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. S2-99-02 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. 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 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 Note 26 to the financial statements.

The Department is required to be in substantial compliance with all applicable Federal Accounting Standards Advisory Board (FASAB) Statements of Federal Financial Accounting Standards and 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

Note 1. Significant Accounting Policies:

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 27.

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 1999, 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 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. 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.

Note 1. Significant Accounting Policies:

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 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.

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 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. The straight line method is generally used to depreciate capitalized assets.

FASAB standards require DOT stewardship assets, heritage assets and national defense property, plant, and equipment, 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.

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.

Note 1. Significant Accounting Policies:

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 in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until FAA receives an appropriation to liquidate the principal and interest.

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.

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 legal 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. 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.

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.

Note 1. Significant Accounting Policies:

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 not required for reporting periods beginning before October 1, 1999.

Note 2. Non-Entity Assets:

(Dollars in Thousands)

		Total
Intragovernmental:		
Fund Balance with Treasury	$	8,691
Investments		1,154,947
Total Intragovernmental	$	1,163,638
Accounts Receivable	$	14,488
Total Non-Entity Assets	$	1,178,126
Total Entity Assets		75,051,048
Total Assets	$	76,229,174

Note 3. Fund Balances with Treasury:

A. Fund Balances (Dollars in Thousands)

	Entity Assets	Non-Entity Assets	Total
(1) Trust Funds	$ 896,482	$ (254)	$ 896,228
(2) Revolving Funds	1,034,675	-	1,034,675
(3) Appropriated Funds	12,166,646	-	12,166,646
(4) Other Fund Types	93,718	8,945	102,663
Total	$14,191,521	$ 8,691	$ 14,200,212

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 uncleared Suspense 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.

Note 4. Investments:

(Dollars in Thousands)

	Cost	Amortized (Premium) Discount	Investments (Net)	Other Adjustments	Market Value Disclosure
A. Intragovernmental Securities:					
l. Entity					
(1) Marketable	$ 30,096	$ (827)	$ 29,269	$ -	$ 29,269
(2) Non-Marketable: Par Value	13,551,506	(36,114)	13,515,392	-	13,515,392
(3) Non-Marketable: Market-Based	28,156,912	(2,200)	28,154,712	-	28,154,712
Subtotal	$41,738,514	$(39,141)	$41,699,373	$ -	$41,699,373
(4) Accrued Interest	169,931		169,931		169,931
Total Entity Intragovernmental	$41,908,445		$41,869,304		$41,869,304
2. Non-Entity					
(1) Marketable	$ 89,995	$ (736)	$ 89,259	$ -	$ 89,259
(2) Non-Marketable: Par Value	1,074,470	(8,782)	1,065,688	-	1,065,688
Total Non-Entity Intragovernmental	$ 1,164,465	$ (9,518)	$ 1,154,947	$ -	$ 1,154,947
Total Intragovenmental Investments	$43,072,910	$(48,659)	$43,024,251	$ -	$43,024,251

Note 4. Investments

B. Other Securities:

l. Entity

(1) Private Corporation Stock	$ 27	$ -	$ 27	$ 75	$ 102
Total Public Investments	$ 27	$ -	27	$ 75	$ 102

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. 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 5. Accounts Receivable:

(Dollars in Thousands)

A. Intragovernmental:	Gross Amount Due	Allowance for Uncollectable Amounts	Net Amount Due
Entity:			
Accounts Receivable	$ 421,595	$ -	$ 421,595
Accrued Interest	1,507	-	1,507
Total Entity Intragovernmental	$ 423,102	$ -	$ 423,102
Total Intragovernmental Receivables	$ 423,102	$ -	$ 423,102
B. Public			
Entity:			
Accounts Receivable	$ 173,587	$ 72,422	$ 101,165
Accrued Interest	4	1	3
Total Entity Public	$ 173,591	$ 72,423	$ 101,168
Non-Entity:			
Accounts Receivable	$ 14,553	$ 659	$ 13,894
Accrued Interest	599	5	594
Total Non-Entity Public	$ 15,152	$ 664	$ 14,488
Total Public Receivables	$ 188,743	$ 73,087	$ 115,656
Total Receivables	$ 611,845	$ 73,087	$ 538,758

C. Reconciliation of Uncollectible Amounts

Uncollectable Amounts:

	Entity Public	Non-Entity Public
Beginning Balance	$ 132,904	$ 2,528
Additions	10,909	975
Reductions	71,390	2,839
Ending Balance	$ 72,423	$ 664

Note 5. Accounts Receivable:

D. Allowance for Uncollectable Amounts is based on historical data or actual amounts that are determined to be uncollectable 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)

A. Intragovernmental:

	Total
Entity:	
(1) Advances & Prepayments	$ 214,742
(2) Undistributed Assets and Payments	126,065
(3) Cash Differences	333
Total Entity Intragovernmental	$ 341,140
Total Intragovernmental Other Assets	$ 341,140

B. Public:

Entity:	
(1) Advances to States for Rights of Way	$ 154,956
(2) Other Advances & Prepayments	75,983
(3) Undistributed Payments	5
Total Entity Public	$ 230,944
Total Public Other Assets	$ 230,944

C. 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 payments (such as to the Department of Defense) for which DOT is awaiting documentation. Public Other Assets 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 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

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

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

An analysis of loans receivable, loan guarantees, the liability for loan guarantees, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guarantees is provided in the following sections.

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	$ 4,560	$ -	$ 4,560
(2) Railroad Rehab	52,600	1,543	54,143
Total	$ 57,160	$ 1,543	$ 58,703

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 Rehab	$ 3,689	$ 10	$ (304)	$ 3,395
(3) Alameda Corridor	400,000	28,445	(33,668)	394,777
(4) Small & Disadvant Bus	7,456	-	(646)	6,810
Total	$ 411,145	$ 28,455	$ (34,618)	$ 404,982

Note 7. 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	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
(5) Aircraft Purch Loan Guar	$ 711	$ 7	$ (337)	$ -	$ 381
(6) Federal Ship Fin Fund	20,064	-	(17,445)	3,232	5,851
Total	$ 20,775	$ 7	$ (17,782)	$ 3,232	$ 6,232

E. Defaulted Guaranteed Loans from Post 1991 Guarantees:

Loan Guarantee Programs	Defaulted Guaranteed Loans Receivable, Gross	Value of Assets Related to Defaulted Guaranteed Loans Receivable
(7) Maritime Guar Loan	$ 5,245	$ 5,245
Total	$ 5,245	$ 5,245

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

Loan Programs	Liabilities for Loan Guarantees for Post-1991 Guarantees, Present Value	Total Liabilties for Loan Guarantees
(1) Maritime Guar Loan	$ 77,422	$ 77,422
Total	$ 77,422	$ 77,422

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

G. Subsidy Expense for Post-1991 Direct Loans:

Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Total
(2) Railroad Rehabilitation	$ -	$ -	$ 7	$ 7
(3) Alameda Corridor	16,199	-	-	16,199
(4) Small & Disadvant Bus	-	338	-	338
Total	$ 16,199	$ 338	$ 7	$ 16,544

H. Subsidy Expense for Post-1991 Loan Guarantees

Total Loan Guarantee Subsidy Expense

Loan Programs	
(7) Maritime Guaranteed Loan	$ 30,148
Total	$ 30,148

I. Administrative Expense:

Direct Loans

Loan Programs	
(4) Small & Disadvan Bus	$ 137
Total	$ 137

Loan Guarantees

Loan Programs	
(7) Maritime Guar Loan	$ 3,725
Total	$ 3,725

Note 7. Direct Loans and Loan Guarantees, Non-Federal Borrowers:

J. 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.

Note 8. Cash, Foreign Currency and Other Monetary Assets:

(Dollars in Thousands)

		Total
A.	Cash	$ 4,124
B.	Other Monetary Assets	
	(1) Undeposited Collections	63,037
	(2) Savings Accounts	375
	(3) Total Other Monetary Assets	$ 63,412
C.	Total Cash and Other Monetary Assets	$ 67,536

D. All Cash, Foreign Currency and Other Monetary Assets are Entity Assets. Cash consists of imprest fund balances. Other Monetary Assets consist of FAA Undeposited Collections and USCG Cadet Savings Accounts.

Note 9. Inventory and Related Property:

(Dollars in Thousands)

	Inventory Amount	Allowance for Loss	Inventory, Net
A. Inventory:			
(1) Inventory Held for Current Sale	$ 56,846	$ 243	$ 56,603
(2) Inventory Held in Reserve for Future Sale	2,406	-	2,406
Total Inventory	$ 59,252	$ 243	$ 59,009

	Operating Materials & Supplies Amount	Allowance for Loss	Operating Materials & Supplies, Net
B. Operating Materials and Supplies:			
(1) Items Held for Use	$ 1,680,433	$ -	$ 1,680,433
(2) Excess, Obsolete and Unserviceable Items	34,596	10,106	24,490
(3) Items Held for Repair	562,448	152,201	410,247
Total Operating Materials & Supplies	$ 2,277,477	$ 162,307	$ 2,115,170
Total Inventory and Related Property			$ 2,174,179

C. All DOT inventories are in USCG. Valuation methods used include standard price/specific identification and last acquisition price. Inventories are to be consumed in accordance with USCG directives. DOT operating materials and supplies are in USCG, FAA, and MARAD. Valuation methods used include historical cost, last acquisition price, 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 USCG consumption must be in accordance with USCG Directives and FAA is not permitted to donate.

Note 10. General Property, Plant and Equipment:

(Dollars in Thousands)

Major Classes	Service Life *	Acquisition Value	Accumulated Depreciation	Net Book Value
A. Land		$ 137,523	$ -	$ 137,523
B. Buildings and Structures	Various	5,482,671	2,724,657	2,758,014
C. Furniture and Fixtures	Various	257,602	162,034	95,568
D. Equipment	Various	9,456,029	3,126,010	6,330,019
E. ADP Software	Various	35,446	2,910	32,536
F. Electronics	6-10	122,385	49,755	72,630
G. Assets Under Capital Lease	Various	154,493	51,152	103,341
H. Leasehold Improvements	Various	33,399	717	32,682
I. Aircraft	11-20	2,041,874	1,053,536	988,338
J. Ships and Vessels	Various	3,067,225	1,301,884	1,765,341
K. Small Boats	Various	207,314	91,453	115,861
L. Other Vehicles	1-5	14,313	12,477	1,836
M. Construction in Progress		2,648,839	-	2,648,839
N. Property Not in Use		132,335	37,898	94,437
	Total	$23,791,448	$ 8,614,483	$15,176,965

O. Depreciation Method used is the Straight Line Method.

*** Keys:**

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:	Total
Environmental and Disposal	$ 328,992
Debt	24
Other Liabilities	237,483
Total Intragovernmental	$ 566,499
Accounts Payable	$ 483
Federal Employee and Veterans' Benefits Payable	21,153,247
Environmental and Disposal	1,101,120
Other Liabilities	1,338,413
Total Liabilities Not Covered by Budgetary Resources	$24,159,762
Total Liabilities Covered by Budgetary Resources	5,481,048
Total Liabilities	$29,640,810

Note 12. Accounts Payable:

(Dollars in Thousands)

	Total
A. Intragovernmental:	
Covered by Budgetary Resources:	$ 198,447
Total Intragovernmental	$ 198,447
B. Public	
Covered by Budgetary Resources:	$ 1,119,859
Not Covered by Budgetary Resources:	483
Total Public	$ 1,120,342

C. No interest, penalties, or administrative fees are associated with Accounts Payable.

Note 13. Environmental and Disposal Liabilities:

A. Intragovernmental: (Dollars in Thousands)

	Total
Not Covered by Budgetary Resources:	
Environmental Cleanup Liabilities:	
(1) FAA Environmental Remediation	$ 26,392
(2) FAA Environmental Cleanup and Decommissioning	302,600
Total Intragovernmental Not Covered by Budgetary Resources	$ 328,992
Total Intragovernmental	$ 328,992

B. Public:

Not Covered by Budgetary Resources:	
Environmental Cleanup Liabilities:	
(1) FAA Environmental Remediation	$ 79,176
(2) FAA Environmental Cleanup and Decommissioning	907,800
(3) USCG Environmental Compliance	111,696
(4) MARAD Environmental Contamination (Oil)	1,191
Asset Disposal Liabilities:	
(1) USCG Disposal Liabilities	1,257
Total Public Not Covered by Budgetary Resources	$ 1,101,120
Total Public	$ 1,101,120

C. Other Information: 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. FAA environmental redemption and decommissioning cleanup costs include a restatement and correction of amounts previously reported by FAA program offices.

Note 14. Debt:

A. Intragovernmental Debt:

(Dollars in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
1. Covered by Budgetary Resources:			
(1) Debt to the Treasury	$ 313,338	$ 119,309	$ 432,647
(2) Debt to the Federal Financing Bank	3,821	(132)	3,689
Total Covered by Budgetary Resources	$ 317,159	$ 119,177	$ 436,336
2. Not Covered by Budgetary Resources:			
(1) Debt to the Treasury	$ 24	$ -	$ 24
Total Not Covered by Budgetary Resources	$ 24	$ -	$ 24
Total Intragovernmental Debt	$ 317,183	$ 119,177	$ 436,360

B. Net Borrowing indicates current year activity. Debt to the Treasury and to the Federal Financing Bank is for FRA direct loans to railroads, for OST direct loans in the Short Term Lending Program administered by the Office of Small and Disadvantaged Business Utilization, and for the FAA Aircraft Purchase Loan Guarantee Program.

Note 15. Other Liabilities:

A. Intragovernmental:

(Dollars in Thousands)

	Non-Current Liabilities	Current Liabilities	Total
1. Covered by Budgetary Resources:			
(1) Advances and Prepayments from Others	$ -	$ 298,449	$ 298,449
(2) Accrued Pay & Benefits to Other Agencies	163	69,643	69,806
(3) Undistributed Collections	-	59,619	59,619
(4) FRA Accrued Interest to Treasury	-	29,998	29,998
(5) Fines, Penalties and Forfeitures	592	9,454	10,046
(6) Deferred Credits	-	5,707	5,707
(7) General Fund Proprietary	-	1,983	1,983
(8) Recoveries, Refunds and Cancelled Checks	-	1,979	1,979
(9) Items on Loan	-	543	543
(10) Deposit Funds	-	151	151
(11) Other Accrued Liabilities	-	41,678	41,678
Total Intragovernmental Covered by Budgetary Resources	$ 755	$ 519,204	$ 519,959
2. Not Covered by Budgetary Resources:			
(1) FECA Billings	$ 119,606	$ 95,802	$ 215,408
(2) Accrued Pay & Benefits to Other Agencies	7,198	-	7,198
(3) Undistributed Collections	1,063	-	1,063
(4) Other Accrued Liabilities	13,814	-	13,814
Total Intragovernmental Not Covered by Budgetary Resources	$ 141,681	$ 95,802	$ 237,483
Total Intragovernmental	$ 142,436	$ 615,006	$ 757,442

Note 15. Other Liabilities:

B. Public:

1. Covered by Budgetary Resources:			
(1) Accrued Unbilled State Payments	$ -	$ 1,842,540	$ 1,842,540
(2) Other Accrued Unbilled Payments	-	712,750	712,750
(3) Accrued Pay & Benefits to the Public	3,208	346,889	350,097
(4) Undistributed Collections	-	40,699	40,699
(5) Advances and Prepayments from Others	-	31,281	31,281
(6) State Billed Cost	-	19,206	19,206
(7) Deposit Funds	-	8,497	8,497
(8) Union Station Mortgage	2,216	-	2,216
(9) Deferred Credits	-	1,300	1,300
(10) Cadet Savings Accounts	-	375	375
(11) Other Accrued Liabilities	-	120,064	120,064
Total Public Covered by Budgetary Resources	$ 5,424	$ 3,123,601	$ 3,129,025
2. Not Covered by Budgetary Resources:			
(1) Accrued Pay & Benefits to the Public	$ 445,086	$ 141,482	$ 586,568
(2) Legal Claims	470,756	4,749	475,505
(3) USCG Retirement & Separation Orders	-	160,517	160,517
(4) Capital Leases	89,430	161	89,591
(5) FAA Return Rights Program	17,300	8,600	25,900
(6) Other Accrued Liabilities	332	-	332
Total Public Not Covered by Budgetary Resources	$ 1,022,904	$ 315,509	$ 1,338,413
Total Public	$ 1,028,328	$ 3,439,110	$ 4,467,438

C. Accrued pay and benefits pertain to unpaid pay and benefits.
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 16. Federal Employee and Veterans' Benefits:

	(Dollars in Thousands)
A. Not Covered by Budgetary Resources:	Value of Projected Plan Benefits
1. Pensions:	
USCG Retired Pay	$ 15,890,800
2. Other Retirement Benefits:	
USCG Military Health Care	4,155,500
3. Other Post-Employment Benefits:	
Federal Employees Compensation Act Actuarial Liability	1,106,947
Total Not Covered by Budgetary Resources	$ 21,153,247
Total Federal Employee and Veterans Benefits	$ 21,153,247

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, 1998, the resulting unfunded accrued liability is projected to September 30, 1999, by taking into account expected changes during the course of FY 1999 (e.g., normal cost/interest expenses, expected payments to retirees and annuitants, and interest). The military retirement expense reflects the following components:

Normal Cost	$ 417.8 Million
Plus: Interest on Unfunded Liability During the Period	1,237.4 Million
Less: Actuarial Gains/Losses and Related Period Adjustments	(933.6) Million
Total Expense	$ 721.6 Million

Note 16. Federal Employee and Veterans' Benefits:

Federal Employees' Compensation Act liabilities include the expected liability 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. Interest rate assumptions utilized for discounting were as follows:

1999	1998
5.50% in year 1, 5.50% in year 2, 5.55% in year 3, 5.60% in year 4, and thereafter	5.60% in year 1, 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%	2.76%
1999	1.53%	3.51%
2000	1.83%	3.66%
2001	2.33%	3.99%
2002	2.40%	4.02%
2003	2.43%	4.08%
2004+	2.50%	4.08%

Note 16. Federal Employee and Veterans' Benefits:

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.