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 97-01, including the Technical Amendments, and Treasury Financial Transmittal Letter No. S2 97-01 were used to prepare the Balance Sheet, Statement of Net Cost, Statement of Changes in Net Position, Statement of Budgetary Resources, and Statement of Financing. This was the first year that all five of these financial statements have been prepared. 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 are separated by entity assets (those which are available for use by the agency) and non-entity assets (those which are managed by the agency by not available for use in its operations). The balance sheet also separately presents agency liabilities covered by budgetary resources (funded) from 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 the beginning net position, the items which caused the net position to change during the reporting period (such as the net cost of operations), to arrive at the ending net position.

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 A-34, "Instructions on Budget Execution," dated December 26, 1995. The statement illustrates in a condensed and consolidated format the information that Circular A-34 requires to be reported on the Report of Budget Execution (SF-133).

The Statement of Financing is intended to be a statement illustrating reconciliation between the proprietary information reported in the Statement of Net Cost and the budgetary information reported in the Statement of Budgetary Resources. Recognition and measurement of budgetary information reported on this statement is also based on budget terminology, definitions, and guidance in OMB Circular A-34. 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 a note to the financial statements.

In addition to the new financial statement formats required for FY 1998, the following Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards (SFFAS) were effective for FY 1998:

SFFAS No. 4	Managerial Cost Accounting Concepts and Standards for the Federal Government
SFFAS No. 6	Accounting for Property, Plant and Equipment
SFFAS No. 7	Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting
SFFAS No. 8	Supplementary Stewardship Reporting

Note 1. Significant Accounting Policies:

The Department is also required to be in substantial compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996. FFMIA requires agencies 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)
Federal Aviation Administration (FAA)
United States Coast Guard (USCG)
Federal Highway Administration (FHWA)
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)
Transportation Administrative Service Center (TASC)

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

C. Budgets and Budgetary Accounting

DOT follows standard Federal budgetary accounting policies and practices in accordance with OMB Circular A-34, Instructions on Budget Execution. Each year, Congress provides each Operating Administration within DOT appropriations to incur obligations in support of agency programs. For FY 1998, 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. An exception to this rule is the Airport and Airway Trust Fund revenues from excise taxes. They are recorded on the basis of cash transferred from the

Note 1. Significant Accounting Policies:

Treasury General Fund. 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, Aquatic Resources 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 service 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, interest/dividends on invested funds, loans and cash disbursements to banks. Other revenue is received from administering the Hazardous Materials Registration Program, fines and penalties for noncompliance with hazardous materials and pipeline safety regulation. Administrative fees and user fees are additional revenue sources relative to Pipeline Safety for the Department. 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. DOT does not maintain any balances of foreign currencies.

G. Loans 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 uncollectable 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 repair cost, weighted average, and moving weighted average. Expenditures or expenses are recorded when the materials and supplies are consumed or sold.

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.

Note 1. Significant Accounting Policies:

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 provisional capitalization threshold of $200,000 for structures and facilities, used only by USCG, and $25,000 for other property, plant and equipment. Capitalization at lesser amounts is encouraged. 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.

New FASAB standards effective for FY 1998 have resulted in two significant changes to the financial statement presentation of property and equipment. The first change is the removal of DOT stewardship assets, heritage assets and national defense property, plant, and equipment, from the Balance Sheet. Information on DOT stewardship assets, as well as stewardship investments, is now presented in a Required Supplementary Stewardship Reporting section. The second change is a new requirement to depreciate all general property, plant, and equipment. This resulted in the recording of a significant amount of accumulated depreciation in this first year of reporting.

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 for which an appropriation has not yet been enacted are classified as unfunded liabilities, and there is no certainty that the appropriation will be enacted. Also, the Government, acting in its sovereign capacity can abrogate liabilities arising from other than contracts.

M. Borrowings Payable to Treasury

FAA borrowing involves loans from the Treasury to fund expenses form the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest. No appropriation was enacted for FY 1998.

FRA has direct loans from Treasury and guaranteed loans made by the Federal Financing Bank (FFB) to railroads and guaranteed by FRA under provisions of the Railroad Rehabilitation and Improvement Program, the Amtrak Corridor Improvement Program and the Alameda Corridor Improvement Program. FRA records these loans as though they were direct loans.

OST borrows from the Treasury to finance loans to disadvantaged transportation-related businesses using revolving lines of credit. These OST loans are made through the Short Term Lending Program that provides assistance to disadvantaged, minority and women-owned businesses and is administered by the Office of Small and Disadvantaged Business Utilization.

N. Interest Payable to Treasury

FAA owes interest to Treasury based on its debt to Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program. Through FRA, the Amtrak Corridor Improvement Program and Railroad Rehabilitation Programs are required to make periodic interest payments to Treasury based on their debt to the U.S. Government.

Note 1. Significant Accounting Policies:

O. Contingencies

Criteria for recognizing contingencies are that they are probable and reasonably estimable. For example, material contingent liabilities for claims are recognized if (1) they have been asserted, or, if not yet asserted, in the opinion of General Counsel are more likely to be asserted than not; (2) in the opinion of General Counsel, they are more likely to be paid than not; and (3) the probable payment can be estimated by General Counsel.

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 the Office of Chief Counsel. 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.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. In FY 1998, accruals for other leave (e.g., credit hours, compensatory leave, home leave, and military leave) are also recorded in the financial statement. Under the Transportation Administrative Service Center, 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.

In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became 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 their retirement.

Q. 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.

The USCG Military Retirement System is a defined benefit plan which covers all active duty and reserve members of the USCG. This plan was established under authority of the United States Code, Titles 10 and 14. This system is funded on a "pay-as-you-go" basis.

R. Comparative Data

Comparative data for the prior year has not been presented because this is the first year for preparing the new Statement of Net Cost, Statement of Changes in Net Position, and Statement of Financing.

Note 2. Fund Balances with Treasury:

A. Fund Balances (Dollars in Thousands)

	Entity Assets	Non-Entity Assets	Total
(1) Trust Funds	$ 9,582,063	$ -	$ 9,582,063
(2) Revolving Funds	1,060,796	-	1,060,796
(3) Appropriated Funds	8,761,908	-	8,761,908
(4) Other Fund Types	(34,905)	47	(34,858)
Total	$19,369,862	$ 47	$ 19,369,909

B. 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 (4) include Budget Clearing Accounts, which temporarily hold collections pending clearance to the applicable account, Deposit Funds, which are established to record amounts held temporarily until ownership is determined, and Special Funds for Essential Air Service and Rural Airport Improvement. The negative balance for entity assets, other fund types, is primarily comprised of USCG deposit funds.

Note 3. Investments:

(Dollars in Thousands)

	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Required Market Value Disclosure
A. Entity					
l. Intragovernmental Securities:					
(1) Marketable	$ 71,783	$ (383)	$ 71,400	$ (560)	$ 70,840
(2) Non-Marketable: Par Value	9,737,133	(34,529)	9,702,604	-	9,702,604
(3) Non-Marketable: Market-Based	17,996,564	(2,149)	17,994,415	-	17,994,415
Total	$27,805,480	$(37,061)	$27,768,419	$ (560)	$27,767,859
2. Other Securities					
(1) Private Corporation Stock	$ 27	$ -	$ 27	$ -	$ 27
Total	$ 27	$ -	$ 27	$ -	$ 27
B. Non-Entity					
l. Intragovernmental Securities:					
(1) Non-Marketable: Par Value	$ 950,829	$(16,589)	$ 934,240	$ -	$ 934,240
Total	$ 950,829	$(16,589)	$ 934,240	$ -	$ 934,240

C. Marketable Federal Securities can be bought and sold on the open market. Non-marketable par value Treasury securities are special series debt securities that Treasury issues to Federal entities at face value (par value). The securities are redeemed at face value upon maturity; thus, investing entities recover the full amount invested, plus interest. Non-marketable market-based Treasury securities are debt securities that Treasury issues to Federal entities without statutorily-determined interest rates.

<u>Note 3. Investments</u>:

Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. Amortization is done using the interest or straight-line method. Private corporation stock consists of common stock in USCG's Gift Fund. Non-Entity Investments consist of USCG Sports Fish Investments, which are part of the Aquatic Resources Trust Fund. Although this account is managed by the Department of Interior, DOT is responsible for preparing financial statements.

Note 4. Accounts Receivable:

(Dollars in Thousands)

	Gross Amount Due	Allowance for Uncollectable Amounts	Net Amount Due
A. Entity:			
1. Intragovernmental:	$ 388,075	$ -	$ 388,075
2. Public:	229,365	127,036	102,329
Total Entity Receivables	$ 617,440	$ 127,036	$ 490,404
B. Non-Entity:			
1. Public:	$ 12,583	$ 2,528	$ 10,055
Total Non-Entity Receivables	$ 12,583	$ 2,528	$ 10,055
Total Receivables	$ 630,023	$ 129,564	$ 500,459

C. Reconciliation of Uncollectable Amounts

Uncollectable Amounts:

	Entity Public	Non-Entity Public
Beginning Balance	$ 83,660	$ 392
Additions	63,501	2,815
Reductions	20,125	679
Ending Balance	$ 127,036	$ 2,528

Allowance for Uncollectable Amounts is based on historical data or actual amounts that are determined to be uncollectable based upon review of individual receivables.

Note 5. Other Assets

A. Entity: (Dollars in Thousands)

1. Intragovernmental:	
(1) Advances & Prepayments	$ 212,053
(2) Undistributed Payments	125,150
Total Intragovernmental	$ 337,203
2. Public	
(1) Advances to States for Rights of Way	$ 182,275
(2) Other Advances & Prepayments	21,914
(3) Undistributed Payments	8
Total Other Entity Assets	$ 204,197

B. Other Assets, Entity, Intragovernmental, 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 payments (such as to the Department of Defense) for which DOT is awaiting documentation. Other Assets, Entity, Public, are comprised of FHWA advances to the States for rights of way, advances to employees and contractors, and undistributed payments for which DOT is awaiting documentation.

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

A. DOT operates the following loan or loan guarantee programs:

(1) Amtrak Corridor Improvement Loan
(2) Railroad Rehabilitation Loan Program
(3) Alameda Corridor Transportation Authority Loan
(4) Small & Disadvantaged Business Utilization
(5) Aircraft Purchase Loan Guarantee Program
(6) Federal Ship Financing Fund (Title XI)
(7) Maritime Guaranteed Loan

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

(Dollars in Thousands)

Loan Programs	Loans Receivable, Gross	Interest Receivable	Value of Assets Related to Direct Loans
(1) Amtrak Corridor Improvement Loan	$ 5,191	$ -	$ 5,191
(2) Railroad Rehabilitation Loan Program	56,369	1,660	58,029
Total	$ 61,560	$ 1,660	$ 63,220

C. Direct Loans Obligated After FY 1991:

Loan Programs	Loans Receivable, Gross	Interest Receivable	Allowance for Subsidy Cost (Present Value)	Value of Assets Related to Direct Loans
(2) Railroad Rehabilitation Loan Program	$ 3,821	$ 101	$ (297)	$ 3,625
(3) Alameda Corridor Transportation Auth Loan	280,000	9,824	(32,262)	257,562
(4) Small & Disadvantaged Business Utilization	5,969	-	(613)	5,356
Total	$289,790	$ 9,925	$(33,172)	$ 266,543

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

D. Defaulted Guaranteed Loans from Pre-1992 Guarantees (Allowance for Loss Method):

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance For Loan Losses	Defaulted Guaranteed Loans Receivable, Net
(5) Aircraft Purchase Loan Guarantee	$ 496	$ 235	$ (337)	$ 394
(6) Federal Ship Financing Fund (Title XI)	18,904	-	(5,433)	13,471
Total	$ 19,400	$ 235	$ (5,770)	$ 13,865

E. Liability for Loan Guarantees (Estimated Future Default Claims, pre 1992):

Loan Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilities for Loan Guarantees
(7) Maritime Guaranteed Loan	$ 135,619	$ 135,619
Total Liabilities for Loan Guarantees		$ 135,619

F. Subsidy Expense for Post-1991 Direct Loans

1. Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Total
(2) Railroad Rehabilitation Loan Program	$ -	$ -	$ 7	$ 7
(3) Alameda Corridor Transportation Auth Loan	8,252	-	-	8,252
(4) Small & Disadvantaged Business Utilization	-	302	-	302
Total	$ 8,252	$ 302	$ 7	$ 8,561

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

2. Direct Loan Modifications and Reestimates

Loan Programs	Modifications	Reestimates
(1) Amtrak Corridor Improvement Loan	$ -	$ (517)

G. Subsidy Expense for Post-1991 Loan Guarantees

1. Current Year's Loan Guarantees

Loan Programs	
(7) Maritime Guaranteed Loan	$ 36,926
Total	$ 36,926

2. Total Loan Guarantee Subsidy Expenses

Loan Programs	
(7) Maritime Guaranteed Loan	$ 36,926
Total	$ 36,926

H. Administrative Expense:

Direct Loans

Loan Programs	
(4) Small & Disadvantaged Business Utilization	$ 91
Total	$ 91

Note 6. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

Loan Guarantees

Loan Programs

(7) Maritime Guaranteed Loan	$ 3,725
Total	$ 3,725

I. Direct loan obligations or loan guarantee commitments prior to FY1992, and the resulting direct loan or loan guarantees, are reported at the value of the outstanding loan. Direct loan obligations or loan guarantee commitments made after FY 1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act. The Act provides that the present value of the subsidy costs (i.e., interest rate differentials, interest subsidies, estimated 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. Foreclosed property is valued at the net realizable value. Estimated liabilities for losses on pre-1992 loan guarantees are based on an analysis of subsidy amounts for individual loans.

Note 7. Cash and Other Monetary Assets:

(Dollars in Thousands)

	Entity Assets
A. Cash	$ 3,189
B. Other Monetary Assets	
(1) FAA Undeposited Collection	59,650
(2) Coast Guard Cadet Savings Accounts	276
Total Other Monetary Assets	$ 59,926
C. Total Cash and Other Monetary Assets	$ 63,115

D. Cash consists of imprest fund balances.

Note 8. Inventory and Related Property:

(Dollars in Thousands)

	Inventory Amount	Allowance for Losses	Inventory, Net
A. Inventory:			
(1) Inventory Held for Current Sale	$ 55,528	$ 569	$ 54,959
Total Inventory	$ 55,528	$ 569	$ 54,959

	Operating Materials & Supplies Amount	Allowance for Losses	Operating Materials & Supplies, Net
B. Operating Materials and Supplies:			
(1) Items Held for Use	$ 1,710,350	$ -	$ 1,710,350
(2) Items Held in Reserve for Future Use	36,946	-	36,946
(3) Excess, Obsolete and Unserviceable Items	49,772	6,417	43,355
(4) Items Held for Repair	484,863	139,854	345,009
Total Operating Materials & Supplies	$ 2,281,931	$ 146,271	$ 2,135,660
Total Inventory and Related Property			$ 2,190,619

C. All DOT inventories are in Coast Guard. Valuation methods used include standard price/specific identification and last acquisition price. Inventories are to be consumed in accordance with Coast Guard directives.

DOT operating materials and supplies are in Coast Guard, FAA, and MARAD. Valuation methods used include historical cost, last acquisition price, standard repair cost, weighted average, and moving weighted average. The allowance is used to reduce operating materials and supplies held for repair to 35 percent of their original cost for FAA. The only restrictions on use are that Coast Guard consumption must be in accordance with Coast Guard Directives and FAA is not permitted to donate.

Note 9. General Property, Plant and Equipment:

(Dollars in Thousands)

	Depreciation Method*	Service Life *	Acquisition Value	Accumulated Depreciation	Net Book Value
Classes of Fixed Assets:					
A. Land			$ 162,731	$ -	$ 162,731
B. Buildings and Structures	SL	Various	5,172,166	2,609,511	2,562,655
C. Furniture and Fixtures	SL	Various	33,395	15,626	17,769
D. Equipment	SL	Various	4,842,353	2,151,512	2,690,841
E. ADP Software	SL	Various	35,707	878	34,829
F. Assets Under Capital Lease	SL	>20	192,008	91,888	100,120
G. Leasehold Improvements	SL	Various	27,861	-	27,861
H. Aircraft	SL	11-20	1,938,281	897,813	1,040,468
I. Ships and Vessels	SL	11-20, >20	2,909,390	1,217,257	1,692,133
J. Other Vehicles	SL	1-5	9,818	9,534	284
K. Construction in Progress			5,274,622	-	5,274,622
L. Small Boats	SL	Various	124,280	71,501	52,779
M. Property Not in Use			88,471	-	88,471
N. Other Miscellaneous Property	SL	Various	169,426	93,162	76,264
Total			$20,980,509	$ 7,158,682	$13,821,827

O. Effective for FY 1998, DOT stewardship assets, heritage assets and national defense property plant, and equipment were removed from the balance sheet and included in required supplemental stewardship reporting. This policy change, in addition to completion of property validations, verifications, and reconciliations, has resulted in an almost $6 billion reduction in property acquisition amounts. Since FY 1998 was also the first year that depreciation was required for all general purpose property, plant and equipment, reported accumulated depreciation increased by almost $7 billion, for a net book value decrease in property of about $13 billion from the amount reported for FY 1997.

*** Keys:**

Depreciation Method	**Range of Service Life**
SL - Straight Line	1-5 - 1 to 5 years
	6-10 - 6 to 10 years
	11-20 - 11 to 20 years
	>20 - Over 20 years

Note 10. Debt:

A. Debt Covered by Budgetary Resources

(Dollars in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
1. Debt			
(1) Debt to the Treasury	$ 193,969	$ 119,369	$ 313,338
(2) Debt to the Federal Financing Bank	3,945	(124)	3,821
Total Debt Covered by Budgetary Resources	$ 197,914	$ 119,245	$ 317,159

2. Classification of Debt	
(1) Intragovernmental Debt	$ 317,159
(2) Debt Held by the Public	-
Total Debt Covered by Budgetary Resources	$ 317,159

B. Net Borrowing indicates current year activity. Debt covered by budgetary resources is for FRA direct loans to railroads and for OST direct loans in the Short Term Lending Program administered by the Office of Small and Disadvantaged Business Utilization.

C. Debt Not Covered by Budgetary Resources

	Beginning Balance	Net Borrowing	Ending Balance
1. Debt			
(1) Debt to the Treasury	$ 21	$ 3	$ 24
Total Debt Not Covered by Budgetary Resources	$ 21	$ 3	$ 24

Note 10. Debt:

2. Classification of Debt

(1) Intragovernmental Debt	$	24
(2) Debt Held by the Public		-
Total Debt Not Covered by Budgetary Resources	$	24

D. Debt not covered by budgetary resources is for the FAA Aircraft Purchase Loan Guarantee Program.

Note 11. Other Liabilities:

A. Other Liabilities Covered by Budgetary Resources: (Dollars in Thousands)

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) Advances and Prepayments from Others	$ 85	$ 230,365	$ 230,450
(2) Accrued Pay & Benefits to Other Agencies	113	59,053	59,166
(3) Fines, Penalties and Forfeitures	-	6,253	6,253
(4) Deposit Funds	-	4,529	4,529
(5) Undistributed Collections	-	2,125	2,125
(6) Recoveries, Refunds and Cancelled Checks	-	2,039	2,039
(7) General Fund Proprietary	-	1,558	1,558
(8) Deferred Credits	-	1,455	1,455
(9) Items on Loan	-	543	543
(10) Other Accrued Liabilities	-	6,407	6,407
Total	$ 198	$ 314,327	$ 314,525
2. Public			
(1) Accrued Pay & Benefits to the Public	$ 4,218	$ 327,369	$ 331,587
(2) Undistributed Collections	-	14,692	14,692
(3) Advances and Prepayments from Others	(8,469)	12,921	4,452
(4) Deposit Funds	9,224	4,352	13,576
(5) Deferred Credits	-	4,357	4,357
(6) Other Accrued Liabilities	-	2,033	2,033
Total	$ 4,973	$ 365,724	$ 370,697

B. Other Liabilities Not Covered by Budgetary Resources:

	Non-Current Liabilities	Current Liabilities	Total
1. Intragovernmental			
(1) FECA Billings	$ 117,501	$ 89,229	$ 206,730
(2) Accrued Pay & Benefits to Other Agencies	3,272	72	3,344
(3) Other Accrued Liabilities	-	11,070	11,070
Total	$ 120,773	$ 100,371	$ 221,144

Note 11. Other Liabilities:

2. Public			
(1) Accrued Pay & Benefits to the Public	$ 440,708	$ 318,782	$ 759,490
(2) Legal Claims	433,444	8,287	441,731
(3) FAA Return Rights Program	22,150	9,800	31,950
Total	$ 896,302	$ 336,869	$ 1,233,171

C. Accrued pay and benefits pertain to unpaid pay and benefits for September 23-30, 1998. Undistributed Collections represent liabilities pending transfer to Treasury.

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 12. Leases:

A. ENTITY AS LESSEE:

Capital Leases:

Summary of Assets Under Capital Lease (by category):

	(Dollars in Thousands)
(1) Land and Buildings	$ 192,008
(2) Machinery and Equipment	-
(3) Other	-
(4) Accumulated Amortization	(91,888)
Net Assets Under Capital Lease	$ 100,120

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 leases the MMAC land and buildings from the Oklahoma City Airport Trust for $12 million per year. FAA leases various real property, including the WJHTC technical building, from the Atlantic County Improvement Authority for $4.8 million per year. FAA's capital lease payments are funded annually.

Future Payments Due:

Fiscal Year	Asset Category			Totals
	(1)	(2)	(3)	
Year 1 (1999)	$ 19,452	$ -	$ -	$ 19,452
Year 2 (2000)	14,308	-	-	14,308
Year 3 (2001)	12,862	-	-	12,862
Year 4 (2002)	12,867	-	-	12,867
Year 5 (2003)	12,735	-	-	12,735
After 5 Years (2004+)	78,813	-	-	78,813
Total Future Lease Payments	$ 151,037	$ -	$ -	$151,037
Less: Imputed Interest	(46,818)	-	-	(46,818)
Net Capital Lease Liability	$ 104,219	$ -	$ -	$104,219
Liabilities Covered by Budgetary Resources				$ 687
Liabilities Not Covered by Budgetary Resources				$103,532

Note 12. Leases:

Operating Leases:

Description of Lease Arrangements: Operating leases cover USCG leases for real property with lease terms up to 20 years, FAA leases for property, aircraft, equipment, and telecommunications which are funded and expensed annually, and a RSPA lease for the Transportation Safety Institute North Campus.

Future Payments Due:

Fiscal Year	Asset Category (1)	(2)	(3)	Totals
Year 1 (1999)	$ 46,316	$ 322	$ 2,708	$ 49,346
Year 2 (2000)	40,451	228	1,909	42,588
Year 3 (2001)	33,675	235	1,905	35,815
Year 4 (2002)	28,488	242	1,877	30,607
Year 5 (2003)	22,481	249	1,885	24,615
After 5 Years (2004+)	57,429	3,643	11,772	72,844
Total Future Lease Payments	$ 228,840	$ 4,919	$ 22,056	$255,815

B. ENTITY AS LESSOR:

Capital Leases:

Description of Lease Arrangements: In March 1998, FAA entered into a capital lease agreement with the South Jersey Transit Authority (SJTA) for the sum of $1 for a term of 50 years. The properties under the lease will be transferred to SJTA at the end of the lease term or upon compliance with the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), Section 120. FAA recognized a loss of $27.4 million for buildings and other structures and $.7 million for equipment as a result of this capital lease.

Operating Leases:

Description of Lease Arrangements FAA leases Ronald Reagan Washington National 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 year. 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.

Note 12. Leases:

Future Projected Receipts:

Fiscal Year	Asset Category (1)	Asset Category (2)	Asset Category (3)	Totals
Year 1 (1999)	$ 4,193	$ 90	$ 2	$ 4,285
Year 2 (2000)	4,279	90	2	4,371
Year 3 (2001)	4,297	90	2	4,389
Year 4 (2002)	4,712	90	2	4,804
Year 5 (2003)	5,169	90	2	5,261
After 5 Years (2004+)	170,750	90	2	170,842
Total Future Operating Lease Receivables	$ 193,400	$ 540	$ 12	$193,952

Note 13. Environmental Cleanup Costs:

	(Dollars in Thousands)
A. Not Covered by Budgetary Resources	
	Total
1. Intragovernmental	
(1) USCG Environmental Remediation	$ 59,762
Total Intragovernmental	$ 59,762
2. Public	
(1) FAA Decommissioning Cleanup	$ 1,900,000
(2) FAA Environmental Remediation	828,900
(3) FAA Environmental Compliance	512,200
(4) MARAD Environmental Remediation	32,878
(5) FAA Air Traffic Control at Closed DOD Bases	3,200
Total Other	$ 3,277,178

B. Environmental cleanup and remediation generally occur 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). These laws require owners or operators to follow a prescribed method (generally including identification, assessment, remediation, and long-term monitoring) of contaminated properties. At the point in time when contamination is identified, a liability exists.

Types of contamination currently include: fuels from above and underground storage tanks; solvents and chemicals, and other hazardous substances; ATON batteries improperly disposed of; PCBs from leaking electrical transformers; and lead paint in soils from improper facility maintenance procedures. Environmental contamination and required cleanup may be associated with normal operations or may be the result of an accident.

FAA decommissioning cleanup is estimated cleanup costs which will result from future decommissioning of FAA facilities and equipment. FAA environmental compliance includes environmental, occupational safety and health compliance, and energy conservation. FAA air traffic control at closed DOD bases pertains to FAA continuing to provide air traffic control functions for civilian users of the National Airspace System near certain DOD bases scheduled for closure. FAA's costs include those for equipment, real property, and personnel relocation.

Note 14. Federal Employee and Veterans' Benefits:

A. Not Covered by Budgetary Resources

(Dollars in Thousands)

	Value of Projected Plan Benefits
1. Pensions:	
USCG Retired Pay	$ 14,453,200
2. Other Retirement Benefits:	
USCG Military Health Care	5,542,900
3. Other Post-Employment Benefits:	
Federal Employees Compensation Act Actuarial Liability	1,060,290
Total Not Covered by Budgetary Resources	$ 21,056,390

B. 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. Since this valuation is based on demographic data as of September 30, 1997, the resulting unfunded accrued liability is projected to September 30, 1998, by taking into account expected changes during the course of FY 1998 (e.g., normal cost/interest expenses, expected payments to retirees and annuitants, and interest).

Federal Employees' Compensation Act liabilities include the expected benefits for death, disability, medical, and miscellaneous costs for approved compensation cases. 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, those 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 14. Federal Employee and Veterans' Benefits:

Interest rate assumptions utilized for discounting were as follows:

1998	1997
5.60% in year 1, and thereafter	6.24% in year 1, 5.82% in year 2, 5.60% in year 3, 5.45% in year 4, 5.40% in year 5, and thereafter

To provide more specifically for the effects of inflation on the liability for future workers' compensation benefits, wage inflation factors (cost of living adjustments or COLAs) and medical inflation factors (consumer price index medical or CPIMs) are applied to the calculation of projected future benefits. These factors are also used to adjust the methodology's historical payments to current year constant dollars. The methodology also includes a discounting formula to recognize the timing of compensation payments as thirteen payments per year instead of one lump sum per year. The projected number of years of benefit payments is 37 years.

The compensation COLAs and CPIMs used in the projections were as follows:

FY	COLA	CPIM
1989	4.47%	6.98%
1990	4.43%	8.40%
1991	5.03%	9.36%
1992	5.00%	7.96%
1993	2.83%	6.61%
1994	2.77%	5.27%
1995	2.57%	4.72%
1996	2.63%	4.00%
1997	2.77%	3.11%
1998	2.70%	2.77%
1999	1.50%	3.56%
2000	1.70%	3.81%
2001	2.17%	3.93%
2002+	2.30%	3.93%

The model's resulting projections were analyzed to insure that the amounts were reliable. The analysis is based on three tests: (1) a comparison of the current year projections to the prior year projections, (2) a comparison of the prior year projected payments to the current year actual payments, excluding any new case payments that had arisen during the current year, and (3) a comparison of the current year actual payment data to the prior year actual payment data. Based on the outcome of this analysis, ad hoc adjustments were made to correct any anomalies in the projections.

Note 15. Contingencies:

Legal Proceedings. FAA recognized contingent liabilities of $433.4 million for certain legal claims. This represents a decrease in the amount of $4.8 million from FY 1997. Such claims are those that have been brought to the attention of the FAA Office of Chief Counsel (OCC) and that (1) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which the OCC can estimate the probable payment. Of these contingent liabilities for legal claims recognized, approximately $96.1 million could be payable from agency appropriations and approximately $337.3 million could be payable from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. The maximum exposure associated with such claims is $81.4 billion. Therefore, FAA's exposure to loss for such contingent liabilities in excess of the amount recognized is $81 billion.

Coast Guard has sixteen claims pending before the Board of Contract Appeals or court of Federal Claims for a total of $5.8 million. The probability of outcome is uncertain, and the amount of loss, if any, cannot be reasonably estimated. Coast Guard currently is defending 142 pending formal Equal Opportunity Commission cases. While most have a maximum potential liability of up to $500,000, actual liability cannot be reasonably estimated, but is expected to be a mere fraction of the potential. Six discrimination cases are pending in the Federal courts, but the likelihood of a material adverse outcome to the Coast Guard is considered to be remote. Various admiralty, military compensation, and Federal Tort Claims Act claims pending may be paid but should not be of a material amount. For claims that have been referred for litigation to the Department of Justice, there is a reasonable possibility that some claims will be paid out of the Judgment Fund, with an aggregated range of loss of up to $2.5 million.

Coast Guard may be held responsible for cleaning up toxic or hazardous substances at many of its currently-owned and formerly-owned facilities. The potential range for loss is estimated up to $4.6 million. There is a reasonable possibility of an adverse outcome, but the amount of loss, if any, cannot be reasonably estimated. The Coast Guard has received Notice of Intent to Sue concerning its ATON battery recovery and disposal program. There is a reasonable possibility of an adverse outcome, and the amount of loss in that instance is estimated at more than $750,000. The Coast Guard is a responsible party in sixteen cases under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA). There is a reasonable possibility of an adverse outcome in at least some of these cases, with an aggregated potential loss of up to $4.0 million payable from the Judgment Fund. There are an additional ten CERCLA cases in which there is a reasonable possibility of an adverse outcome, but the range of loss cannot be estimated.

The Oil Spill Liability Trust Fund exists for the purpose of administratively paying claims relating to oil spills. There are 2,164 claims against the fund for a total of $75.2 million pending adjudication by the National Pollution Funds Center. An adverse outcome is probable in the aggregate, but the amount of loss cannot be reasonably estimated. There are three actions pending in Federal Court against the fund with a total of $6.7 million at issue. Although the Coast Guard is contesting each of these claims, there is a reasonable possibility of an adverse outcome in each. The amount of loss, if any, cannot be reasonably estimated.

Note 15. Contingencies:

Return Rights Program. FAA contingent liabilities for the Return Rights Program decreased by $9.6 million from $41.5 million in FY 1997 to about $31.9 million in FY 1998. The program covers temporary assignments for 2 to 4 years. At the beginning of FY 1998, approximately 854 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is $50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her rights. If every employee in the program did exercise his or her rights, the liability would be as follows:

FY 1999	9,800,000
FY 2000	8,600,000
FY 2001	13,550,000
	$31,950,000

Aviation Insurance Program. FAA may issue aircraft hull and liability insurance under the Aviation Insurance Program for certain air carrier operations. FAA's authority to issue insurance is limited to situations where commercial insurance is not available on fair and reasonable terms and where the operation to be insured is necessary to carry out the U.S. Government's foreign policy. No claims for losses were pending as of September 30, 1998.

The categories of insurance issued by FAA are: (1) premium insurance, for which a risk-based premium is charged to the air carrier; and (2) non-premium insurance. Non-premium insurance, which represented all of the insurance issued by FAA in FY 1998, is issued for air carrier operations under contract to or on behalf of a U.S. Government agency, provided that the agency has an agreement with FAA to indemnify FAA against all losses covered by the insurance. FAA maintains standby non-premium war-risk insurance policies for 48 air carriers having approximately 936 aircraft available for Defense or State Department charter operations.

FAA normally insures only a small number of air carrier operations at any time. Airspace and airport capacity in areas where FAA insurance coverage would apply is usually very limited, so that FAA expects to be able to terminate insurance coverage and/or insured air carrier operations in high-risk areas after the loss of no more than two aircraft. Thus, probably no more than two FAA-insured aircraft could be lost before the FAA exercises its regulatory authority to stop flights to the area of loss. FAA establishes maximum liability for losing one insured aircraft at the limit of commercial insurance that applied to that aircraft before FAA issued its insurance. This liability covers third party losses. In many cases, FAA's maximum liability is $1 billion; usually it is less. Assuming a loss of not more than two aircraft per year, the maximum expected insurance liability for any year would be $2 billion. Since inception of the program (including the predecessor, the Aviation War Risk Insurance Program, dating back to 1951), only four claims, ranging from $626 to $122,469, respectively have been paid.

Note 16. Net Position:

A. Unexpended Appropriations

	(Dollars in Thousands)
(1) Unobligated	
a. Available	$ 2,273,696
b. Unavailable	160,446
(2) Undelivered Orders	6,919,238
Total	$ 9,353,380

B. Cumulative Results of Operations

Trust Fund Equity Balances:

(1) Unobligated	
a. Available	$ 8,911,569
b. Unavailable	2,443,490
(2) Undelivered Orders	8,685,635
Total	$ 20,040,694

DOT trust fund equity balances included above are for the Highway Trust Fund, the Airport and Airways Trust Fund, the Oil Spill Liability Trust Fund, and the Aquatic Resources Trust Fund.

Note 17. Total Cost and Earned Revenue by Budget Functional Classification:

(Dollars in Thousands)

	Total Cost	Earned Revenue	Net Cost
Functional Classification:			
050 National Defense	$ 100,779	$ -	$ 100,779
400 Transportation	41,872,796	927,882	40,944,914
450 Community and Regional Development	302	-	302
800 General Government	47	-	47
Total Cost	$ 41,973,924	$ 927,882	$ 41,046,042

Note 18. Net Cost by Program:

(Dollars in Thousands)

Program Costs		
1. Surface		
Federal Aid Highways		
Surface Transportation	$ 6,290,272	
Misc. Federal Aid Highway Programs	5,269,282	
Interstate Maintenance	3,083,217	
Bridge Programs	2,079,994	
National Highway System	2,039,397	
Mass Transit	1,869,314	
Congestion Mitigation and Air Quality	872,109	
Minimum Guarantee	739,545	
Federal Transit Administration	2,421,024	
Federal Railroad Administration Grants	479,434	
Federal Highway Program	412,603	
Northeast Corridor	391,089	
National Highway Traffic Safety Administration	184,343	
Other Rail Programs	67,274	
Research and Special Programs Administration	66,882	
Rail Safety	54,737	
High Speed Trainsets	30,500	
Alameda Corridor	20,538	
Rail Research	16,067	
Surface Transportation Board	15,959	
Total Surface Program Costs		$26,403,580
2. Air		
Air Traffic Services	$ 5,728,196	
Airports	1,436,541	
Research and Acquisition	1,044,382	
Regulation and Certification	690,423	
Civil Aviation Security	156,039	
Other Aviation Programs	19,683	
Commercial Space	7,027	
Total Air Program Costs		$ 9,082,291
3. Maritime		
Coast Guard Operating Expenses	$ 2,826,653	
Coast Guard Retired Pay	1,660,731	
Coast Guard Acquisition and Construction	430,980	
Coast Guard Oil Spill Liability	86,705	
Maritime Security Program	81,431	
Maritime Operation and Training	74,350	

Note 18. Net Cost by Program:

Coast Guard Reserve Training	67,370	
Coast Guard Boat Safety	47,881	
Other Coast Guard Programs	31,206	
Maritime Operating Differential Subsidy	37,049 `	
Other Maritime Programs	36,851	
Maritime Title XI Loan Program	21,038	
Total Maritime Program Costs		$ 5,402,245

Note 19. Deferred Maintenance:

(Dollars in Thousands)

DOT Entity	Category	Method	Asset Condition*	Cost to Return to Acceptable Condition**
FAA	Buildings	Condition Assessment Survey	4 & 5	$ 18,214
	Other Structures and Facilities	Condition Assessment Survey	4 & 5	$ 1,231
MARAD	Vessels, Ready Reserve Force	Condition Assessment Survey	3	$ 19,093
	Real Property, Anchorage	Condition Assessment Survey	4	$ 7,500
	Real Property, Buildings	Condition Assessment Survey	5	$ 12,515

*Condition Rating Scale:
- 1 - Excellent
- 2 - Good
- 3 - Fair
- 4 - Poor
- 5 - Very Poor

**Acceptable Condition is:

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

Note 19. Deferred Maintenance:

Other Information: 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.

No material maintenance was deferred on FAA land, aircraft, National Airspace Equipment, general purpose equipment, or assets under capital lease. MARAD reports no material deferred maintenance for other vessels or equipment.

Note 20. Taxes and Other Non-Exchange Revenue:

(Dollars in Thousands)

A. Taxes and Other Non-Exchange Revenue:	FY 1998
(1) Gasoline, Fuel, Tires, etc.	$26,627,765
(2) Passenger Ticket Taxes	6,190,226
(3) Investment Income	2,289,714
(4) Transfer from FTA Trust Fund to General Fund	2,260,000
(5) International Departure Taxes	947,775
(6) Airway Fuel Taxes	702,336
(7) Aquatic Resources Trust Fund Taxes	405,165
(8) Way Bill Taxes	313,503
(9) Treasury Revenue	64,112
(10) Fines and Penalties	8,746
(11) Oil Spill Liability Taxes	110
(12) Tax Refunds and Credits	(43,191)
(13) Miscellaneous Non-Exchange Revenue	33,052
	$39,799,313

B. Taxes are collected by the Department of the Treasury (Treasury) Internal Revenue Service for DOT's Highway Trust Fund, the Airport and Airways Trust Fund, the Aquatic Resources Trust Fund, and the Oil Spill Liability Trust Fund. These taxes can be withdrawn only as authorized by various DOT appropriations. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections. The adjustment for actual collections lags about six months after the estimate. Historically there has been a variance between the estimate and actual. Therefore, a precise determination of tax collections as of September 30, 1998, will not be available until March 1999.

The Taxpayer Act of 1997 (P.L. 105-34) delayed the collection date of excise taxes for the Airport and Airways Trust Fund until the first quarter of FY1999. Because of the delayed deposit rule these receipts, otherwise due in the fourth quarter of FY 1998, were not included in the tax receipt amounts reported for FY 1998. The Treasury Office of Tax Analysis estimated the tax receipt amount as approximately $1.1 billion for the tax quarter ending September 30, 1998, that would be due in October 1998.

Note 21. Prior Period Adjustments:

A. Prior Period Adjustments:	(Dollars in Thousands) FY 1998
(1) Property Adjustments	$ (12,220,355)
(2) Unfunded Coast Guard Medical Liability Adjustments	(3,463,191)
(3) Unfunded Coast Guard Pension Liability Adjustments	(1,537,000)
(4) FAA and Coast Guard Cleanup Cost Implementation	(1,538,631)
(5) Miscellaneous FAA Adjustments	(296,061)
(6) FAA Airport Improvement Grant Adjustments	(145,602)
(7) Inventory and Related Material Adjustments	214,868
(8) FAA Judgment Fund Adjustments	(38,879)
(9) Highway Trust Fund Reclassification of Advances	19,578
(10) STB Federal Employees' Compensation Act Adjustments	(5,026)
(11) Highway Trust Fund Close out Liability Account	(890)
(12) Cash Difference Adjustments	(511)
(13) Other Miscellaneous Adjustments	272
Total	$ (19,011,428)

B. Property adjustments were due to removal of stewardship assets from the balance sheet, a change in the capitalization threshold, property reconciliations, revaluation of assets, and depreciation adjustments. Cleanup cost implementation resulted from new accounting policy in regard to recognition of cleanup costs. Inventory and related property adjustments are changes in values for inventory, operating materials and supplies, and field spares.

Note 22. Statement of Budgetary Resources:

		(Dollars in Thousands) FY 1998
A. The Net Amount of Budgetary Resources Obligated for Undelivered Orders at the End of the Period:	$	42,871,195
B. Available Contract Authority at the End of the Period:	$	5,308,190
Available Borrowing Authority at the End of the Period:	$	102,405

Describe Repayment Requirements, Financing Sources for Repayment, and Other Terms of Borrowing Authority:

Borrowing Authority pertains to FRA. The principal on current borrowing authority matures in the year 2035. Until such time as the debtor's repayment schedule equals or exceeds interest expense to Treasury, FRA will borrow the required amounts yearly.

The FAA Aircraft Purchase Guarantee Program is funded under the authority to borrow from the U.S. Treasury granted by Congress in the DOT and Related Agencies Appropriation Act, 1983. Borrowing authority is implemented through a blanket promissory, which provides FAA with a line of credit for the full amount of borrowing authority granted through Congress. Because authorization for issuing new loan guarantees expired in 1988, FAA has not issued any new guaranteed loans. In FY 1998 FAA had an outstanding loan which was refinanced through an advance from Treasury, which is payable with interest on September 30, 2000. Although FAA does have borrowing authority, it is seeking a liquidating appropriation to pay off the remaining note with Treasury and end the program.

C. Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Year:	$	(652,627)

Provide a Complete Explanation of These Adjustments:

Adjustments consist of rescissions and prior year recoveries.

Note 22. Statement of Budgetary Resources:

D. Describe Existence, Purpose, and Availability of Permanent Indefinite Appropriations:

FRA has permanent indefinite appropriations to provide subsidy adjustments under the Credit Reform Act for potential defaults on direct loans to railroads. Availability extends throughout the life of the loan program.

E. Describe Information About Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority, Such as Time Limits, Purpose, and Obligation Limitations:

Annual appropriations provide for obligations in the year of apportionment. Unobligated amounts may be used for upward adjustments of existing obligations through the five-year expired status. Unobligated balances of no-year appropriations may be reapportioned each year.

F. Reconcile and Explain Any Differences from the Balance Sheet, such as for Contract Authority:

HTF has unfunded contract authority of about $49.3 billion, of which about $31.2 billion is obligated and about $18.1 billion is unobligated. FAA has unfunded contract authority of about $296 million, of which about $221 million is obligated and about $75 million is unobligated.

Note 23. Financing Sources Yet to be Provided:

	(Dollars in Thousands)
	FY 1998
A. Financing Sources Yet to be Provided: (From Statement of Financing)	$ 6,902,266
Prior Year USCG Retired Pay	13,982,109
Prior Year Environmental Remediation	2,555,284
Prior Year Federal Employees' Compensation Act Billings and Actuarial Liabilities	1,238,784
Prior Year Accrued Pay and Benefits	671,006
Prior Year Contingent Liabilities	465,394
Prior Year Capital Leases	101,656
Prior Year Unadjudicated Claims	7,558
Other Miscellaneous	27,144
Liabilities Not Covered by Budgetary Resources	$ 25,951,201

B. Financing Sources Yet to be Provided from the Statement of Financing are limited to FY 1998 activities while Liabilities Not Covered by Budgetary Resources also include unfunded activities from prior years.

Note 24. Dedicated Collections:

(Dollars in Thousands)

FY 1998

	Aquatic Resources Trust Fund		Oil Spill Liability Trust Fund	
Investments	$	1,002,564	$	1,082,936
Other Assets		31,507		39,299
TOTAL ASSETS	**$**	**1,034,071**	**$**	**1,122,235**
Liabilities Payable	$	-	$	9,058
Other Liabilities		24,782		-
TOTAL LIABILITIES	**$**	**24,782**	**$**	**9,058**
TOTAL NET POSITION	**$**	**1,009,289**	**$**	**1,113,177**
TOTAL LIABILITIES AND NET POSITION	**$**	**1,034,071**	**$**	**1,122,235**
NET COST	$	(47,881)	$	(86,705)
OTHER FINANCING SOURCES		133,365		48,550
OTHER CHANGES IN FUND BALANCE		-		(3,116)
TOTAL CHANGES IN FUND BALANCE	$	85,484	$	(41,271)
BEGINNING NET POSITION		923,805		1,154,448
TOTAL NET POSITION	**$**	**1,009,289**	**$**	**1,113,177**

Highway Trust Fund and Airport and Airways Trust Fund dedicated collections are described in their stand-alone financial statements.

Note 25. Custodial Activity:

Revenue Activity:

Sources of Cash Collections:	(Dollars in Thousands)
(1) Fines and Penalties	$ 24,539
(2) USCG Yacht and Boat Fees	14,791
(3) USCG General Fund Property Collections	2,370
(4) Miscellaneous Receipts	1,103
(5) USCG Registration and Filing Fees	1,042
(6) Refunds and Recoveries	37
(7) Marine Inspections	11
Total Cash Collections	$ 43,893
Accrual Adjustment	1,105
Total Custodial Revenue	$ 44,998

Disposition of Collections:	
Transferred to Treasury (General Fund):	$ 43,893
(Increase) Decrease in Amounts to be Transferred	1,105
Net Custodial Revenue Activity	$ -

Note 26. Saint Lawrence Seaway Development Corporation:

Condensed FY 1998 Information:	(Dollars in Thousands)	
Cash and Short-Term Time Deposits	$	11,700
Long-Term Time Deposits		1,412
Accounts Receivable		211
Inventories		273
Property, Plant and Equipment		86,460
Deferred Charges		1,688
Other Assets		576
TOTAL ASSETS	**$**	**102,320**
Current Liabilities	$	1,913
Actuarial Liabilities		1,688
TOTAL LIABILITIES	**$**	**3,601**
Invested Capital	$	101,283
Cumulative Results of Operations		(2,564)
TOTAL NET POSITION	**$**	**98,719**
TOTAL LIABILITIES AND NET POSITION	**$**	**102,320**