<u>Notes to the Financial Statements</u>: Fiscal Years Ended September 30, 2003 and 2002

1. <u>Summary of Significant Accounting Policies</u>

A. Basis of Presentation

Public Law 107-289, the Accountability of Tax Dollars Act of 2002, added the RRB as an agency required to prepare audited financial statements for fiscal year 2003 and subsequent years. OMB Bulletin 01-09 requires that audited financial statements for fiscal year 2003 are to be submitted to the President, the Congress, and the Director of OMB by January 30, 2004. OMB guidance further provides that Performance and Accountability Reports (P&AR) are optional for agencies such as the RRB that are required by Public Law 107-289 to prepare audited financial statements for the first time for fiscal year 2003. The RRB elected to present its financial statements in P&AR fashion for fiscal year 2003.

As required by law, OMB has also prescribed the form and content of financial statements under OMB Bulletin 01-09. The RRB's financial statements were prepared in accordance with the form and content prescribed by OMB and with generally accepted accounting principles and standards prescribed by FASAB.

The principal statements (prepared on a consolidated basis, except for the Statement of Budgetary Resources which was prepared on a combined basis, and eliminating all significant interfund balances and transactions), are comprised of the Balance Sheet and Statements of Net Cost, Changes in Net Position, Budgetary Resources, Financing, and Custodial Activity. These statements are different from the financial reports, also prepared by the RRB pursuant to OMB directives, used to monitor and control the RRB's use of budgetary resources.

B. Reporting Entity

The railroad retirement and the railroad unemployment and sickness insurance programs are financed through the following accounts:

● Railroad Retirement Account (8011) funds retirement, survivor, and disability benefits in excess of social security equivalent benefits from payroll taxes on employers and employees and other income sources. Our authority to use these collections is 45 USC §231(F)(c)(1).

● Social Security Equivalent Benefit Account (8010) funds the portion of railroad retirement benefits equivalent to a social security benefit from various income sources related to these benefits. Our authority to use these collections is 45 USC §231N-1(c)(1).

● Dual Benefits Payments Account (0111) funds the phase-out costs of certain vested dual benefits from general appropriations. Our authority to use these collections is 45 USC §231(N)(d).

● Federal Payments to the Railroad Retirement Accounts (0113) was established by OMB and is used as a conduit for transferring certain income taxes on benefits and receiving credit for the interest portion of uncashed check transfers. This account has no basis in law.

● Limitation on Administration Account (8237) pays salaries and expenses to administer the railroad retirement program and the railroad unemployment and sickness insurance program. This account is financed by the Railroad Retirement Account, the Social Security Equivalent Benefit Account, the Railroad Retirement Supplemental Account, prior to January 1, 2002, and the Railroad Unemployment Insurance Trust Fund. Our authority to use these collections is 45 USC §231N-1(c) and 45 USC §231N-(H).

● Railroad Unemployment Insurance Trust Fund, Benefit Payments (8051.001) funds railroad unemployment and sickness insurance benefits from contributions by railroad employers. Our authority to use these collections is 45 USC §360.

● Railroad Unemployment Insurance Trust Fund, Administrative Expenses (8051.002) was established to pay salaries and expenses to administer the program. This fund is financed by contributions from railroad employers. Monies are transferred from this fund, based on cost accounting estimates and records, to the Limitation on Administration Account (8237) from which salaries and expenses are paid for both the railroad retirement program and the railroad unemployment and sickness insurance program. Our authority to use these collections is 45 USC §361.

● Limitation on the Office of Inspector General (8018) was established to fund the administration of the Inspector General's Office. Our authority to use these collections is Public Law 108-7.

● Savings Bonds Allotment (6050), and City and State Taxes (6275) were established as holding accounts for amounts withheld from employees' salaries but not yet paid to the appropriate institutions.

C. Budgets and Budgetary Accounting

Budget requests are prepared and submitted by the RRB in accordance with OMB Circular A-11 and other specific guidance issued by OMB. The RRB prepares and submits to OMB Apportionment and Reapportionment Requests (SF-132) in accordance with OMB Circular A-11 for all funds appropriated by the Congress or permanently appropriated. Although OMB may apportion funds by category, time period, or object class of expense, the RRB controls and allocates all apportioned funds by three-digit object class codes of expense. For budgetary accounting, all receipts are recorded on a cash basis of accounting and obligations are recorded against the object class codes when they are incurred, regardless of when the resources acquired are to be consumed. Obligations are amounts of orders placed, contracts awarded, services received, and similar transactions during a given period that will require payments during the same or a future period. Quarterly, the RRB prepares and submits Reports on Budget Execution (SF-133) to OMB, reporting all obligations incurred against the amounts apportioned.

D. Basis of Accounting

As required by law, the Dual Benefits Payments Account is on a cash basis of accounting. Payroll taxes and unemployment contributions are recorded on a modified cash basis in accordance with SFFAS No. 7. All other transactions are recorded on an accrual basis of accounting and a budgetary basis. Under the accrual method, revenues (except payroll taxes and unemployment contributions which are on a modified cash basis) are recognized when earned and expenses are recognized when a liability is incurred. For budgetary accounting, financial transactions are recorded when obligations are incurred, regardless of when the resources acquired are to be consumed.

The accompanying consolidated financial statements of the RRB include all funds maintained by the RRB, after elimination of all significant interfund balances and transactions.

2. Fund Balances with Treasury

Fund balances with Treasury at September 30 consisted of:

	2003	2002
A. Fund Balances:		
(1) Trust Funds	$ 514,069	$34,473,730
(2) Revolving Funds	0	0
(3) Appropriated Funds	12,351,942	15,256,368
(4) Other Fund Types	40,863	54,669
Total	$12,906,874	$49,784,767
B. Status of Fund Balance with Treasury		
(1) Unobligated Balance		
(a) Available	$ 355,671	$ 216,874
(b) Unavailable	12,134,746	15,095,396
(2) Obligated Balance not yet Disbursed	416,457	34,472,497
Total	$12,906,874	$49,784,767

C. Other Information: The above represents cash held in Treasury. Unobligated and obligated funds not held in cash are invested in Treasury securities.

3. Investments

The NRRIT was established pursuant to Section 105 of the RRSIA of 2001, enacted December 21, 2001. The NRRIT is to manage and invest the assets of the Railroad Retirement Account in a diversified investment portfolio in the same manner as those of private sector retirement plans. Prior to the Act, trust fund balances not immediately required for the payment of benefits could only be invested in interest bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided for in Section 15(e) of the RRA of 1974. Investment securities are stated at cost, adjusted for net unamortized discounts of $6,313,099,600 at September 30, 2002. Amortization of market-based note and bond premiums/discounts is computed using the compound method. Total premiums/discounts are prorated to interim periods on the basis of a constant rate (as opposed to a constant dollar amount), so that a uniform rate of interest income on the notes/bonds is recognized in the accounts. All amortization of premiums and discounts is recognized as an adjustment to interest on investments.

	At September 30, 2003	
	Book Value	Market Value
3.5% par value specials maturing on October 1, 2003	$1,179,271,000	$1,179,271,000
Accrued interest – Par value	1,726,109	1,726,109
Total	$1,180,997,109	$1,180,997,109

	At September 30, 2002	
	Book Value	Market Value
3.375% par value specials maturing on October 1, 2002	$ 8,053,972,000	$ 8,053,972,000
Zero coupon bonds with maturities ranging from February 15, 2009, to February 15, 2017, and market yields ranging from 3.39% to 4.95%.	8,828,739,940	10,381,764,615
Market-based notes and bonds with maturities ranging from November 15, 2015, to February 15, 2016, and market yields ranging from 4.21% to 4.29%.	2,064,160,460	2,463,163,750
Subtotal	$18,946,872,400	$20,898,900,365
Accrued interest – Market-based	29,960,625	29,960,625
Par value	19,465,668	19,465,668
Total	$18,996,298,693	$20,948,326,658

4. Accounts Receivable - Intragovernmental

Accounts receivable - Intragovernmental at September 30 consisted of:

	2003	2002
Financial Interchange – Principal	$3,569,100,000	$3,586,300,000
Financial Interchange – Interest	131,200,000	126,600,000
Department of Labor	55,829,179	28,292,323
Social Security Administration - OASI/DI Benefits	239,815	326,841
Total	$3,756,368,994	$3,741,519,164

The fiscal year 2003 financial interchange accounts receivable for principal and interest are based on economic assumptions in the mid-session review of the Federal 2004 budget. These receivables have been shown as a corresponding intragovernmental liability on the September 30, 2003 Consolidated Balance Sheet for SSA.

5. Intragovernmental Assets

Intragovernmental assets at September 30 consisted of:

	2003	2002
Fund Balance with Treasury	$ 12,906,874	$ 49,784,767
Investments	1,180,997,109	18,996,298,693
Accounts Receivable	3,756,368,994	3,741,519,164
Total	$4,950,272,977	$22,787,602,624

6. Accounts Receivable, Net

Accounts receivable, net at September 30 consisted of:

	2003	2002
Accounts receivable - Benefit overpayments	$34,226,497	$37,659,123
Accounts receivable – Past due RUI contributions and taxes	2,308	90,211
Accounts receivable - Interest, penalty & administrative costs	394,315	666,027
Total	$34,623,120	$38,415,361
Less: Allowances for doubtful accounts	5,235,779	6,417,800
Net Total	$29,387,341	$31,997,561

The RRB's September 30, 2003, accounts receivable balance (after writing-off currently not collectible (CNC) receivables but prior to the application of the allowance for doubtful accounts) of $34,623,120 includes $28,085,881 (81.1%) in railroad retirement program receivables and $6,537,239 (18.9%) in railroad unemployment insurance program receivables. The total allowance for doubtful accounts is $5,235,779. This includes $4,777,409 (91.2%) for the railroad retirement program and $458,370 (8.8%) for the unemployment insurance program receivables.

The allowance for doubtful accounts for the railroad retirement program was calculated, taking into consideration the CNC write-off initiated last year, as follows: (1) stratifying the accounts receivable into 12 categories, (2) analyzing each category using sampling and historical data, (3) determining the percentage of amounts due the RRB that would probably not be collected, (4) applying the determined percentages against accounts receivable for each category, and (5) adding the amounts derived for each category to obtain the total allowance for doubtful accounts. The allowance for doubtful accounts for the unemployment insurance program was calculated based on the ages of accounts receivable and historical information.

7. Inventory and Related Property

Operating materials and supplies are valued on the weighted average basis. The recorded values are adjusted for the results of physical inventories taken periodically. Expenditures are recorded when inventories are consumed.

8. Property and Equipment

These assets are stated at cost less accumulated depreciation/amortization. Acquisitions are capitalized if the cost is $5,000 or more and the service life is 2 years or greater. Depreciation/amortization is computed on the straight-line method. These assets consisted of:

		At September 30, 2003		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,645,463	$ 2,336,521	$ 308,942
ADP software	5 years	19,392,205	18,778,452	613,753
Equipment	5-10 years	5,321,911	4,490,183	831,728
Internal-Use Software in Development		624,897	0	624,897
		$27,984,476	$25,605,156	$2,379,320

		At September 30, 2002		
Classes of Fixed Assets	Service Lives	Cost	Accumulated Depreciation	Net Book Value
Structures, facilities and leasehold improvements	15 years	$ 2,582,985	$ 2,253,371	$ 329,614
ADP software	5 years	19,674,777	18,852,746	822,031
Equipment	5-10 years	4,856,558	4,103,591	752,967
Internal-Use Software in Development		451,115	0	451,115
		$27,565,435	$25,209,708	$2,355,727

9. Other Assets

Other assets at September 30 consisted of:

	2003	2002
Advances to employees for health insurance and TSP contributions	$ 950	$1,744
Advances for transit program	28,515	0
	$29,465	$1,744

10. Liabilities

Liabilities at September 30 consisted of:

	2003	2002
Intragovernmental:		
Accounts Payable	$ 405,699,833	$ 411,995,000
Debt	3,025,032,621	2,947,641,085
Other	446,216	383,993
Liabilities Covered by Budgetary Resources	$3,431,178,670	$3,360,020,078
Liabilities Not Covered by Budgetary Resources:		
Other - Unfunded FECA Liability	$ 379,250	$ 441,212
Public:		
Accounts Payable	$ 458,847	$ 621,091
Benefits Due and Payable	767,462,539	755,003,104
Contingent Liability	172,000,000	0
Other	2,072,181	1,729,610
Liabilities Covered by Budgetary Resources	$ 941,993,567	$ 757,353,805
Liabilities Not Covered by Budgetary Resources:		
Other - Accrued Unfunded Leave	$ 6,000,721	$ 5,993,237
Total Liabilities Covered by Budgetary Resources	$4,373,172,237	$4,117,373,883
Total Liabilities Not Covered by Budgetary Resources	6,379,971	6,434,449
Total Liabilities	$4,379,552,208	$4,123,808,332

11. Accounts Payable - Intragovernmental

Accounts payable - Intragovernmental at September 30 consisted of:

	2003	2002
Accrued Expenses	$199,833	$ 195,000
Accounts Payable - FHI Principal	392,100,000	398,800,000
Accounts Payable - FHI Interest	13,400,000	13,000,000
Total	$405,699,833	$411,995,000

The fiscal year 2003 financial interchange accounts payable – FHI principal and interest are based on economic assumptions in the mid-session review of the Federal 2004 budget. These estimates are also being used by CMS as receivables in their financial statements.

12. Debt

Intragovernmental debt results from borrowing from Treasury to fund benefit payments from the SSEB Account.

	2003	2002
Beginning Balance, Principal	$2,870,200,000	$2,884,100,000
New Borrowing	3,232,300,000	3,148,900,000
Repayments	(3,148,700,000)	(3,162,800,000)
Ending Balance, Principal	2,953,800,000	2,870,200,000
Accrued Interest	71,232,621	77,441,085
Total	$3,025,032,621	$2,947,641,085

13. Benefits Due and Payable

Benefits due and payable are accrued for all benefits to which recipients are entitled for the month of September, which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing, such as benefit payments due but not paid. The amounts include uncashed checks of $8,940,462 and $8,540,244, at September 30, 2003 and 2002, respectively. Under Public Law 100-86, the amount of RRB benefits represented by checks which remain uncashed for 12 months after the check issue date are credited (including interest thereon) to the accounts from which the checks were drawn. The principal amount of uncashed checks must remain in a liability account until the RRB determines that entitlement no longer exists or another check is issued to the beneficiary.

14. Other Liabilities

Other liabilities at September 30 consisted of:

	2003	2002
Accrued Unfunded Liabilities	$ 6,000,721	$5,993,237
Accrued Payroll	1,834,058	1,564,090
Accrued RRB Contributions – TSP	204,682	163,897
Withholdings Payable	30,806	2,140
Contingent Liability (see Note 30 for details)	172,000,000	0
Other	2,635	(517)
Total	$180,072,902	$7,722,847

15. Cumulative Results of Operations

Included in the cumulative results of operations for fiscal year 2003 and fiscal year 2002 were undelivered orders of $5,475,251 and $5,372,252, respectively.

16. Intragovernmental Gross Costs

	2003		2002	
	RR Program	RUSI Program	RR Program	RUSI Program
Interest Expense–Treasury Borrowing (FI)	$187,475,724	$ 0	$210,668,619	$ 0
Other Expenses–Carrier's Refund	1,921,795	0	689,500	0
Salaries and Expenses	18,799,603	3,252,458	17,491,899	3,063,348
Imputed Costs–Post Retirement Benefits	8,385,982	1,450,832	7,240,765	1,268,072
Total	$216,583,104	$4,703,290	$236,090,783	$4,331,420

The details of salaries and expenses by budget object code are shown in the supplementary schedule.

17. Gross Costs with the Public

	2003		2002	
	RR Program	RUSI Program	RR Program	RUSI Program
Benefit Payments – RRB	$8,875,853,304	$124,047,152	$8,681,498,811	$135,316,979
Salaries and Expenses	75,084,106	12,990,059	76,521,257	13,401,134
Total	$8,950,937,410	$137,037,211	$8,758,020,068	$148,718,113

The details of salaries and expenses and benefit payments by budget object code are shown in the supplementary schedule.

18. Earned Revenues

	2003		2002	
	RR Program	RUSI Program	RR Program	RUSI Program
Intragovernmental:				
Reimbursement from CMS	$5,259,567		$5,031,335	$ 0
Reimbursement from DOJ	0		31,623	0
Public:				
SI Recoveries		$29,135,898		29,456,232
Interest, Penalty, and Administrative Cost on Overpayments	546,017	763,442	548,528	770,899
Total	$5,805,584	$29,899,340	$5,611,486	$30,227,131

19. Gross Cost and Earned Revenue by Budget Functional Classification - Intragovernmental

	2003	2002
General Retirement and Disability (601)		
Gross Cost	$216,583,104	$236,090,783
Less: Earned Revenue	5,259,567	5,062,958
Net Cost	$211,323,537	$231,027,825
Unemployment Compensation (603)		
Gross Cost	$ 4,703,290	$ 4,331,420
Less: Earned Revenue	0	0
Net Cost	$ 4,703,290	$ 4,331,420
Total Net Cost	$216,026,827	$235,359,245

20. Gross Cost and Earned Revenues by Budget Functional Classification

	2003	2002
General Retirement and Disability (601)		
Gross Cost	$9,167,520,514	$8,994,110,851
Less: Earned Revenue	5,805,584	5,611,486
Net Cost	$9,161,714,930	$8,988,499,365
Unemployment Compensation (603)		
Gross Cost	$ 141,740,501	$ 153,049,533
Less: Earned Revenue	29,899,340	30,227,131
Net Cost	$ 111,841,161	$ 122,822,402
Net Cost Before Earned Revenues Not Attributed to Program	$9,273,556,091	$9,111,321,767
Less: Earned Revenue Not Attributed to Program	77,808	83,999
Total Net Costs	$9,273,478,283	$9,111,237,768

21. Appropriations Received

Appropriations received for the fiscal year ended September 30 was comprised of amounts appropriated to the following funds:

	2003	2002
Dual Benefits Payments Account	$132,000,000	$146,000,000
Federal Payments to the Railroad Retirement Accounts:		
Federal Income Taxes	430,000,000	336,000,000
Interest	150,000	150,000
Total	$562,150,000	$482,150,000

The amounts shown for the Dual Benefits Payments Account include Federal income tax transfers of $12,000,000 in fiscal year 2003 and $7,000,000 in fiscal year 2002.

Although the Combined Statement of Budgetary Resources shows fiscal year 2003 appropriations received as $28,913,518,889, and the Statement of Net Position shows $562,150,000 as appropriations received, the $28.4 billion difference is due to the exclusion on the Statement of Net Position of appropriations dedicated and earmarked for special and non-revolving trust funds. OMB Bulletin No. 01-09, Section 5.4, requires that these appropriations be accounted for as either exchange or nonexchange revenue on the Statement of Net Position in accordance with SFFAS No. 7.

22. Taxes and Other Non-Exchange Revenues – Cumulative Results from Operations

Taxes and other non-exchange revenues for the fiscal year ended September 30 consisted of:

	2003	RESTATED 2002
Tier I	$2,020,197,361	$2,044,311,547
Tier II	2,338,380,000	2,528,904,000
Interest Revenue, Tax Adjustments, and Other Income	277,072,160	1,036,546,547
Carriers' Refunds Principal	(9,157,186)	(8,092,302)
Tax Revenue Refund - Contingent Liability (see Note 30)	(172,000,000)	0
RUI Contributions	0	95,415,354
Total	$4,454,492,335	$5,697,085,146

23. Transfers to NRRIT

The NRRIT was established pursuant to Section 105 of the Railroad Retirement and Survivors' Improvement Act of 2001 that was signed into law on December 21, 2001, with an effective date of February 1, 2002. See Financial Highlights for more details pertaining to NRRIT.

In fiscal year 2003, the RRB transferred $19.188 billion to the NRRIT, which is in addition to the $1.502 billion transferred in fiscal year 2002.

24. Transfers from NRRIT

During fiscal year 2003, the NRRIT transferred a total of $300,001,862 to the RR Account. This amount was transferred by the NRRIT on September 25, 2003, for the payment of October 2003 railroad retirement benefits.

25. Transfers In/Out Without Reimbursement

	2003	2002
Transfers-in consisted of:		
Financial Interchange Transfer – FOASI/DI Principal	$3,452,100,000	$3,467,400,000
Financial Interchange Transfer – FOASI/DI Interest	282,618,000	219,207,000
RUI Contributions	143,685,513	
Transfers-out consisted of:		
Financial Interchange Transfer – FHI Principal	(389,000,000)	(372,900,000)
Financial Interchange Transfer – FHI Interest	(30,977,000)	(32,565,000)
Net Transfers In/Out	$3,458,426,513	$3,281,142,000

Although the RRB receives RUIA contributions directly from railroad employers, these receipts belong to the Department of Labor. In the past, the RRB reported these contributions as an increase in revenue. OMB has determined that these contributions should be reported as accounts receivable and transfers, not revenue. As a result of this accounting change, revenue for fiscal year 2003 decreased and accounts receivable and transfers increased by $143,685,513.

Transfer of principal occurs subsequent to the fiscal year.

26. Direct and Reimbursable Obligations

	2003	2002
Direct Obligations	$28,913,179,472	$10,966,527,787
Reimbursable Obligations	5,805,271	5,629,456
Total Obligations	$28,918,984,743	$10,972,157,243

27. Obligated Balance, Net, Beginning of Period

OMB determined that RUIA contributions received by the RRB directly from railroad employers should be accounted for as accounts receivables and transfers rather than revenue for fiscal year 2003. As a result of this change, $28,247,248 was moved from Federal Accounts Receivables (which increased the Obligated Balance, Net, Beginning of Period for fiscal year 2003) to Appropriations Received – Receivable (part of the Budgetary Resources). The effect of this change is that the Obligated Balance, Net, End of Period for fiscal year 2002 does not match the Obligated Balance, Net, Beginning of Period for fiscal year 2003.

28. Explanation of Differences Between the Combined Statement of Budgetary Resources and the Budget of the United States Government

The President's Budget for Fiscal Year 2005 (which contains fiscal year 2003 actual figures) has not been published. Historically, there have been differences between the President's budget and the Combined Statement of Budgetary Resources, and we anticipate the following differences. The Budget of the United States Government and the Combined Statement of Budgetary Resources differ because the Budget of the United States Government includes offsetting receipts for the NRRIT which are not included in the Statement of Budgetary Resources. In fiscal year 2003, the NRRIT receipts were almost $19.2 billion. Offsetting receipts of the NRRIT are excluded from the Combined Statement of Budgetary Resources because the financial transactions of the NRRIT are not included in the financial statements of the RRB. Also, the Budget of the United States Government includes proprietary receipts from the public that are not included in the financial statements of the RRB. The $2.4 billion of receipts are interest and dividends and gains and losses on private sector holdings pertaining to the NRRIT.

In addition, the Budget of the United States Government treats the financial interchange on a cash basis and the Combined Statement of Budgetary Resources treats the financial interchange on an accrual basis. OMB reflects the financial interchange settlement for FHI in the Budget of the United States Government as a negative tax receipt. The RRB's statement shows the FHI as a reduction to the financial interchange settlement. This difference amounted to $426 million in fiscal year 2003.

29. Restatements and Prior Period Adjustments

The Statement of Net Cost and the Statement of Changes in Net Position were restated for fiscal year 2002 to correct errors in exchange and non-exchange revenue items. Losses/Gains on Disposition of Assets, totaling $36,114, were moved from the Statement of Net Cost to the Statement of Changes in Net Position. Interest, Penalty, and Handling of Overpayments, totaling $1,319,427, were moved from the Statement of Changes in Net Position to the Statement of Net Cost.

The Statement of Net Cost was also revised to present net cost information according to program as required by OMB Bulletin No. 01-09.

On the Statement of Financing, fiscal year 2002 imputed costs of $8,508,837 were reclassified from Components Not Requiring or Generating Resources, Other, to Imputed Financing from Costs Absorbed by Others to correct an error. Certain other FY 2002 Statement of Financing balances have been reclassified to conform to FY 2003 Statement of Financing presentations, the effect of which is immaterial.

The Statement of Budgetary Resources for fiscal year 2002, Permanently Not Available and Unobligated Balance Not Available were restated by $1,269,194 because expired administrative funds were inappropriately classified as cancellations instead of transfers of unobligated balances. The Temporarily Not Available Pursuant to Public Law and the Unobligated Balance for fiscal year 2002 were reduced $3,052,945,315 since appropriated receipts precluded from obligation were incorrectly included in the Unobligated Balance and not subtracted from Temporarily Not Available Pursuant to Public Law in accordance with Office of Management and Budget Circular A-11.

30. Contingent Liabilities

The RRB is involved in the following actions:

- A transportation company filed a claim for refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments were supplemental unemployment benefits. Based on a decision entered by the United States Claims Court on October 31, 2003, the RRB's legal counsel has determined that it is probable the RR and SSEB Accounts are contingently liable for an estimated amount with a range between $90 million and $105 million. The amount of $90 million has been recorded and is reflected on the Balance Sheet under other liabilities (see note 14), and on the Statement of Net Position under Non-Exchange Revenues (see note 22).

- Several Class 1 railroads are party to a suit claiming a refund of RRTA or FICA taxes paid on lump-sum separation payments on the theory that such payments are supplemental unemployment benefits. The suit has been pending the outcome of the above case. Due to the decision entered by the United States Claims Court on October 31, 2003 regarding the above case, the RRB's legal counsel has determined that it is probable that the RR and SSEB Accounts are contingently liable for an estimated amount of $82 million. This amount has been recorded and is reflected on the Balance Sheet under other liabilities (see note 14), and on the Statement of Net Position under Non-Exchange Revenues (see note 22).

The total amount of contingent liability recorded in FY 2003 amounts to $172,000,000.

- Several Class 1 railroads have filed claims for refund of taxes with the Internal Revenue Service (IRS). Based on prior experience, it is remote that the RR Account and the SSEB Account are contingently liable for an estimated amount of $812.8 million. Under the anti-disclosure provision of the IRS code, we are not permitted to disclose any details related to these claims. No provision has been made in the accompanying financial statements regarding these claims other than this disclosure.

- A tort claim for damages was filed against the RRB. It is remote that the Department of Justice Fund is contingently liable for an estimated amount of $17 million. No provision has been made to the accompanying financial statements regarding this claim other than this disclosure.