to the states for these "Advance Construction" projects and, accordingly, does not obligate any funds for these projects. When funding becomes available to FHWA, the states can then apply for reimbursement of costs that they have incurred on such project, at which time FHWA can accept or reject such request. At September 30, 2003, $34.5 billion has been pre-authorized under these arrangements; however, no liability is reflected in the DOT financial statements at September 30, 2003, for these arrangements.

FTA executes Full Funding Grant Agreements (FFGAs) under its Capital Investment program (New Starts) authorizing transit authorities to establish project budgets and incur costs with their own funds in advance of annual appropriations by Congress. As of September 30, 2003, approximately $2.469 billion in Section 5309 New Starts funds has been committed under FFGAs, but not yet appropriated by Congress. However, no liability is reflected in the DOT financial statements at September 30, 2003, for these agreements.

FAA has legal authority to issue Letters of Intent (LOIs) to enter into Airport Improvement Program (AIP) grant agreements. Through September 30, 2003, FAA issued LOIs covering FY 1988 through FY 2014 totaling $4.5 billion. As of September 30, 2003, FAA had obligated $3.0 billion of this total amount, leaving $1.5 billion unobligated. As of September 30, 2002, LOIs covering FY 1988 through FY 2014 totaled $4.3 billion. Of this amount, FAA had obligated $2.7 billion, leaving $1.6 billion unobligated as of September 30, 2002.

FY 2003 AIP grant authority totaled $3.3 billion, including $2.1 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed $1.8 billion, and $336 million remains available from unused or newly enacted contract authority to those sponsors through FY 2005, or in the case of non-hub primary airport locations, through FY 2006. In FY 2002, AIP grant authority was $3.5 billion, including $1.7 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed $1.4 billion, and $355 million remained available from unused or newly enacted contract authority to those sponsors through FY 2004, or in the case of non-hub primary airport locations, through FY 2005.

Contract Options and Negotiations. As of September 30, 2003 and 2002, FAA had contract options of $32.8 billion and $19.9 billion, respectively. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

As of September 30, 2003 and 2002, FAA had a total of $21.6 million and $42.1 million, respectively, in commitments (funds reserved for possible future obligations) under unexpired appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of each respective fiscal year.

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

FAA maintains standby non-premium war-risk insurance policies for 38 carriers having approximately 975 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act (Public Law 107-42) to include all scheduled domestic air carriers. Under this program, FAA has provided temporary war-risk insurance, for typically 60-day periods, to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. Insured air carrier per occurrence limits, for combined hull and liability coverage, range from $100 million to $4 billion. Total insurance in force for hull coverage as of September 30, 2003, was $172.7 billion. Public Law 108-11 mandated FAA to extend policies in effect on June 19, 2002, until August 31, 2004. The period of coverage in effect as of September 30, 2003, was from August 13 to October 11, 2003. There are 76 FAA war risk policies.

The issuance of temporary war-risk coverage to all scheduled domestic carriers provides necessary insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by FAA and are assessed per departure. During FY 2003 and FY 2002, FAA recognized insurance premium revenue of $124 million and $74.6 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage.

In the past, FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion. No claims for losses were pending as of September 30, 2003, or 2002. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating back to 1951), only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. FAA issued an interim final rule (IFR), effective on August 1, 2000, followed by a Final Rule, effective on August 20, 2001, that required certain aircraft operators to pay fees for air traffic control and related services provided by FAA to aircraft that operate in U.S.-controlled airspace but neither take off nor land in the U.S. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996, as amended. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. FAA issued the Final Rule while the IFR litigation was still pending. The same group of plaintiffs then brought suit against the Final Rule, and the Court combined the two cases.

FAA had recognized $79.7 million in revenue, including $19.8 million and $27.6 million in FY 2003 and FY 2002, respectively, before it ceased billing in light of an adverse decision in the U.S. Court of Appeals on April 8, 2003. The period for appealing that decision to the Supreme Court expired on October 31, 2003. Congress has since enacted, in the FAA Reauthorization Act signed by the President on December 12, 2003, a provision on overflight fees that affects past and future fee collections. FAA's ability to retain these fees in light of the new legislation is under review.

Environmental. FAA is a party to two major environmental remediation projects in which the extent of liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2003, and 2002, the amount related to these two sites is $61.6 million and $67.7 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

Note 18. Net Cost by Program:

(Dollars in Thousands)

Program Costs	FY 2003	FY 2002
Surface		
Highway Surface Transportation	$ 7,373,737	$ 7,138,989
Mass Transit	7,444,373	6,912,429
National Highway System	6,414,436	5,874,660
Interstate Maintenance	4,032,790	4,583,450
Bridge Program	3,318,410	3,000,457
Highway Minimum Guarantee	2,832,259	3,050,915
Other Highway Trust Fund Programs	2,045,031	303,297
Other Highway Programs	197,783	1,205,002
High Priority Projects	1,328,515	1,132,525
Federal Railroad Administration Grants	1,049,776	1,066,576
Congestion Mitigation and Air Quality	884,383	919,250
Highway Safety Programs	630,365	622,294
Appalachian Development Highway	323,066	318,159
DOT Allocated Highway Programs	384,169	425,350
Department of Interior Allocated Highway Programs	303,821	280,798
Federal Lands Highways	369,569	598,148
Federal Motor Carrier Safety	299,038	267,129
Highway Research and Development	242,539	345,630
Woodrow Wilson Bridge	147,601	196,320
Research and Special Programs Administration	115,766	129,454
Rail Safety and Operations	127,934	96,660
Highway Planning	139,314	504,403
Highway Emergency Relief	172,029	280,890
Highway Minimum Allocation	56,441	94,073
Bureau of Transportation Statistics	35,388	44,538
Other Rail Programs	29,962	17,535
Rail Research and Development	29,548	20,275
Next Generation High Speed Rail	27,656	29,361
Alaska Railroad	23,496	36,315
Surface Transportation Board	20,887	20,782
State Infrastructure Bank	14,440	7,840
Alameda Corridor	-	58,561
Total Surface Program Costs	$ 40,414,522	$ 39,582,065

Air		
Air Traffic Services	$ 7,651,038	$ 7,236,665
Airports	2,786,493	2,933,542
Aviation Security	47,250	1,430,653
Regulation and Certification	942,009	923,493
Research and Acquisition	442,922	514,862
Other Federal Aviation Administration Programs	117,149	210,086
Commercial Space	11,725	11,361
Total Air Program Costs	$ 11,998,586	$ 13,260,662

Maritime		
Coast Guard Operating Expenses	$ -	$ 3,830,128
Coast Guard Retired Pay	-	2,247,751
Coast Guard Acquisition and Construction	-	468,661
Maritime Operations and Training	520,185	137,848
Maritime Guaranteed Loan	(31,086)	134,304
Maritime Security Program	97,053	96,192
Coast Guard Reserve Training	-	79,515
Coast Guard Boat Safety	-	62,036
Maritime Ocean Freight Differential Program	114,033	54,331
Coast Guard Oil Spill Liability	-	52,370
Coast Guard Research, Development, Test & Evalua	-	19,067
Coast Guard Alteration of Bridges	-	10,453
Maritime Vessel Operations Revolving Fund	(4,902)	(11,931)
Coast Guard Environmental Compliance & Restorati	-	9,619
Maritime Operating Differential Subsidy	1,118	5,088
Other Coast Guard Programs	-	1,581
Other Maritime Programs	(255)	92
Total Maritime Program Costs	$ 696,146	$ 7,197,105

Cross-Cutting		
Office of the Secretary Working Capital Fund	$ (3,508)	$ 97,783
Volpe National Transportation Systems Center	3,679	4,634
Total Cross-Cutting Program Costs	$ 171	$ 102,417

The decrease in Maritime Program Costs is attributed to the Coast Guard transfer to the Department of Homeland Security on March 1, 2003.

Note 19. Gross Cost and Earned Revenue by Budget Functional Classification:

Gross Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
FY 2003:			
054 Defense-Related Activities	$ 524,433	$ 399,644	$ 124,789
304 Pollution Control and Abatemen	61,282	-	61,282
401 Ground Transportation	40,488,171	189,415	40,298,756
402 Air Transportation	15,203,104	1,060,252	14,142,852
403 Water Transportation	2,973,591	113,043	2,860,548
407 Other Transportation	988,492	740,658	247,834
808 Other General Government	256,770	18,528	238,242
Total	$ 60,495,843	$ 2,521,540	$ 57,974,303
FY 2002:			
054 Defense-Related Activities	$ 486,147	$ 318,668	$ 167,479
304 Pollution Control and Abatemen	61,989	-	61,989
401 Ground Transportation	39,860,830	408,219	39,452,611
402 Air Transportation	15,031,441	1,770,779	13,260,662
403 Water Transportation	7,216,731	249,094	6,967,637
407 Other Transportation	655,800	365,491	290,309
808 Other General Government	2,393,443	6,304	2,387,139
Total	$ 65,706,381	$ 3,118,555	$ 62,587,826

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification:

FY 2003:			
054 Defense-Related Activities	$ 11,674	$ 403,343	$ (391,669)
304 Pollution Control and Abatemen	11,281	-	11,281
401 Ground Transportation	417,629	15,629	402,000
402 Air Transportation	1,366,806	10,288	1,356,518
403 Water Transportation	674,360	98,803	575,557
407 Other Transportation	108,022	736,388	(628,366)
808 Other General Government	50,917	18,592	32,325
Total	$ 2,640,689	$ 1,283,043	$ 1,357,646

Budget Functional Classification		Gross Cost		Earned Revenue		Net Cost
FY 2002:						
054 Defense-Related Activities	$	18,849	$	318,668	$	(299,819)
304 Pollution Control and Abatemen		(14,311)		-		(14,311)
401 Ground Transportation		217,225		87,649		129,576
402 Air Transportation		1,475,092		99,063		1,376,029
403 Water Transportation		1,650,360		219,474		1,430,886
407 Other Transportation		139,088		362,937		(223,849)
808 Other General Government		132		132		-
Total	$	3,486,435	$	1,087,923	$	2,398,512

Note 20. Statement of Changes in Net Position:

Prior Period Adjustments:

Prior Period Adjustments for FY 2003 are due primarily to a change in FASAB accounting standards. Effective for FY 2003, FASAB eliminated the category of National Defense Property, Plant and Equipment. This required MARAD's National Defense Reserve Fleet Vessels to be reported as General Property, Plant and Equipment.

Non-Exchange Revenue:

Highway Trust Fund

(Dollars in Thousands)

Receipts:	FY 2003	FY 2002
Excise Taxes (transferred from the general fund):		
Gasohol	$ 2,740,664	2,244,139
Diesel and Special Motor Fuels	8,536,830	8,350,276
Trucks	3,053,139	2,598,739
Gasoline	21,207,711	20,484,533
Fines and Penalties	15,682	14,790
FMCSA Revenue	(428)	-
IMPT Revenue	112	127
CMIA Interest	2,644	1,459
Total Taxes	$ 35,556,354	$ 33,694,063
Less: Transfer to Land and Water Conservation Fund	$ (1,000)	$ (1,000)
Transfer to General Fund	(118,572)	(115,526)
Transfer to Aquatic Reserve	(289,682)	(282,746)
Gross Taxes	$ 35,147,100	$ 33,294,791
Less Refunds of Taxes (reimbursed to general fund):		
Diesel-powered Vehicle	$ -	$ (4)
Gasoline	(318,547)	(323,332)
Gasohol	(17,448)	(19,402)
Diesel	(642,428)	(677,408)
Special Motor Fuel	(766)	(4,229)
Gas to make Gasohol	(22,309)	(21,515)
Diesel Fuel Bus Use	(30,430)	(33,411)
Total Refunds of Taxes	$ (1,031,928)	$ (1,079,301)
Net Non Exchange Revenue	$ 34,115,172	$ 32,215,490

The IRS collects various taxes on behalf of the Highway Trust Fund. These taxes can only be withdrawn as authorized by DOT appropriations. Treasury estimates the taxes to be collected each quarter and adjusts the estimates by actual collections.

Federal Aviation Administration:

	FY 2003	FY 2002
Passenger Ticket Tax	$ 6,065,763	6,300,562
International Departure Tax	1,517,807	1,410,234
Investment Income	570,873	777,693
Fuel Taxes	850,950	802,749
Waybill Tax	399,396	394,317
Tax Refunds and Credits	(44,320)	(59,613)
Net Non Exchange Revenue	$ 9,360,469	$ 9,625,942
Other Miscellaneous Net Non Exchange Revenue	17,924	53,616
Total Non Exchange Revenue	$ 43,493,565	$ 41,895,048

The IRS collects various excise taxes on behalf of FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by FAA appropriations. Twice a month, Treasury estimates the amount collected, and adjusts the estimates by actual collections quarterly. Accordingly, the total taxes recognized for the years ended September 30, 2003 and 2002, included OTA's estimate of $2.9 billion and $2.5 billion for the quarters ending September 30, 2003 and 2002, respectively.

Transfers In/Out:

DOT Transfers In/Out Without Reimbursement for FY 2003 were due primarily to the March 1, 2003, transfer of Coast Guard and the Transportation Security Administration to the Department of Homeland Security.

Note 21. Statement of Budgetary Resources:

(Dollars in Thousands)	FY 2003	FY 2002
The amount of direct and reimbursable obligations incurred against amounts apportioned under Category A, B and Exempt from apportionment as of end of fiscal year:	$ 70,701,950	$ 81,083,840
Available Contract Authority as of end of fiscal year:	$ 31,532,182	$ 44,374,187
Available Borrowing Authority as of end of fiscal year: Borrowing Authority pertains to FRA.	$ -	$ 1,545,581
Adjustments during fiscal year to Beginning Balance of Budgetary Resources:		
Cumulative Authorizations in Excess of Obligation Limitation	$ (18,802)	$ -
Rescissions	1,503,704	(121,595)
Prior Year Recoveries	154,911	271,705
Temporarily Not Available	(2,293)	55,769,263
Permanently Not Available	227,871	5,127,195
Offsetting Security Fee Collections	-	1,128,316
Liquidated Contract Authority	37,262,464	28,912,607
Cancelled Authority	28,782	(9,754)
Other Adjustments	(19,939)	470,096
Total Adjustments to Budgetary Resources	$ 39,136,698	$ 91,547,833

Significant restatements were made to the amounts previously reported on the Statement of Budgetary Resources (SBR) at September 30, 2002. One group of adjustments related to the accounting for the Highway Corpus Fund investment, which resulted in a net increase to "Total Budgetary Resources" and "Total Status of Budgetary Resources" of $16,150,752 at September 30, 2002. The other adjustment related to amounts previously categorized as "Temporarily Not Available Pursuant to Public Law." The change in this categorization resulted in an increase in "Total Budgetary Resources" and "Total Status of Resources" by $24,379,631 at September 30, 2002. These amounts are not available for obligation as a result of obligation limitations contained in the DOT Appropriations Acts.

Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

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

Additional Disclosures:

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

There are no material differences between the information required by SFFAS Number 7 and the amounts described as "actual" in the "Budget of the United States Government" for FY 2005, which is not final at this time.

Note 22. Incidental Custodial Collections:

Revenue Activity:	(Dollars in Thousands)	
Sources of Cash Collections:	FY 2003	FY 2002
Miscellaneous Receipts	$ 23,748	$ 20,792
User Fees	7,388	16,146
Fines, Penalties and Forfeitures	8,642	8,642
General Fund Proprietary	3,031	3,100
Refunds, Recoveries & Cancelled Checks & Account	3,147	7,346
USCG Registration and Filing Fees	335	866
Total Cash Collections	$ 46,291	$ 56,892
Accrual Adjustment	(1,926)	9,500
Total Custodial Revenue	$ 44,365	$ 66,392
Disposition of Collections:		
Transferred to Treasury (General Fund)	$ 46,291	$ 56,892
(Increase) Decrease in Amounts to be Transferred	(1,926)	9,500
Net Custodial Revenue Activity	$ -	$ -

Note 23. Saint Lawrence Seaway Development Corporation:

Condensed Information:

	(Dollars in Thousands)	
	FY 2003	FY 2002
Cash and Short-Term Time Deposits	$ 14,109	$ 14,156
Long-Term Time Deposits	392	98
Accounts Receivable	63	93
Inventories	255	262
Property, Plant and Equipment	80,126	81,626
Deferred Charges	1,989	1,722
Other Assets	563	616
TOTAL ASSETS	**$ 97,497**	**$ 98,573**
Current Liabilities	$ 1,776	$ 1,839
Actuarial Liabilities	1,989	1,722
TOTAL LIABILITIES	**$ 3,765**	**$ 3,561**
Invested Capital	$ 95,099	$ 96,595
Cumulative Results of Operations	(1,367)	(1,583)
TOTAL NET POSITION	**$ 93,732**	**$ 95,012**
TOTAL LIABILITIES AND NET POSITION	**$ 97,497**	**$ 98,573**

Deferred Maintenance:

DOT Entity	Major Class of Asset	Method of Measuremen	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 50,534
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	29,785
MARAD	Vessels, Ready Reserve Force (Various Location	Condition Assessment Survey	3	29,833
	Real Property, Buildings U.S. Merchant Marine Academy, NY	Condition Assessment Survey	3	30,871
	Real Property, Structure Plate Anchoring System James River Reserve Fleet, VA	Condition Assessment Survey	2	550
	Real Property, Structure Parking Lot, Suisun Bay Resesrve Fleet, CA	Condition Assessment Survey	3	1,400
			Total	$ 142,973

DOT Deferred Maintenance has been reduced by approximately $488 milion due to the transfer of Coast Guard to the Department of Homeland Security effective March 1, 2003.

*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 Faciliti	3 - Fair
MARAD Vessels, Ready Reserve Force	1 - Excellent - Ships are seaworthy and ready for mission assignments within prescribed time limits.
MARAD Real Property, Buildings	3 - Fair - Buildings are safe and inhabitable.
MARAD Real Property, Structure	3 - Fair - Adequate water depth, shore power, and mooring capabilities.

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.

Intragovernmental Balances by Trading Partner:

Intragovernmental Assets by Trading Partner: (Dollars in Thousands)

Trading Partner	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Department of the Treasury	$ 29,256,238	$ 24,974,776	$ 243,549	$ 5,615
Department of Defense	-	-	155,991	20,186
Department of Transportation	-	-	-	-
Department of Homeland Security	-	-	2,154	11,025
Department of State	-	-	6,858	-
Natl. Aero. and Space Admin.	-	-	4,605	-
Department of Interior	-	-	4,231	-
Environmental Protection Agency	-	-	3,423	-
Department of Justice	-	-	3,100	-
General Services Administration	-	-	2,903	201
Department of Energy	-	-	1,179	-
Department of Commerce	-	-	663	-
Securities and Exchange Comm	-	-	494	-
U.S. Capitol Police	-	-	378	-
National Science Foundation	-	-	166	-
Central Intelligence Agency	-	-	124	-
Government Printing Office	-	-	80	-
Department of Agriculture	-	-	46	-
Department of Labor	-	-	29	-
Social Security Administration	-	-	23	-
Fed. Emergency Mgmt. Admin.	-	-	20	-
Department of Health & Human Serv.	-	-	2	-
Other Miscellaneous Agencies	-	-	65,387	80,413
Total	$ 29,256,238	$ 24,974,776	$ 495,405	$ 117,440
Total Intragovernmental Assets	$ 54,843,859			

Intragovernmental Liabilities by Trading Partner: (Dollars in Thousands)

Trading Partner	Accounts Payable	Debt	Other Liabilities
Department of the Treasury	$ 5,502	$ 1,112,815	$ 241,508
Department of Homeland Security	352	-	2,750,184
Department of Labor	98	-	211,107
Department of Defense	2,397	-	113,838
Department of Transportation	-	-	-
Office of Personnel Management	148	-	23,050
General Services Administration	2,189	-	7,888
U.S. Capitol Police	-	-	6,618
Social Security Administration	-	-	5,015
Department of Commerce	90	-	3,842
Department of Health & Human Serv.	594	-	3,463
Natl. Aero. and Space Admin.	-	-	3,422
Department of Agriculture	12	-	3,170
Department of Justice	31	-	1,062
Department of Energy	6	-	688
Department of Interior	-	-	434
Environmental Protection Agency	-	-	253
Department of State	-	-	252
Nuclear Regulatory Commission	-	-	142
Fed. Emerg. Mgmt. Admin.	-	-	49
U.S. Postal Service	172	-	25
National Science Foundation	-	-	9
Government Printing Office	-	-	7
Other Miscellaneous Agencies	(3,284)	-	27,576
Total	$ 8,307	$ 1,112,815	$ 3,403,602
Total Intragovernmental Liabilities	$ 4,524,724		

Intragovernmental Earned Revenues and Related Costs: (Dollars in Thousands)

Trading Partner		Intragovernmental Earned Revenue
Department of Defense	$	639,615
Department of Transportation		-
Department of Homeland Security		98,667
Department of State		41,793
Department of the Treasury		41,255
Environmental Protection Agency		33,131
Department of Justice		24,788
Natl. Aero. and Space Admin.		23,788
Department of Health & Human Serv.		18,749
U.S. Capitol Police		16,993
Department of Veterans Affairs		15,061
General Services Administration		10,912
Securities and Exchange Comm		9,201
Department of Commerce		8,222
Department of Energy		7,322
Department of Interior		6,466
Fed. Emerg. Mgmt. Admin.		3,456
Office of Personnel Management		3,397
Department of Labor		3,263
U.S. Postal Service		1,314
Nuclear Regulatory Commission		217
National Science Foundation		166
Central Intelligence Agency		124
Social Security Administration		100
Department of Education		5
Tennessee Valley Authority		4
Department of Agriculture		2
Other Miscellaneous Agencies		275,032
Total	$	1,283,043

Budget Functional Classification	Gross Cost to Generate Intragovernmental Earned Revenue
054 Defense-Related Activities	$ 11,674
304 Pollution Control and Abatement	11,281
401 Ground Transportation	417,629
402 Air Transportation	1,366,806
403 Water Transportation	674,360
407 Other Transportation	158,939
Total	$ 2,640,689

Intragovernmental Non-Exchange Revenue:

(Dollars in Thousands)

Trading Partner	Transfers-In	Transfers-Out
Department of Transportation	$ 3,671	$ (103,787)
Department of the Treasury	34,235,779	(1,075,452)
Department of Homeland Security	-	(643,621)
Natl. Aero. And Space Admin	-	(43,904)
General Services Administration	15,082	(14,991)
Environmental Protection Agency	-	(3,085)
Department of Interior	-	(2,029)
Department of Defense	198	(206)
Department of Commerce	-	(15)
Department of Agriculture	-	(6)
Office of Personnel Management	5	(5)
Other Miscellaneous Agencies	2,093	(16,127)
Total	$ 34,256,828	$ (1,903,228)

HERITAGE ASSETS SUMMARY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2003
NUMBER OF PHYSICAL UNITS

Heritage Assets:	Units as of 09/30/02	Additions	Withdrawals	Units as of 09/30/03
Personal Property:				
Collections				
Artifacts	18,876	0	18,839	37
Display Models	473	0	473	0
Museum	451	4	0	455
Other Collections	98	0	0	98
Total Collections	19,898	4	19,312	590
Other Non-Collection Types				
Sunken Vessels	59	0	59	0
Sunken Aircraft	1	0	1	0
Total Non-Collection Types	60	0	60	0
Total Personal Property Heritage Assets	19,958	4	19,372	590

Heritage Assets:	Units as of 09/30/02	Additions	Withdrawals	Units as of 09/30/03
Real Property:				
Buildings and Structures	904	0	903	1
Memorials	2	0	2	0
Recreational Areas	2	0	2	0
Other Historical Areas	14	0	14	0
Total Real Property Heritage Assets	922	0	921	1

Effective March 1, 2003, the U.S. Coast Guard was transferred from the Department of Transportation (DOT) to the Department of Homeland Security. Therefore, the Coast Guard's heritage assets are no longer included in DOT's heritage assets.

Artifacts are those of the U.S. Coast Guard and Maritime Administration. Maritime Administration artifacts are generally on loan to single purpose memorialization and remembrance groups, such as AMVets and preservation societies. Coast Guard artifacts can be divided into four general areas: ship's equipment, lighthouse and other aids-to-navigation items, military uniforms, and display models. The addition of artifacts is the result of gifts to the Coast Guard.

Ship's equipment is generally acquired when the ship is decommissioned and includes small items such as sextants, ship's clocks, wall plaques, steering wheels, bells, binnacles, engine order telegraphs, and ship's name boards. Conditions vary, but much is worn out from decades of use.

Aids-to-navigation items include fog and buoy bells, lanterns, lamp changing apparatus, and lighthouse lenses. Buoy equipment tends to be worn out and is usually acquired only when new technology makes it obsolete. Classical lighthouse lenses vary greatly in condition. The condition is normally dependent on how long the item has been out of service and not maintained. Most of the good lenses go to local museums or Coast Guard bases as display items.

Military uniforms are generally donated by retired Coast Guard members, and include clothing as well as insignia and accoutrements. Most clothing is in fair to good condition, particularly full dress items which saw little daily wear.

Display Models are mostly of Coast Guard vessels and aircraft. These are often builders' models. In addition to being accurate and valuable, they are generally in very good condition. Builders' models are acquired by the Coast Guard as part of the contracts with the ship or aircraft builders. The withdrawal of display models was due to wear and tear.

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.

Non-Collection Type heritage assets are sunken vessels and aircraft owned by the Coast Guard under the property clause of the U.S. Constitution, Articles 95 and 96 of the International Law of the Sea Convention, and the sovereign immunity provisions of Admiralty law. Despite the passage of time or the physical condition of these assets, they remain Government-owned until the Congress of the United States formally declares them abandoned. The USCG desires to retain custody of these assets to safeguard the remains of crew members who were lost at sea, to prevent the unauthorized handling of explosives or ordnance which may be aboard, and to preserve culturally valuable relics of the USCG's long and rich tradition of service to our nation in harm's way.

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.

As a matter of public law and policy, Coast Guard does not acquire or retain heritage buildings and structures without an operational use. Most real property, even if designated as historical, is acquired for operational use and is transferred to other government agencies or public entities when no longer required for operations. In the majority of cases, therefore, any historical property owned by Coast Guard is multi-use heritage. All multi-use heritage assets are reflected on the balance sheet.

Of the Coast Guard buildings and structures designated as heritage, including memorials, recreational areas and other historical areas, over two-thirds are multi-use heritage. The remaining are historical lighthouses, which are no longer in use and awaiting disposal; their related assets; and a gravesite.

During the past year, Coast Guard performed a comprehensive review of buildings and structures to validate historical classification. In addition to reviewing assets currently classified as heritage and multi-use heritage, civil engineering facilities were also tasked with evaluating other assets, which due to year of construction and/or co-location with a historical lighthouse, could also be reclassified as heritage. This validation resulted in an increase of heritage assets but had no effect on the balance sheet.

Financial information for multi-use heritage assets is presented in the principal statements and notes.

NONFEDERAL PHYSICAL PROPERTY
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2003
TRANSPORTATION INVESTMENTS
(Dollars in Thousands)

Surface Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Federal Highway Administration					
Federal Aid Highways (HTF)	$22,741,808	$ 24,920,221	$ 25,876,082	$ 29,377,231	$ 29,258,796
Other Highway Trust Fund Programs	124,705	42,269	85,807	211,883	243,874
General Fund Programs	90,587	151,011	144,159	31,616	73,046
Appalachian Development System	137,265	157,219	23,801	146,306	128,480
Federal Motor Carrier	0	91,822	125,261	149,091	159,628
Federal Transit Administration					
Discretionary Grants	$ 1,523,668	$ 1,199,725	$ 721,774	$ 495,322	$ 291,889
Formula Grants	2,174,323	2,791,855	3,978,247	4,283,634	4,390,965
Capital Investment Grants	248,844	1,071,361	1,902,425	2,371,521	2,632,841[1]
Washington Metro	161,834	108,518	115,856	89,227	11,252
Interstate Transfer Grants	10,602	836	2,716	8,155	9,459
Surface Transportation Nonfederal Physical Property Investments	$27,213,636	$ 30,534,837	$ 32,976,128	$ 37,163,986	$ 37,200,230

[1] Outlays are not net of Federal Emergency Management Administration (FEMA) collection of $2.75 billion.

Air Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Federal Aviation Administration					
Airport Improvement Program	$ 1612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542	$ 2,786,717
Air Transportation Nonfederal Physical Property Investments	$ 1,612,867	$ 1,375,293	$ 2,178,576	$ 2,933,542	$ 2,786,717
Total Nonfederal Physical Property Investments	$28,826,503	$ 31,910,130	$ 35,154,704	$ 40,097,528	$ 39,986,947

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

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

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

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

Washington Metro provides funding to support the construction of the Washington Metrorail System.

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

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

HUMAN CAPITAL INVESTMENT EXPENSES
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2003
(Dollars in Thousands)

Surface Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Federal Highway Administration					
National Highway Institute Training	$ 2,540	$ 7,304	$ 3,202	$ 9,146	$ 8,539
Federal Transit Administration					
National Transit Institute Training	3,600	3,790	3,550[2]	3,946[2]	4,292
Research and Special Programs Administration					
Hazardous Materials (Hazmat) Training	5,014	7,778	7,771	7,763	7,782
Surface Transportation Human Capital Investments	$ 11,154	$ 18,872	$ 14,523	$ 20,855	$ 20,613

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

Maritime Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
			Maritime Administration		
State Maritime Academies Training[3]	$ 7,550	$ 7,773	$ 8,257	$ 8,257	$ 8,363
Additional Maritime Training	463	463	463	463	463
Maritime Transportation Human Capital Investments	$ 8,013	$ 8,236	$ 8,720	$ 8,720	$ 8,826
Total Human Capital Investments	$ 19,167	$ 27,108	$ 23,243	$ 29,575	$ 29,439

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

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

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

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

RESEARCH AND DEVELOPMENT INVESTMENTS
ANNUAL STEWARDSHIP INFORMATION, SEPTEMBER 30, 2003
(Dollars in Thousands)

Surface Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Federal Highway Administration					
Intelligent Transportation Systems	$ 286,105	$ 144,734	$ 103,980	$ 124,950	$ 126,256
Other Applied Research and Development	137,588	132,634	118,425	183,142	115,368
Federal Transit Administration					
Applied Research and Development					
Transit Planning and Research	5,912	5,476	1,931	1,931[4]	3,895
Transit University Transportation Centers	2,280	8,971	3,492	8,168[5]	0
Discretionary/Capital Investment Grants	48	24	0	0	0
Research and Special Programs Administration					
Applied Research and Development					
Research and Technology	$ 2,540	$ 1,963	$ 3,318	$ 1,608	1,454
Pipeline Safety	1,780	1,980	1,404	4,000	5,523
Hazardous Materials	758	1,326	1,366	233	1,755
Emergency Transportation	204	198	244	137	650

[4] FY 2002 updated with Transit Cooperative Research Program estimate based on actual outlays.
[5] Updated based on actual research and development related outlays.

Surface Transportation Research and Development Investments	$ 437,215	$ 297,306	$ 234,160	$ 324,169	$ 254,901
Air Transportation:	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Federal Aviation Administration					
Research and Development Plant	$ 14,290	$ 12,800	$ 13,683	$ 3,020	$ 2,903
Applied Research	118,834	99,777	115,643	59,150	29,406
Development	18,358	7,175	4,618	603	251
Administration	36,466	46,219	46,988	44,480	31,669
Air Transportation Research and Development Investments	$ 187,948	$ 165,971	$ 180,932	$ 107,253	$ 64,229
Maritime Transportation:					
U.S. Coast Guard					
Applied Research, Development, Test and Evaluation:					
Marine Safety	$ 10,069	$ 8,936	$ 8,860	$ 9,171	$ 0
Comprehensive Law Enforcement	4,521	4,013	3,978	4,117	0
Marine Environmental Protection	3,454	3,065	3,038	3,144	0
Waterways Management	2,889	2,563	2,545	2,634	0

Maritime Transportation Research and Development Investments	$ 20,933	$ 18,577	$ 18,421	$ 19,066	$ 0
Total Research and Development Investments	$ 646,096	$ 481,854	$ 433,513	$ 450,488	$ 319,130

Effective March 1, 2003, the U.S. Coast Guard was transferred from the Department of Transportation (DOT) to the Department of Homeland Security. Therefore, the Coast Guard's research and development investments are no longer included in those of DOT.

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

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

> Research and development in Transit Planning and Research supports two major areas: the National Research Program and the Transit Cooperative Research Program. The National Research Program funds the research and development of innovative transit technologies such as safety-enhancing commuter rail control systems, hybrid electric buses, and fuel cell and battery-powered propulsion systems. The Transit Cooperative Research Program focuses on issues significant to the transit industry with emphasis on local problem-solving research.
>
> Transit University Transportation Centers, combined with funds from the Highway Trust Fund, provide continued support for research, education, and technology transfer.
>
> Capital investment grants, which replaced discretionary grants in FY 1999, provide capital assistance to finance acquisition, construction, reconstruction, and improvement of facilities and equipment. Capital investment grants fund the categories of new starts, fixed guideway modernization, and bus and bus-related activities.

The **Research and Special Programs Administration** funds research and development activities for the following organizations and activities:

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

The Office of Hazardous Materials is involved in research, development, and analysis in regulation compliance, safety, and information systems.
The Office of Emergency Transportation is involved in research and development in mapping software for the Crisis Management Center, transportation policy, and outreach efforts.

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

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

The **U.S. Coast Guard** funds research, development, testing, and evaluation in the following program areas:

Marine Safety research supports the Coast Guard and Departmental goal of safety by eliminating deaths, injuries, and property damage associated with maritime transportation, fishing, and recreational boating. Two major initiatives show great potential to help reduce the number of accidents on U.S. waterways: the development of risk management analytical tools for marine inspection and regulatory missions, and the development of fatigue countermeasures that minimize human error and reduce crew fatigue. The first pinpoints root-cause safety problems from the galaxy of components that can malfunction on complex marine engineering systems. The second addresses the 80% of maritime mishaps in which human error was the direct cause or was a major contributing factor. Other Marine Safety research and development initiatives are focused on more traditional research areas such as: improving the Computer-Assisted Search Planning

(CASP) system used in tactical search and rescue (SAR) operations by more accurately applying all information available on wind, currents, survivor characteristics (i.e., life raft or personal flotation device); reducing the threat of shipboard fires by testing and evaluating ship fire safety systems; improving the coordination of Coast Guard operations through the use of new communications systems; and encouraging state-of-the-art marine engineering design through membership in the Ship Structure Committee (SSC), an interagency consortium that coordinates research to enhance marine safety.

Comprehensive Law Enforcement research supports the Coast Guard's performance goal of maritime security and DOT's strategic goal of national security. These research projects evaluate detection capability improvements, including identifying new technology to counter threats to Coast Guard detection and search devices, resulting in increased probability of detecting illegal smuggling and immigration.

Marine Environmental Protection research supports the Coast Guard's performance goal of protection of natural resources and DOT's strategic goal of human and natural environment. Marine Environmental Protection R&D projects focus on pollution prevention and response improvements, including developing predictive models and automated tools to improve spill response, and evaluating in-situ burning as a spill response tool. The Coast Guard R&D program supports pollution response strategies by improving the Coast Guard's ability to mobilize and respond to major oil and hazardous substance discharges, mitigating the effects on the environment from these pollutants, and improving cleanup capabilities. The Federal Oil Pollution Research and Technology Plan maps the coordination of activities among responsible Federal agencies and industry to upgrade spill response technology by developing, testing, and evaluating state-of-the-art training and command and control systems, equipment, and procedures.

Waterways management research supports the Coast Guard and Departmental mobility goal and the Departmental goal of economic growth and trade. Both of these goals rely on establishing an accessible, seamless, efficient, and flexible maritime transportation system. Coast Guard R&D is working to develop computerized tools to more effectively and efficiently manage their Aids to Navigation system.