



LIMITATIONS OF THE FINANCIAL STATEMENTS

The financial statements have been prepared to report the financial position and results of operations of the Federal Aviation Administration, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the FAA in accordance with the formats prescribed by the Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.



FAA FY 2001 FINANCIAL STATEMENTS

U. S. Department of Transportation FEDERAL AVIATION ADMINISTRATION CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands)

	As of September 30	
	2001	2000
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	\$ 1,998,297	\$ 886,325
Investments (Note 3)	13,866,780	13,355,134
Accounts Receivable, Net (Note 4)	127,429	267,438
Other (Note 5)	46,093	45,030
Total Intragovernmental Assets	\$ 16,038,599	\$ 14,553,927
Accounts Receivable, Net (Note 4)	\$ 51,280	\$ 36,593
Loans Receivable and Related Foreclosed Property, Net (Note 6)	-	283
Cash and Other Monetary Assets (Note 7)	44,665	69,354
Inventory and Related Property, Net (Note 8)	1,121,698	988,158
General Property, Plant, and Equipment, Net (Note 9)	11,726,534	11,529,336
Other (Note 5)	67,204	52,642
Total Assets	\$ 29,049,980	\$ 27,230,293
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	\$ 49,930	\$ 130,245
Debt (Note 11)	28	26
Other Intragovernmental Liabilities (Note 12)	367,392	344,564
Total Intragovernmental Liabilities	\$ 417,350	\$ 474,835
Accounts Payable	\$ 602,482	\$ 488,952
Loan Guarantees	-	-
Federal Employee and Veterans Benefits (Note 14)	1,044,259	944,533
Environmental Cleanup Costs (Note 10)	1,756,000	1,815,744
Other Liabilities (Notes 12 & 13)	1,573,545	1,333,068
Total Liabilities	\$ 5,393,636	\$ 5,057,132
Net Position Balances		
Unexpended Appropriations (Note 15)	\$ 551,139	\$ 125,217
Cumulative Results of Operations	23,105,205	22,047,944
Total Net Position	\$ 23,656,344	\$ 22,173,161
Total Liabilities and Net Position	\$ 29,049,980	\$ 27,230,293

FAA FY 2001 FINANCIAL STATEMENTS



**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF NET COST**

(Dollars in Thousands)

	For the Years Ending September 30	
	2001	2000
Programs (Notes 16 & 17)		
Air Traffic Service		
Intragovernmental	\$ 991,401	\$ 1,006,551
With the Public	6,083,177	5,660,107
Total	7,074,578	6,666,658
Less Earned Revenues	(112,832)	(33,777)
Net Air Traffic Service Costs	\$ 6,961,746	\$ 6,632,881
Regulations & Certification		
Intragovernmental	\$ 110,027	\$ 109,663
With the Public	690,212	623,641
Subtotal	800,239	733,304
Less Earned Revenues	(1,276)	(1,650)
Net Regulations & Certification Costs	\$ 798,963	\$ 731,654
Research & Acquisitions		
Intragovernmental	\$ 121,041	\$ 115,019
With the Public	581,605	456,916
Total	702,646	571,935
Less Earned Revenues	(38,966)	(30,679)
Net Research & Acquisitions Costs	\$ 663,680	\$ 541,256
Airports		
Intragovernmental		
Administration	\$ 8,080	\$ 8,203
With the Public	-	-
Grants Program	2,120,034	1,320,097
Administration	50,462	46,993
Total	2,178,576	1,375,293
Less Earned Revenues	-	-
Net Airports Costs	\$ 2,178,576	\$ 1,375,293
Civil Aviation Security		
Intragovernmental	\$ 32,425	\$ 28,356
With the Public	195,130	156,467
Total	227,555	184,823
Less Earned Revenues	(1,031)	(921)
Net Civil Aviation Security Costs	\$ 226,524	\$ 183,902
Commercial Space		
Intragovernmental	\$ 1,329	\$ 1,102
With the Public	8,243	6,175
Total	9,572	7,277
Less Earned Revenues	-	(20)
Net Commercial Space Costs	\$ 9,572	\$ 7,257
Other Programs		
Intragovernmental	\$ 77,880	\$ 66,794
With the Public	101,676	106,200
Total	179,556	172,994
Less Earned Revenues	(11,560)	(43,895)
Net Other Program Costs	\$ 167,996	\$ 129,099
Costs Not Assigned to Programs	\$ (149,298)	\$ 146,304
Less Earned Revenues Not Assigned to Programs	(43,190)	(11,695)
Net Cost of Operations	\$ 10,814,569	\$ 9,735,951



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**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ending September 30, 2001**

(Dollars in Thousands)

Net Cost of Operations	\$ (10,814,569)
Financing Sources	
Appropriations Used	1,770,844
Taxes and Other Non-Exchange Revenues (Note 18)	9,984,094
Donations (Non-Exchange Revenue)	19,420
Imputed Financing (Note 19)	506,234
Transfers-In	1,225
Transfers-Out	(52,255)
Other	95
Total Financing Sources	<u>\$ 12,229,657</u>
Net Results of Operations	<u>\$ 1,415,088</u>
Prior Period Adjustments (Note 20)	\$ (357,828)
Net Change in Cumulative Results of Operations	1,057,260
Increase (Decrease) in Unexpended Appropriations	425,923
Change in Net Position	1,483,183
Net Position Beginning of Period	<u>\$ 22,173,161</u>
Net Position End of Period	<u><u>\$ 23,656,344</u></u>

FAA FY 2001 FINANCIAL STATEMENTS



**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ending September 30, 2001**

(Dollars in Thousands)

Budgetary Resources (Note 21)	
Budget Authority	\$ 15,564,674
Unobligated Balances - Beginning of Period	11,823,061
Spending Authority From Offsetting Collections	4,823,630
Adjustments	<u>(3,971,414)</u>
Total Budgetary Resources	<u><u>\$ 28,239,951</u></u>
Status Of Budgetary Resources	
Obligations Incurred	\$ 17,204,055
Unobligated Balances-Available	10,930,356
Unobligated Balances-Not Available	<u>\$ 105,540</u>
Total Status of Budgetary Resources	<u><u>\$ 28,239,951</u></u>
Outlays	
Obligations Incurred	\$ 17,204,055
Less: Spending Authority From Offsetting Collections and Adjustments	(5,063,282)
Obligated Balance, Net Beginning of Period	5,722,404
Obligated Balance Transferred, Net	-
Less: Obligated Balance, Net - End of Period	<u>(7,130,268)</u>
Total Outlays	<u><u>\$ 10,732,909</u></u>



FAA FY 2001 FINANCIAL STATEMENTS

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF FINANCING
For the Year Ending September 30, 2001**

(Dollars in Thousands)

Obligations and Nonbudgetary Resources

Obligations Incurred	\$ 17,204,055
Less: Spending Authority from Offsetting Collections and Adjustments	(5,063,282)
Donations not in the Budget	19,420
Financing Sources for Cost Subsidies	506,234
Net Transfers-in (out)	(51,031)
Exchange Revenue not in the Budget	(14,678)
Nonexchange Revenue Not in the Entity's Budget	24,625
Less: Trust or Special Fund Receipts Related to Exchange Revenue in the Entity's Budget	(401,491)
Other (Year-End Accounts Payable and Grant Accruals)	<u>334,313</u>
Total Obligations as Adjusted and Nonbudgetary Resources	<u>\$ 12,558,165</u>

Resources That Do Not Fund Net Cost of Operations

Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	\$ (1,399,370)
Change in Unfilled Customer Orders	134,586
Costs Capitalized on the Balance Sheet General Property, Plant & Equipment	(1,392,616)
Loans	276
Purchase of Inventory	(130,139)
Adjustment to Cost Capitalized on the Balance Sheet	(25,830)
Financing Sources that Fund Costs of Prior Periods (Note 22)	(74,549)
Adjustment for Trust Fund Outlays that do not Affect Net Cost	-
Other - Identified Prior Period Adjustments	<u>(323,968)</u>
Total Resources That Do Not Fund Net Cost of Operations	<u>\$ (3,211,610)</u>

Costs That Do Not Require Resources

Depreciation and Amortization	\$ 811,305
Net Loss/(Gain) on Disposition of Assets	120,965
Cost of Goods Sold	197,057
Other	<u>87,147</u>
Total Costs That Do Not Require Resources	<u>\$ 1,216,474</u>

Financing Sources Yet To Be Provided (Note 22)

\$ 251,540

Net Cost Of Operations

\$ 10,814,569



NOTES TO THE FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Federal Aviation Administration (FAA). The statements are required by 31 U.S.C. 3515, the Chief Financial Officers Act of 1990, and, as amended, by the Federal Financial Management Act of 1994, which is Title IV of the Government Management Reform Act of 1994. They have been prepared from the books and records of FAA in accordance with (1) the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board, (2) the Office of Management and Budget's (OMB) Bulletins 97-01 and 01-09, *Form and Content of Agency Financial Statements*, and (3) Department of Transportation (DOT) and FAA accounting policies which are summarized in this note. These statements, with the exception of the statement of Budgetary Resources, are, therefore, different from financial management reports, which are also prepared by the FAA pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources.

The FAA applies accounting principles and standards in accordance with the hierarchy of Generally Accepted Accounting Principles (GAAP) established by the American Institute of Certified Public Accountants (AICPA) through Statement on Auditing Standards (SAS) No. 69, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles in the Independent Auditor's Report*, as amended by SAS No. 91, Federal GAAP Hierarchy. This hierarchy of accounting principles for Federal governmental entities is:

1. Federal Accounting Standards Advisory Board (FASAB) Statements and Interpretations plus American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements if made applicable to Federal governmental entities by a FASAB Statement or Interpretation;
2. FASAB Technical Bulletins and the following pronouncements if specifically made applicable to Federal governmental entities by the AICPA and cleared by the FASAB: AICPA Industry Audit and Accounting Guides and AICPA Statements of Position;
3. AICPA Accounting Standards Executive Committee (ACSEC) Practice Bulletins if specifically applicable to Federal governmental entities and cleared by the FASAB and Technical Releases of the Accounting and Auditing Policy Committee of the FASAB;
4. Implementation guides published by the FASAB staff and practices that are widely recognized and prevalent in the Federal Government; and
5. Accounting principles published by authoritative standard-setting bodies and other authoritative sources (1) in the absence of other guidance in the first four parts of this hierarchy and (2) if the use of such accounting standards improves the meaningfulness of these financial statements.

The FAA also follows Department of Transportation (DOT) accounting policies and reporting requirements, and FAA accounting policies summarized in this note and FAA Order 2700.31.A, Uniform Accounting Systems Operations Manual, and related documentation containing the FAA-specific accounting policy.



FAA FY 2001 FINANCIAL STATEMENTS

In FY 2001, the FAA adopted a phased-in approach for presenting its financial statements on a two-year comparative basis, in accordance with OMB Federal financial statement form and content guidance. Consistent with the phased-in approach specified by the OMB, in FY 2001, the Balance Sheet and Statement of Net Cost are presented comparatively, as are all associated footnotes and supplementary information. The guidance calls for fully comparative financial statements in FY 2003.

B. Reporting Entity

The FAA was created in 1958. Its mission is to operate the Nation's air traffic control system and to regulate aviation system safety and security. The FAA is responsible to provide U.S. air travelers with an efficient, safe, secure, and technically advanced airspace system. The FAA reporting entity is comprised of four primary types of funds:

<u>Fund Type</u>	<u>Title/Type of Services</u>
Trust Fund	Airport and Airway Trust Fund, including: Grants-in-Aid for Airports Facilities and Equipment Research, Engineering and Development .
Revolving Funds	Aviation Insurance Administrative Services Franchise Fund
Special Fund	Aviation User Fees
General Funds	Operations Facilities, Engineering and Development Aircraft Purchase Loan Guarantee Program
Other	General Fund Miscellaneous Receipts

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. In FY 2001 and 2000, the FAA was accountable for Trust Fund appropriations, Revolving Funds, a Special Fund, General Fund appropriations, and borrowing authority. The FAA recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through Treasury General Fund warrants and Trust Fund transfers.

D. Basis of Accounting

With the exception of Trust Fund revenues, transactions are 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. Trust Fund revenues derived from excise taxes are recorded on the basis of cash transferred from the General Fund of the U.S. Treasury to the Trust Fund. See paragraph E for further discussion of Trust Fund revenues.

Budgetary accounting facilitates compliance with legal controls on the use of Federal funds.



E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to 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 reimbursements for services performed for domestic and foreign governmental entities.

The Trust Fund is sustained by excise taxes collected by the Internal Revenue Service (IRS) from airway system users. The IRS records excise tax revenues deposited in the General Fund on a cash basis; Treasury transfers an equivalent amount from the General Fund to the Trust Fund. The Trust Fund also earns interest from investments in Treasury securities. Interest income is recognized as revenue on the accrual basis.

Appropriations are recognized as a financing source when expended. Revenues from service fees and reimbursements are recognized concurrently with the recognition of accrued expenditures for performing the services.

F. Fund Balances with the U.S. Treasury and Cash

The U.S. Treasury processes cash receipts and disbursements. Funds at the Treasury are available to pay agency liabilities. The FAA maintains credit card checks and a few petty cash (imprest) funds outside the Treasury to facilitate small emergency purchases. The FAA does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by the Treasury or the Department of State and are reported by the FAA in the U.S. dollar equivalent.

G. Investment in U.S. Government Securities

Unexpended funds in the Trust Fund and Aviation Insurance Revolving Fund are invested in U.S. Government securities. A portion of the Trust Fund investments is liquidated semi-monthly in amounts needed to provide cash for the FAA appropriation accounts. The Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are controlled and processed by the Treasury.

H. Accounts and Loans Receivable

The FAA's financial statements include the activities and balances of relevant Treasury General Fund Miscellaneous Receipt accounts. The FAA maintains accountability for defaulted loans under the Aircraft Purchase Loan Guarantee Program. Authorization for issuing new loan guarantees expired in 1988; however, FAA's policy with respect to loan guarantees is to establish accounts receivable in the General Fund Miscellaneous Receipts account to reflect the amount due from the borrower for principal and interest. The FAA also establishes an intragovernmental liability to offset the accounts receivable which represents an asset of the Treasury, not the FAA.

I. Operating Materials and Supplies

Operating materials and supplies consist primarily of unissued materials and supplies that will be consumed in normal operations. Operating materials and supplies are valued based on the moving weighted average, and are expensed when issued. Other classifications of materials



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and supplies are valued on the basis of actual prices paid. Adjustments for the proper valuation of excess, obsolete, and unserviceable items are made to the allowance account at fiscal year-end. The allowance for excess, obsolete, and unserviceable items is recognized as a gain or loss. Operating materials and supplies are expensed or reclassified as asset field spares or work in process when consumed or issued.

J. Inventory

Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the moving average weighted cost method.

K. Property, Plant and Equipment (PP&E)

FAA capitalizes an acquisition if its costs equal or exceed \$25,000 and has a useful life equal to or exceeding 2 years. The FAA records general PP&E at original acquisition cost.

Depreciation expense is calculated using the straight-line method. Depreciation commences beginning with the first month of the fiscal year after the asset is placed in service. The FAA does not recognize residual value of its PP&E. The useful life classifications for capitalized assets are as follows:

<u>Asset Classification - Real Property</u>	<u>Useful Life (years)</u>
Offices, buildings, warehouse buildings, residential properties, air traffic control towers, and enroute air traffic control centers	40
Mobile homes	20
Original roads, sidewalks, parking lots, and all other structures	15
Capital improvements, facility modifications, leasehold improvements (or expiration of the lease, whichever comes first)	10*
<u>Asset Classification - Personal Property</u>	
Aircraft	20
Navigation/landing equipment, including electronic and visual navigational aids	20
Surveillance equipment, including surveillance radars, radar transmitters, and radar receivers	20
Weather-related equipment, including general purpose weather sensors, weather radars, radar transmitters, and radar receivers	20-15
Communications-related equipment, including voice switches, air-ground radios, and microwave network	20-10
Decision support systems, including computer operating systems, FAA developed hardware, mainframe and mini computers, high-end workstations, and displays	20-4
Printing, photographic, and projection equipment	13
Portable and installed communications equipment excluding air navigation and air traffic control facilities, and avionics equipment	10
Office furniture and equipment	7
Vehicles and automatic data processing equipment	5
Software	3

*Depreciated over the remaining life of the "parent" asset; if the parent asset is fully depreciated, then the useful life of improvement or modification is considered to be 10 years.



Buildings acquired under capital leases are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to the FAA, the building is depreciated over a 40-year service life.

Construction in progress is valued at actual (direct) costs, plus applied overhead and other indirect costs.

The FAA occupies certain real property, which is leased by the Department of Transportation from the General Services Administration. Payments for these leases are from an appropriation of the Office of the Secretary of Transportation; FAA's portion is derived from the Trust Fund.

L. Prepaid and Deferred Charges

Advance payments are generally prohibited by law; there are some exceptions, such as subscriptions. When permitted, payments made 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.

M. Liabilities

A liability represents the amount to be paid by the FAA as the result of a transaction or event that has already occurred. The FAA, absent of an appropriation, cannot liquidate any liabilities. Liabilities for which an appropriation has not yet been enacted are, therefore, classified as unfunded liabilities, and there is no certainty that such appropriation will be enacted.

N. Borrowing and Interest Payable to the Treasury

Borrowing involves loans from the Treasury to fund expenses in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until the FAA receives an appropriation to liquidate the principal and interest. No such appropriation was enacted for FY 2001 or 2000. The FAA owes interest to the Treasury based on this debt.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued at year-end, based on latest pay rates and unused hours of leave. Sick leave is generally non-vested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

P. Accrued Workers' Compensation

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability consists of the net present value of estimated future payments calculated by the U.S.



FAA FY 2001 FINANCIAL STATEMENTS

Department of Labor (DOL) and the unreimbursed cost paid by DOL for compensation paid to recipients under FECA. The actual costs incurred are reflected as a liability because FAA will reimburse DOL 2 years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL.

Q. Retirement Plan

The FAA employees who participate in the Civil Service Retirement System (CSRS) are beneficiaries of the FAA's matching contribution equal to 7 percent of pay to their annuity account in the Civil Service Retirement and Disability Fund.

On January 1, 1987, the Federal Employees Retirement System (FERS) went into effect pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security, or to remain in CSRS. FERS offers a savings plan to which the FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security.

Beginning in fiscal year 1997, the FAA began to recognize the cost of pensions and other retirement benefits during the employees' active years of service. The Office of Personnel Management (OPM) actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the FAA for current period expense reporting. OPM also provides information regarding the full cost of health and life insurance benefits. The FAA recognized the offsetting revenue as imputed financing sources for the extent of these additional expenses that will be paid by OPM.

R. Environmental Liabilities

The FAA recognizes two types of environmental liabilities: environmental cleanup and remediation. Environmental cleanup is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous waste when an asset presently in service is shutdown. The FAA estimates the environmental cleanup costs at the time an FAA-owned asset is placed in service and expenses the liability over the life of the asset.

Environmental remediation is the cost to bring a known contaminated site into compliance with applicable environmental standards. The liability for environmental remediation is an estimate of all costs necessary to bring the site to resolution of the environmental matters. The increase or decrease in the annual liability is charged to expense.

S. Contingencies

The FAA recognizes losses for contingent liabilities when such losses are probable, reasonably estimable, and material in amount.

T. Reclassifications

The balance of FY 2000 intragovernmental environmental liabilities has been reclassified as non-intragovernmental for consistency with FY 2001 reporting.

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U. Change in Accounting Principle

Effective October 1, 2000, the FAA adopted the provisions of Statement of Federal Financial Accounting Standards (SFFAS) Number 10, *Accounting for Internal Use Software*. Pursuant to this standard, the FAA capitalizes the cost of internal use software on a prospective basis. Previously, the FAA expensed the cost of internal use software at the time of acquisition in accordance with SFFAS Number 6, *Accounting for Property, Plant, and Equipment*.

Note 2. Fund Balance with Treasury

Fund balances with Treasury as of September 30, 2001 and 2000, respectively, were:

As of September 30, 2001 (Dollars in Thousands)				
	Obligated	Unobligated & Available	Unobligated & Restricted	Total
Trust Fund	\$ 3,034,348	\$ (2,393,305)	\$ 57,720	\$ 698,763
Operations General Fund	858,570	138,700	39,278	1,036,548
Franchise Fund	48,843	25,682	-	74,525
Revolving Fund	(3,160)	88,241	-	85,081
Other Funds	(5,438)	108,818	-	103,380
Total	\$ 3,933,163	\$ (2,031,864)	\$ 96,998	\$ 1,998,297

As of September 30, 2000 (Dollars in Thousands)				
	Obligated	Unobligated & Available	Unobligated & Restricted	Total
Trust Fund	\$ 2,977,773	\$ (2,003,690)	\$ (183,576)	\$ 790,507
Operations General Fund	87,516	3,359	62,707	153,582
Franchise Fund	4,943	4,024	-	8,967
Revolving Fund	(71,788)	(8,026)	79,953	141
Other Funds	114	(66,986)	-	(66,872)
Total	\$ 2,998,558	\$ (2,071,319)	\$ (40,916)	\$ 886,325

Unobligated and restricted fund balances represent balances of appropriations for which the period of availability for (voluntary) obligation has expired. These balances are available for upward adjustments of obligations incurred only during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriation. Pursuant to 31 USC 1552, appropriation accounts are canceled at the close of the fifth fiscal year following the last fiscal year for which they were available for obligation. Fund balances in Operations



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General Fund appropriations cancelled at year-end, and thus removed from the balance sheet, were \$28.2 million and \$11.6 million as of September 30, 2001 and 2000, respectively. The amount withdrawn biweekly from the Trust Fund is based on cash outlays, not on obligational authority, to minimize interest costs. Negative unobligated balances are covered by invested funds in the Airport and Airway Trust Fund.

Note 3. Investments

At September 30, FAA's investment balances were as follows:

As of September 30, 2001 (Dollars in Thousands)						
	Cost	Amortization Method	Unamortized (Premium) Discount	Investments Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities:						
Nonmarketable, Par Value						
Trust Fund	\$ 13,659,804		\$ -	\$ 13,659,804	\$ -	\$ 13,659,804
Accrued Interest	206,976					206,976
Total	\$ 13,866,780					\$ 13,866,780
As of September 30, 2000 (Dollars in Thousands)						
	Cost	Amortization Method	Unamortized (Premium) Discount	Investments Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities:						
Nonmarketable, Par Value						
Trust Fund	\$ 13,096,852		\$ -	\$ 13,096,852	\$ -	\$ 13,096,852
Nonmarketable, Market-Based						
Aviation Insurance Revolving Fund	75,932	Interest Method	2,581	78,513		78,513
Subtotal	13,172,784		\$ 2,581	\$ 13,175,365	\$ -	\$ 13,175,365
Accrued Interest	182,350					182,350
Total	\$ 13,355,134					\$ 13,357,715

Nonmarketable par value Treasury securities are special series debt securities, issued by the Bureau of the Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through Treasury's Finance and Funding Branch. The securities are redeemed at face value on demand; thus, investing entities recover the full amount invested, plus interest. The Fund's trustee, the Secretary of the Treasury, makes Trust Fund investments. As of September 30, 2001 and 2000, \$13.7 billion and \$13.1 billion, respectively, was invested in U.S. Treasury Certificates of Indebtedness. FY 2001 amounts were invested at a rate of 6.125 percent, maturing June 30, 2002, and FY 2000 amounts were invested at a rate of 6.5 percent, maturing June 30, 2001.

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Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. FAA amortizes premiums and discounts on market-based Treasury securities over the life of the security using the interest method. Following the terrorist attacks of September 11, 2001, all market-based Treasury securities were redeemed prior to fiscal year-end, so they would be available for use in various initiatives related to the Aviation Insurance Program. As of September 30, 2000, the following amounts were invested in market-based Treasury securities:

(Dollars in Thousands)

	Maturity Date	Effective Interest Rate		Amount
1	12/08/00	5.33%	\$	14,798
2	03/01/01	5.90%		25,823
3	05/31/01	5.79%		17,993
4	08/30/01	5.75%		19,899
			\$	78,513

Note 4. Accounts Receivable

Accounts receivable as of September 30, 2001 and 2000 were as follows:

	As of September 30, 2001 (Dollars in Thousands)		
	Gross Accounts Due	Allowance for Uncollectible Amounts	Net Amount Due
Intragovernmental Receivables	\$ 127,429	\$ -	\$ 127,429
Other Receivables	56,640	(5,360)	51,280
Total Accounts Receivable	\$ 184,069	\$ (5,360)	\$ 178,709
Reconciliation of Uncollectible Amounts:	<u>Intragovernmental</u>	<u>Other</u>	
Beginning Balance	\$ -	\$ (3,209)	
Additions	-	(5,122)	
Reductions	-	2,971	
Ending Balance	\$ -	\$ (5,360)	



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As of September 30, 2000
(Dollars in Thousands)

	Gross Accounts Due	Allowance for Uncollectible Amounts	Net Amount Due
Intragovernmental Receivables	\$ 267,438	\$ -	\$ 267,438
Other Receivables	39,803	(3,210)	36,593
Total Accounts Receivable	<u>\$ 307,241</u>	<u>\$ (3,210)</u>	<u>\$ 304,031</u>
<u>Reconciliation of Uncollectible Amounts:</u>	<u>Intragovernmental</u>	<u>Other</u>	
Beginning Balance	\$ -	\$ (6,803)	
Additions	-	(2,884)	
Reductions	-	6,477	
Ending Balance	<u>\$ -</u>	<u>\$ (3,210)</u>	

FAA sends a delinquency notice to each debtor when billings remain uncollected for 30 days after the Bill for Collection date. A second delinquency notice is sent in another 30 days if the debtor does not respond to the first notice. Salary or retirement offset action may be taken when the debtor is a current or former Federal employee. Other attempts at collection may be taken for debtors who are not current or former Federal employees. In 1997, the FAA implemented certain provisions of the Debt Collection Improvement Act of 1996, P.L.1041-34, which requires, among other things, that Federal agencies submit accounts receivable that are over 180 days delinquent to the Department of Treasury (Treasury) for collection. Treasury may take such actions as tax refund offset, consumer reporting, and referral to collection agencies. An allowance for uncollectible accounts receivable is established when either (1) based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur, or (2) when an account for which no allowance has been established is submitted to Treasury for collection. Accounts receivable in appropriations canceled at year-end, pursuant to 31 USC 1552, are no longer FAA assets. Accordingly, accounts receivable balances totaling \$459,832 and \$116,732 in canceled appropriations as of September 30, 2001 and 2000, respectively, were removed from the balance sheet.

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Note 5. Other Assets

Other assets as of September 30, 2001 and 2000, respectively, were:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Other Entity Assets Intragovernmental		
Advances and Prepayments	\$ 40,442	\$ 43,576
Undistributed Foreign Costs	34	188
Undistributed Costs - Treasury Clearing	685	947
Other Assets - Undistributed	<u>4,932</u>	<u>319</u>
Total Other Assets Intragovernmental	<u>\$ 46,093</u>	<u>\$ 45,030</u>
Other Entity Assets		
Advances and Prepayments	<u>67,204</u>	<u>52,642</u>
Total Other Entity Assets	<u>\$ 113,297</u>	<u>\$ 97,672</u>

Intragovernmental advances and prepayments represent advance payments to other Federal Government entities under the 31 USC 1535 for agency expenses not yet incurred or for goods or services not yet received.

Other undistributed intragovernmental assets include assets transferred between FAA regions. Transferred items remain in the undistributed asset account until removed by the recipient region. Transfer transactions may include some expenses.

Advances and prepayments (non-intragovernmental) represent advance payments to contractors and employees for agency expenses not yet incurred.



FAA FY 2001 FINANCIAL STATEMENTS

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

FAA has no direct loan programs, but FAA administers the Aircraft Purchase Loan Guarantee Program. Authorization for issuing new loan guarantees expired in 1988. The only remaining program function is to maximize recoveries from defaulted loans. As of September 30, 2001 and 2000, respectively, defaulted guaranteed loans receivable, which are under this program, were as follows:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Defaulted Guaranteed Loans Receivable, Gross	\$ 569	\$ 613
Interest Receivable	-	7
Allowance for Loan Losses	<u>(569)</u>	<u>(337)</u>
Defaulted Guaranteed Loans Receivable, Net	<u>\$ -</u>	<u>\$ 283</u>

During FY 2001, the allowance was increased thereby reducing net defaulted guarantees loans receivable to zero because the balance was deemed uncollectible .

The Federal Credit Reform Act was enacted after the authority to issue new guarantees expired and, therefore, does not apply to FAA's loan guarantees.

Administrative expenses to maintain residual values in this program are minimal. FAA has no full-time employees administering the program.

Note 7. Cash and Other Monetary Assets

As of September 30, 2001 and 2000, respectively, cash and other monetary assets were comprised of the following:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Imprest Fund	\$ 4	\$ 4
Undeposited Collections	<u>44,661</u>	<u>69,350</u>
Total Cash and Other Monetary Assets	<u>\$ 44,665</u>	<u>\$ 69,354</u>

Note 8. Inventory and Related Property

On October 1, 2000, the FAA's Franchise Fund changed its administrative services operating model to one in which inventory is held for sale. In connection with this operational change, \$470.9 million in gross value of operating materials and supplies as of September 30, 2000 was reclassified to inventory held by the Franchise Fund on October 1, 2000.

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Inventory consists of parts, materials, and supplies that support the National Airspace System (NAS) located at the Mike Monroney Aeronautical Center in Oklahoma City. Operating materials and supplies consists of general materials and supplies and spare parts located at field facilities. FAA uses the moving weighted average cost method to value inventory and operating materials and supplies. Operating materials and supplies are expensed, or are reclassified as asset field spares or work in process when issued or consumed. As of September 30, 2001 and 2000, inventory and operating materials and supplies, the associated allowances, and net values were as follows:

As of September 30, 2001
(Dollars in Thousands)

Operating Material and Supplies:	<u>Value</u>	<u>Allowance</u>	<u>Net Value</u>
Items Held For Use	\$ 556,900	\$ -	\$ 556,900
Held in Reserve	96,248		96,248
Excess, Obsolete, and Unserviceable	13,830	(6,085)	7,745
Subtotal, Operating Material and Supplies	<u>\$ 666,978</u>	<u>\$ (6,085)</u>	<u>\$ 660,893</u>

Inventory:

Items Held for Sale	\$ 63,154	\$ -	\$ 63,154
Items Held for Repair	417,937	(55,167)	362,770
Raw Materials	1,272		1,272
Work-In-Process	3		3
Finished Goods	2,126		2,126
Other Inventory	10,896		10,896
Excess, Obsolete, and Unserviceable	36,112	(15,528)	20,584
Subtotal, Inventory	<u>\$ 531,500</u>	<u>\$ (70,695)</u>	<u>\$ 460,805</u>
Total Inventory and Related Property	<u>\$ 1,198,478</u>	<u>\$ (76,780)</u>	<u>\$ 1,121,698</u>

As of September 30, 2000
(Dollars in Thousands)

Operating Material and Supplies:	<u>Value</u>	<u>Allowance</u>	<u>Net Value</u>
Items Held For Use	\$ 877,734	\$ -	\$ 877,734
Excess, Obsolete, and Unserviceable	32,054	(13,376)	18,678
Items Held for Repair	262,131	(170,385)	91,746
Total Operating Materials and Supplies	<u>\$ 1,171,919</u>	<u>\$ (183,761)</u>	<u>\$ 988,158</u>

Inventory is considered for repair based on condition levels and if the maximum repair cost does not exceed 65 percent of the original cost. The allowance for repairable inventory is based on the average historical cost of such repairs. An allowance for repairable operating materials and supplies, which is applicable to FY 2000 only, was 65 percent. Beginning in



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FY 2001, the repairable classification pertains to inventory only. Current period expenses are recognized for the amount of the annual increase or decrease to the repairable allowance account. During FY 2001 and FY 2000, FAA recognized the following changes in its allowance for items held for repair:

	<u>FY 2001</u>	<u>FY 2000</u>
Operating materials and supplies held for repair	N/A	\$18.2 million increase
Inventory held for repair	\$55.2 million increase	N/A

Scrap and salvage items, which are reported under the caption excess, obsolete, and unserviceable, are written down to zero value and may be sold for nominal amounts. FAA transfers excess items for disposal into the Government-wide automated disposal system. Disposal proceeds may go to the General Fund or to an FAA appropriation, depending upon the nature of the item and the disposal method.

Note 9. Property, Plant, and Equipment, Net

Property, Plant, and Equipment balances at September 30, 2001 and 2000, respectively, were as follows:

As of September 30, 2001 (Dollars in Thousands)					
<u>Class of Fixed Assets</u>	<u>Deprec. Method</u>	<u>Service Life</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	None	None	\$ 86,294	\$ -	\$ 86,294
Buildings & Structures	SL	15-40	3,192,205	(1,549,181)	1,643,024
Leasehold Improvements	SL	*	22,195	(3,807)	18,388
Aircraft	SL	20	456,253	(206,584)	249,669
ADP Software	SL	3	30,592	(7,775)	22,817
Internal Use Software in Development	SL	None	54,823	-	54,823
Equipment	SL	5-20	10,687,768	(4,271,735)	6,416,033
Assets Under Capital Lease	SL	Term-40	110,432	(38,769)	71,663
Construction in Progress	None	None	3,163,823	-	3,163,823
Property Not in Use	-	-	966	(966)	-
Total Property, Plant, and Equipment			<u>\$ 17,805,351</u>	<u>\$ (6,078,817)</u>	<u>\$ 11,726,534</u>

*Depreciated over the lesser of the remaining life of the "parent" asset or 10 years.

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As of September 30, 2000
(Dollars in Thousands)

<u>Class of Fixed Assets</u>	<u>Deprec. Method</u>	<u>Service Life</u>	<u>Acquisition Value</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	None	None	\$ 84,422	\$ -	\$ 84,422
Buildings & Structures	SL	15-40	3,198,406	(1,403,311)	1,795,095
Leasehold Improvements	SL	10	27,619	-	27,619
Aircraft	SL	20	395,361	(173,474)	221,887
Aircraft Engines	SL	7	2,761	-	2,761
ADP Software	SL	3	54,062	(30,063)	23,999
Equipment	SL	5-20	10,017,381	(3,659,425)	6,357,956
Assets Under Capital Lease	SL	Term-40	109,319	(27,995)	81,324
Construction in Progress	None	None	2,934,273	-	2,934,273
Property Not in Use	-	-	95,244	(95,244) (*)	-
Total Property, Plant, and Equipment			<u>\$ 16,918,848</u>	<u>\$ (5,389,512)</u>	<u>\$ 11,529,336</u>

In FY 2001, FAA implemented an Interim Fixed Asset System (IFAS) for its real and personal property included within the captions of Land, Buildings & Structures, Leasehold Improvements, Aircraft, ADP Software, Equipment, and Property Not in Use. IFAS serves as the subsidiary record supporting the acquisition value and accumulated depreciation for financial statement reporting as of September 30, 2001.

FAA reviewed its major system acquisition costs expended in FY 2001 and FY 2000, and identified additional capital costs of approximately \$605 million and \$553 million, respectively. A capitalization percentage was applied to both the FY 2001 and FY 2000 expenditures based on results of an FY 1999 detailed analysis of two decades of NAS acquisitions. These centrally funded capital expenditures were then assigned to individual Construction-in-Progress projects and/or in-use assets as appropriate. As a result of this distribution, a combined \$985 million was added to the Equipment and Aircraft acquisition values. The remaining centrally funded capital expenditures were assigned to Construction-in-Progress accounts.

FAA monitors its Construction-in-Progress accounts with performance measures to ensure that projects are closed to in-use assets within 6 months after new assets/capital improvements are placed in service. In both FY 2001 and FY 2000, the FAA closed more than \$1 billion of Construction-in-Progress to the in-use accounts.

Beginning in FY 2001, the FAA is reporting \$11.3 million of its Property Not in Use asset cost and associated accumulated depreciation based on its IFAS subsidiary system. In FY 2000, FAA recognized approximately \$95 million (*) in current and prior year losses for Property Not in Use. Of this amount, \$37.4 million was recognized as a loss on fixed assets for excess and surplus property as identified in the Utilization Screening and Disposal System (USD).



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Note 10. Environmental and Disposal Liabilities

FAA's environmental liabilities consist of environmental cleanup and remediation. Environmental cleanup is estimated at the time an FAA-owned asset is placed in service and includes the estimated cost to remove, contain, and/or dispose of hazardous waste at the time that asset will be shutdown. The environmental cleanup liability is charged to expense over the life of the associated asset. Environmental remediation is an estimate of all costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual environmental remediation liability is charged to expense. As of September 30, 2001, the number of sites identified for environmental remediation decreased to 240, from 436 as of September 30, 2000.

FAA's environmental liabilities as of September 30, 2001 and 2000, respectively, were as follows:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Environmental Remediation	\$ 382,200	\$ 441,944
Environmental Cleanup and Decommissioning	<u>1,373,800</u>	<u>1,373,800</u>
Total Environmental Liabilities	<u>\$ 1,756,000</u>	<u>\$ 1,815,744</u>

Note 11. Debt

As of September 30, debt outstanding to the U.S. Treasury under the Aircraft Purchase Loan Guarantee Program was as follows:

	(Dollars in Thousands)	
<u>Not Covered by Budgetary Resources</u>	<u>2001</u>	<u>2000</u>
Beginning Balance	\$ 26	\$ 24
Interest Payable	2	
Net Borrowing	<u>-</u>	<u>2</u>
Ending Balance	<u>\$ 28</u>	<u>\$ 26</u>

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Note 12. Other Liabilities

FAA's Other Liabilities as of September 30, 2001 and 2000 were as follows:

	As of September 30, 2001 (Dollars in Thousands)		
	Non-Current Liabilities	Current Liabilities	Total
Other Intragovernmental Liabilities			
Advances from Others	\$ -	\$ 22,537	\$ 22,537
Accrued Payroll & Benefits to Other Agencies	-	55,478	55,478
Proceeds From Replacement of Property	-	12	12
Other	-	95,047	95,047
Liabilities Covered by Budgetary Resources	\$ -	\$ 173,074	\$ 173,074
Federal Employees Compensation Act	109,981	84,337	194,318
Liabilities Not Covered by Budgetary Resources	\$ 109,981	\$ 84,337	\$ 194,318
Total Other Intragovernmental Liabilities	\$ 109,981	\$ 257,411	\$ 367,392
Other Liabilities			
Advances from Others, Unclassified	\$ -	\$ 6,687	\$ 6,687
Accrued Payroll & Benefits to Employees	-	249,063	249,063
Liability for Unapplied Collections	-	(25,384)	(25,384)
Other Accrued Liabilities	-	3,188	3,188
Liabilities Covered by Budgetary Resources	\$ -	\$ 233,554	\$ 233,554
Accrued Unfunded Annual & Other Leave & Assoc. Benefits	\$ 412,590	\$ -	\$ 412,590
Sick Leave Compensation Benefits for Air Traffic Controllers	48,661	-	48,661
Capital Leases (Note 13)	80,271	-	80,271
Contingent Liabilities for Legal Claims	679,023	-	679,023
Contingent Liabilities for Return Rights	10,100	-	10,100
Other Accrued Liabilities	109,346	-	109,346
Liabilities Not Covered by Budgetary Resources	\$ 1,339,991	\$ -	\$ 1,339,991
Total Other Liabilities	\$ 1,339,991	\$ 233,554	\$ 1,573,545



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As of September 30, 2000
(Dollars in Thousands)

	Non-Current Liabilities	Current Liabilities	Total
<u>Other Intragovernmental Liabilities</u>			
Advances from Others	\$ -	\$ 27,325	\$ 27,325
Accrued Payroll & Benefits to Other Agencies	-	36,645	36,645
Proceeds From Replacement of Property	-	12	12
Other	-	88,567	88,567
Liabilities Covered by Budgetary Resources	<u>\$ -</u>	<u>\$ 152,549</u>	<u>\$ 152,549</u>
Federal Employees Compensation Act	<u>108,681</u>	<u>83,334</u>	<u>192,015</u>
Liabilities Not Covered by Budgetary Resources	<u>\$ 108,681</u>	<u>\$ 83,334</u>	<u>\$ 192,015</u>
Total Other Intragovernmental Liabilities	<u>\$ 108,681</u>	<u>\$ 235,883</u>	<u>\$ 344,564</u>
<u>Other Liabilities</u>			
Advances from Others, Unclassified	\$ -	\$ 2,758	\$ 2,758
Accrued Payroll & Benefits to Employees	-	239,790	239,790
Liability for Unapplied Collections	-	(86,437)	(86,437)
Other Accrued Liabilities	-	96,965	96,965
Liabilities Covered by Budgetary Resources	<u>\$ -</u>	<u>\$ 253,077</u>	<u>\$ 253,076</u>
Accrued Unfunded Annual & Other Leave & Assoc. Benefits	\$ 398,093	\$ -	\$ 398,093
Sick Leave Compensation Benefits for Air Traffic Controllers	43,715	-	43,715
Capital Leases (Note 13)	87,765	-	87,765
Contingent Liabilities for Legal Claims	537,768	-	537,768
Contingent Liabilities for Return Rights	12,651	-	12,651
Liabilities Not Covered by Budgetary Resources	<u>\$ 1,079,993</u>	<u>\$ -</u>	<u>\$ 1,079,993</u>
Total Other Liabilities	<u>\$ 1,079,993</u>	<u>\$ 253,077</u>	<u>\$ 1,333,068</u>

Accrued payroll and benefits to employees at fiscal year-end represent the unpaid pay periods September 9-30, 2001 and September 10-30, 2000, respectively.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the Department of Labor (DOL), pursuant to the Federal Employees' Compensation Act (FECA). DOL administers the Federal Employees' Compensation Fund. Funding for the amount charged by DOL to FAA is normally appropriated for the fiscal year ending 2 years after the FAA accounting period in which the expense was incurred. Therefore, FAA's liability accrued as of September 30, 2001 includes workers' compensation benefits paid by DOL during the period July 1, 1999 through June 30, 2001, and accrued liabilities for the quarter July 1, 2001 through September 30, 2001. FAA's accrued liability as of September 30, 2000 was for the corresponding period July 1, 1998 through September 30, 2000.

The estimated liability for accrued unfunded annual leave, other leave, and associated benefits includes annual, compensatory hours (credit hours and restored leave), and sick leave under the terms the National Air Traffic Controllers Association (NATCA) agreement, Article 25,

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Section 13. This agreement gives air traffic controllers who are covered under the Federal Employees Retirement System (FERS) the option to receive a lump-sum payment for 40 percent of their accumulated sick leave as of their retirement effective date. FAA's estimated sick leave buy-back contingency for those air traffic controllers eligible for retirement, based on current sick leave balances, is \$48.7 million and \$43.7 million, as of September 30, 2001 and 2000, respectively.

As of September 30, 2001 and 2000, respectively, FAA recognized a contingent liability of \$679.0 million and \$537.8 million for legal claims that were asserted and pending, an increase of \$141.2 million. Of the \$679.0 million 2001 liability, \$63 million was estimated to be paid from agency appropriations with the remaining \$616 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. During FY 2001, FAA recognized the \$141.2 million increase in the liability from September 30, 2000 to 2001, as legal claims expense. As of September 30, 2001, FAA's maximum loss exposure for contingent liabilities associated with asserted and pending legal claims, in addition to amounts accrued, is estimated at \$20.1 billion.

The Return Rights Program pertains to employees who previously accepted transfers to overseas or certain domestic locations for a period of 2 to 4 years, and entitles the employees to a future return move at Government expense. As of September 30, 2001 and 2000, 202 and 253 employees, respectively, were contractually entitled to these "return rights." The return rights contingent liability is estimated at the typical cost per move, \$50,000. This contingent liability may be overstated because not every employee remaining in the program will exercise his or her right. If every employee in the program did exercise his or her right, the future payments comprising the contingent liability for return rights would be as follows:

(Dollars in Thousands)

	As of September 30, 2001		As of September 30, 2000		
	Number of employees	Payment Amount	Number of employees	Payment Amount	
FY 2002	121	\$ 6,050	FY 2001	102	\$ 5,100
FY 2003	48	2,400	FY 2002	132	6,600
FY 2004	33	1,650	FY 2003	19	950
Total	<u>202</u>	<u>\$ 10,100</u>	Total	<u>253</u>	<u>\$ 12,650</u>

The FY 2000 returns rights liability of \$12.65 million represented a decrease of \$13.25 million, from \$25.9 million in FY 1999. Because of evidence that the FY 1999 liability may have been overstated, the \$13.25 million decrease was treated as a prior period adjustment in FY 2000.



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Note 13. Leases

FAA as Lessee

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2001 and 2000:

(Dollars in Thousands)

Summary of Assets Under Capital Leases:

	<u>2001</u>	<u>2000</u>
Land, Buildings & Machinery:	\$ 110,432	\$ 109,319
Less: Accumulated Amortization	<u>(38,769)</u>	<u>\$ (27,995)</u>
Net Assets Under Capital Lease	<u>\$ 71,663</u>	<u>\$ 81,324</u>
Future Payments Due		
Fiscal Year		
Year 1	\$ 15,256	\$ 15,885
Year 2	15,228	15,707
Year 3	15,167	15,016
Year 4	14,277	14,957
Year 5	12,254	14,197
After 5 Years (Year 6 to Contract End)	66,947	78,902
Less: Imputed Interest	<u>(58,858)</u>	<u>(66,899)</u>
Total Capital Lease Liability	<u>\$ 80,271</u>	<u>\$ 87,765</u>
Liabilities Not Covered by Budgetary Resources	<u>\$ 80,271</u>	<u>\$ 87,765</u>

FAA's capital lease payments are funded annually. Capital lease assets are recorded at the net present value of the total minimum lease payments over the lease duration, valued at the lease inception. Amounts due within the current fiscal year corresponding to the principal portion of the lease payments are recorded as current year obligations. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually. Interest amounts imputed to subsequent years are not recorded as unfunded liabilities in the Departmental Accounting and Financial Information System (DAFIS).

Operating Leases

FAA leases property, aircraft, equipment, and telecommunications under operating leases. Future payments due as of September 30, 2001 and 2000, were:

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As of September 30, 2001
(Dollars in Thousands)

Future Payments Due				
Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Total
Year 1 (FY 2002)	\$ 54,906	\$ 4,749	\$ 427	\$ 60,082
Year 2 (FY 2003)	91,699	3,163	368	95,230
Year 3 (FY 2004)	86,933	2,094	349	89,376
Year 4 (FY 2005)	80,808	1,497	340	82,645
Year 5 (FY 2006)	75,925	757	264	76,946
After 5 Years (FY 2007 to Contract End)	<u>118,181</u>	<u>699</u>	<u>436</u>	<u>119,316</u>
Total Future Operating Lease Payments	<u>\$ 508,452</u>	<u>\$ 12,959</u>	<u>\$ 2,184</u>	<u>\$ 523,595</u>

As of September 30, 2000
(Dollars in Thousands)

Future Payments Due				
Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Total
Year 1 (FY 2001)	\$ 45,685	\$ 2,809	\$ 264	\$ 48,757
Year 2 (FY 2002)	41,143	2,721	245	44,110
Year 3 (FY 2003)	37,818	2,732	227	40,777
Year 4 (FY 2004)	33,655	2,444	208	36,307
Year 5 (FY 2005)	30,887	1,881	199	32,967
After 5 Years (FY 2006 to Contract End)	<u>71,848</u>	<u>3,370</u>	<u>142</u>	<u>75,359</u>
Total Future Operating Lease Payments	<u>\$ 261,035</u>	<u>\$ 15,957</u>	<u>\$ 1,285</u>	<u>\$ 278,277</u>

FAA's operating leases are funded annually and expensed as recurring charges. Unfunded liabilities and future funding requirements for operating lease payments due in future years are not recorded.

The cumulative operating lease amounts due after 5 years does not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.



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FAA as Lessor

Operating Leases

As of September 30, 2001 and 2000, future lease payments on operating leases in which FAA is the lessor were as follows:

As of September 30, 2001 (Dollars in Thousands)				
Future Payments Due				
Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Total
Year 1 (FY 2002)	\$ 5,308	\$ 90	\$ 34	\$ 5,432
Year 2 (FY 2003)	5,402	90	34	5,526
Year 3 (FY 2004)	5,501	90	34	5,625
Year 4 (FY 2005)	5,601	90	34	5,725
Year 5 (FY 2006)	5,704	90	-	5,794
After 5 Years (FY 2007 to Contract End)	<u>139,890</u>	<u>90</u>	<u>-</u>	<u>139,980</u>
Total Future Operating Lease Payments	<u>\$ 167,406</u>	<u>\$ 540</u>	<u>\$ 136</u>	<u>\$ 168,082</u>

As of September 30, 2000 (Dollars in Thousands)				
Future Payments Due				
Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Total
Year 1 (FY 2001)	\$ 4,264	\$ 90	\$ 57	\$ 4,411
Year 2 (FY 2002)	4,682	90	52	4,824
Year 3 (FY 2003)	5,142	90	50	5,282
Year 4 (FY 2004)	5,644	90	41	5,775
Year 5 (FY 2005)	6,200	-	35	6,236
After 5 Years (FY 2006 to Contract End)	<u>146,222</u>	<u>-</u>	<u>34</u>	<u>146,257</u>
Total Future Operating Lease Payments	<u>\$ 172,155</u>	<u>\$ 358</u>	<u>\$ 270</u>	<u>\$ 172,783</u>

FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 at \$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 10 years. Upon lease expiration, the airports and facilities, originally valued at \$244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

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Note 14. Federal Employee and Veterans Benefits Payable

(Dollars In Thousands)

	2001	2000
Other Post-Employment Benefits		
Federal Employees Compensation Act:		
Actuarial Liabilities	\$ 1,044,259	\$ 944,533
Total	\$ 1,044,259	\$ 944,533

Note 15. Unexpended Appropriations

Unexpended appropriations as of September 30, 2001 and 2000 were as follows:

As of September 30, 2001
(Dollars in Thousands)

	Operations General Fund	Other Funds	Total
Unobligated			
Available	\$ 138,281	\$ 56	\$ 138,337
Unavailable	39,696	238	39,934
Undelivered Orders	437,695	170	437,865
Sub-total	615,672	464	616,136
Other Differences	(65,706)	709	(64,997)
Total Unexpended Appropriations	\$ 549,966	\$ 1,173	\$ 551,139

As of September 30, 2000
(Dollars in Thousands)

	Operations General Fund	Other Funds	Total
Unobligated			
Available	\$ 3,359	\$ 54	\$ 3,413
Unavailable	62,707	959	63,666
Undelivered Orders	95,081	173	95,254
Sub-total	161,147	1,186	162,333
Other Differences	(37,105)	(11)	(37,116)
Total Unexpended Appropriations	\$ 124,042	\$ 1,175	\$ 125,217



FAA FY 2001 FINANCIAL STATEMENTS

Other FY 2001 and FY 2000 differences include a rescission for \$11.8 million in Treasury Symbol 6971301. \$32.3 million and \$21.5 million in transfers from the reimbursable to the direct apportionment reported in FY 2001 and FY 2000, respectively, may also contribute to the differences. The remaining differences include adjustments to the financial statements.

Note 16. Total Cost and Earned Revenue by Budget Functional Classification

FAA's consolidated costs and costs net of earned revenue are shown below by budget functional classification as of September 30, 2001 and 2000. FAA's intragovernmental portion of total consolidated costs and earned revenues are also depicted.

For the Year Ended September 30, 2001
(Dollars in Thousands)

Gross Cost and Earned Revenue by Budget Functional Classification

<u>Budget Functional Classification</u>	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Transportation Programs	\$ 11,023,423	\$ (208,856)	\$ 10,814,567
Community and Regional Development Programs	2	-	2
General Government Programs	-	-	-
Total Cost	<u>\$ 11,023,425</u>	<u>\$ (208,856)</u>	<u>\$ 10,814,569</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

<u>Budget Functional Classification</u>	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Transportation Programs	\$ 1,342,233	\$ (78,745)	\$ 1,263,488
Community and Regional Development Programs	-	-	-
General Government Programs	-	-	-
Total Intragovernmental Gross Cost	<u>\$ 1,342,233</u>	<u>\$ (78,745)</u>	<u>\$ 1,263,488</u>

FAA FY 2001 FINANCIAL STATEMENTS



For the Year Ended September 30, 2000
(Dollars in Thousands)

Gross Cost and Earned Revenue by Budget Functional Classification

<u>Budget Functional Classification</u>	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Transportation Programs	\$ 9,857,853	\$ (122,639)	\$ 9,735,214
Community and Regional Development Programs	690	-	690
General Government Programs	47	-	47
Total Cost	<u>\$ 9,858,590</u>	<u>\$ (122,639)</u>	<u>\$ 9,735,951</u>

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

<u>Budget Functional Classification</u>	<u>Total Cost</u>	<u>Earned Revenue</u>	<u>Net Cost</u>
Transportation Programs	\$ 1,334,622	\$ (84,811)	\$ 1,249,811
Community and Regional Development Programs		-	
General Government Programs		-	
Total Intragovernmental Gross Cost	<u>\$ 1,334,622</u>	<u>\$ (84,811)</u>	<u>\$ 1,249,811</u>

Note 17. Net Cost by Programs

FAA's six lines of business represent the programs reported on the Statement of Net Cost. Assigned cost centers to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated by applying ratios representing the cost for each line of business cost compared to total expenses, excluding grants.

Note 18. Taxes and Other Nonexchange Revenue

The Department of Treasury (Treasury) Internal Revenue Service collects various taxes on behalf of the FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by FAA appropriations. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections. As of September 30, 2001 and 2000, respectively, Treasury reported to FAA the following taxes collected:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Passenger Ticket Tax	\$ 6,482,379	\$ 7,158,909
International Departure Tax	1,351,245	1,384,659
Investment Income	907,104	817,933
Fuel Taxes	854,309	909,144
Waybill Tax	441,616	522,969
Tax Refunds and Credits	(52,559)	(45,761)
Total Taxes and Other Nonexchange Revenue	<u>\$ 9,984,094</u>	<u>\$ 10,747,853</u>



FAA FY 2001 FINANCIAL STATEMENTS

Note 19. Imputed Financing

The FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM. Amounts paid by the Judgment Fund in settlement of claims or court assessments against the FAA are also recognized as imputed financing. For the fiscal years ending September 30, 2001 and 2000, imputed financing was as follows:

	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Office of Personnel Management	\$ 360,208	\$ 330,870
Dept. of Justice Judgment Fund	<u>146,026</u>	<u>83,340</u>
Total Imputed Financing	<u>\$ 506,234</u>	<u>\$ 414,210</u>

Note 20. Prior Period Adjustments

For the year ending September 30, 2001, the FAA recognized the following prior period adjustments:

	(Dollars in Thousands)	
Reconciliation of General Ledger to Property Systems	\$	296,357
Other Adjustments Relating to Property		40,189
Other		<u>21,282</u>
Total Prior Period Adjustments	<u>\$</u>	<u>357,828</u>

The net of these prior period adjustments serves to reduce net position. Thus, the amount is shown bracketed on the Statement of Changes in Net Position.

Note 21. Statement of Budgetary Resources Disclosures

For FY 2001, both the Trust Fund and the General Fund financed FAA's Operations Appropriation. In preparing the Combined Statement of Budgetary Resources, the "Budget Authority" and "Obligations Incurred" lines include amounts from the SF 133s of both the Operations Appropriation (6911301) and Operations Trust Fund (6918104).

"Total Budgetary Resources" includes \$4.4 billion transferred between the Operations Trust Fund and the Operations Appropriation. The "Obligations Incurred" line includes \$4.4 billion, which is classified on the SF 133 of appropriation 6911301 as "reimbursable obligations."

FAA FY 2001 FINANCIAL STATEMENTS



These are obligations that are recorded in the Operations Appropriation and are funded by spending authority from offsetting collections (the amount transferred from the Operations Trust Fund).

The net amount of budgetary resources obligated for undelivered orders at the end of FY 2001 was \$6.5 billion.

Under Congressional legislation in FY 2001, FAA was authorized \$3.2 billion in contract authority and liquidating authority for \$3.2 billion, which are derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid Programs. The contract authority available at the end of FY 2001 was \$903.9 million.

On April 5, 2000, the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century, P.L. 106-181 (AIR-21), restored \$324,474,133 in FY 1999 contract authority for the Grants-in-Aid for Airports Program (AIP). OMB did not permit the FAA SF-132 that was approved on May 3, 2000 to reflect this restoration because OMB had not then completed considering a legal opinion on the status of the restored funds. The approved SF-132 showed an "amount temporarily not available pursuant to P.L. 106-113 and 106-181" as \$579,362,000. OMB did not reach a decision on this matter until February 2001. As a result of that decision, the SF-132 approved February 9, 2001, shows the FY 2001 AIP actual unobligated balance brought forward as of October 1, 2000, was \$903,900,816 instead of \$579,362,000, as shown on the prior SF-132.

Congress mandated permanent indefinite appropriations for the Facilities and Equipment, Grants-in-Aid, and Research, Development and Engineering to fully fund special projects that were ongoing and spanned several years.

FAA does not have any material differences between the information reported on the statement and the amounts described as FY 2001 "actual" in the Budget of the United States Government for FY 2003.

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

FAA incurred several rescissions of budgetary resources in FY 2001, including reductions to Facilities & Equipment Fund of \$5.8 million and Grants-in-Aid for Airports contract authority of \$609 million.

Subsequent to submission of FACTS II budgetary data to the Department of the Treasury, audit adjustments were received decreasing undelivered orders and increasing outlays \$2.2 million, and reclassifying \$34.2 million from obligations incurred to unobligated balances. These adjustments are reflected in the Statement of Budgetary Resources. Certain differences are also reflected between FY 2001 beginning balances and FY 2000 ending balances of obligations incurred and unobligated balances as a result of FY 2001 beginning balance adjustments to these accounts.

The Statement of Budgetary Resources is a combined statement and, as such, intraentity transactions have not been eliminated.



FAA FY 2001 FINANCIAL STATEMENTS

Note 22. Financing Sources Yet to be Provided

The Statement of Financing is a combined statement and, as such, intra-entity transactions have not been eliminated. Recognized liabilities not covered by budgetary resources equals the total financing sources yet to be provided.

For the Year Ended September 30, 2001
(Dollars in Thousands)

Financing Sources Not Covered by Budgetary Resources, Beginning of Period:	<u>\$ 4,202,912</u>
Decreases:	
Environmental Liabilities	\$ 59,744
Capital Leases	7,494
Accrued and Other Liabilities	4,761
Contingent Liabilities for Return Rights	<u>2,550</u>
Financing Sources That Fund Costs of Prior Periods	<u>\$ 74,549</u>
Increases:	
Contingent Liabilities for Legal Claims	\$ 141,254
Federal Employee Compensation Act (FECA Actuarial)	99,727
Contingent Liabilities for Sick Leave Buy-Back Option	4,946
Contingent Liabilities for Warranties	3,310
Federal Employee Compensation Act (FECA Actual)	<u>2,303</u>
Total Financing Sources Yet to be Provided	<u>\$ 251,540</u>
Financing Sources Not Covered by Budgetary Resources, End of Period	<u>\$ 4,379,903</u>



Note 23. Custodial Activity

FAA's custodial activity for the years ending September 30, 2001 and 2000 was as follows:

	For the Year Ending September 30	
	(Dollars in Thousands)	
	<u>2001</u>	<u>2000</u>
Revenue Activity:		
Sources of Cash Collections:		
Tax Revenues	\$ -	\$ -
Miscellaneous	23,447	21,942
Total Cash Collections	<u>23,447</u>	<u>21,942</u>
Accrual Adjustments (+/-)	5,912	1,811
Total Custodial Revenue	<u>\$ 29,359</u>	<u>\$ 23,753</u>
Disposition of Collections:		
Transferred to Treasury General Fund	\$ 23,447	\$ 21,942
Increase in Amounts Yet to be Transferred	5,912	1,811
Refunds and Other Payments	-	-
Retained by the Reporting Entity	-	-
Net Custodial Revenue Activity	<u>\$ -</u>	<u>\$ -</u>

Note 24. Other Disclosures

Contract Negotiations. As of September 30, 2001 and 2000, FAA had a total of \$106.4 million and \$88.9 million, respectively, in commitments (funds reserved for possible future obligations) under unexpired Facilities and Equipment, and Research, Engineering, and Development appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of each respective fiscal year.

Contract Options. As of September 30, 2001 and 2000, FAA had \$17.9 billion and \$13.1 billion, respectively, in unobligated contracts. The terms of these contracts give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Letters of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent (LOI) to enter into AIP grant obligations, but LOI's do not create obligations. Through September 30, 2001, FAA issued LOI's covering FY 1988 through FY 2014 totaling \$3.9 billion. As of fiscal year-end, FAA had obligated \$2.4 billion of this total amount leaving \$1.5 billion unobligated. FAA anticipates obligating \$242 million in FY 2002.

As of September 30, 2000, LOI's covering FY 1998 through FY 2010 totaled \$3.2 billion. Of this amount, FAA had obligated \$2 billion, leaving \$1.2 billion unobligated as of September 30, 2000.



FAA FY 2001 FINANCIAL STATEMENTS

AIP Grants. FY 2001 AIP grant authority totaled \$3.1 billion, including \$1.4 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed \$1.1 billion, and \$298 million remains available from unused or newly enacted contract authority to those sponsors through FY 2002, or in the case of non-hub primary airport locations, through FY 2003.

In FY 2000, AIP grant authority was \$1.85 billion, including over \$965 million in entitlements to specific locations. Of this amount, the sponsors had claimed \$868 million through the end of FY 2000, leaving \$97 million available from unused or newly enacted contract authority.

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

FAA maintains standby non-premium war-risk insurance policies for 48 air carriers having approximately 1,050 aircraft available for Defense or State Department charter operations. As of September 30, 2001, non-premium insurance coverage in the amount of \$8.75 million was in force to cover two helicopters under a Department of Defense charter.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and Stabilization Act (Public Law 107-42, 115 Stat.230), to include all scheduled domestic air carriers. Under this program, the FAA provided temporary war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. As of September 30, 2001, \$121.68 billion of war risk insurance was extended to 74 carriers for a period of 30 days. On October 18, this war risk coverage was extended through January 11, 2002. The issuance of temporary war-risk coverage to all scheduled domestic carriers provides necessary insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by the FAA and are assessed per departure. During FY 2001, the FAA recognized \$4.7 million in revenue related to the Aviation Insurance Program, \$4.6 million of which is insurance premiums. Premium revenue is reported as earned revenues on the Consolidated Statement of Net Cost, under Other Programs.

In the past, the FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Typically, the maximum liability for both hull loss and liability, per aircraft, is \$1.75 billion.

No claims for losses were pending as of September 30, 2001. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating back to 1951) only four claims ranging between \$626 and \$122,469 have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.



Overflight User Fees. The FAA issued an interim final rule (IFR) on August 1, 2000, that required aircraft operators to pay fees for air traffic control and related services provided to aircraft that operate in U.S.-controlled airspace but neither takeoff nor land in the United States. The authority to charge these fees is contained in the Federal Aviation Reauthorization Act of 1996. Several airlines and an air carrier association challenged this IFR in the U.S. Court of Appeals. On July 13, 2001, the Court, in its preliminary opinion, ruled in favor of the airlines and the FAA ceased all billing and collection activities under the IFR. In August 2001, the FAA issued a Final Rule on overflight fees authorizing the agency to begin charging fees, which were subsequently billed in October 2001. On behalf of the FAA, the Department of Justice filed a motion for reconsideration of the Court's ruling on the IFR stating that the concerns that the Court expressed on the IFR were addressed in the Final Rule. The Court granted the FAA's motion on December 28, 2001, which allowed the IFR to remain in place. The financial statements include \$29.3 million in overflight user fee revenue for the year ending September 30, 2001.

Other Legal Claims. FAA normally processes all its legal claims through traditional judicial and administrative forums; however, there are certain claims, e.g. equal employment opportunity (EEO) cases and contract disputes, that are under an alternative dispute resolution program, which are resolved using consensual dispute resolution techniques such as mediation and neutral evaluation. As of September 30, 2001 and 2000, the FAA identified \$3.9 million and \$5.4 million, respectively, of these types of cases, as well as other threatened matters of litigation.

Note 25. Subsequent Events

Pursuant to the Air Transportation System Safety and Stabilization Act (Public Law 107-42, 115 Stat. 230), on October 26, 2001 the Aviation Insurance Program offered to partially reimburse eligible air carriers for increases in war risk insurance premiums taking place after the September 11, 2001 terrorist attacks. Reimbursement is subject to certain specifications of the offer and limited to Aviation Insurance Program funds available for this purpose. The FAA estimates that reimbursements under this offer will range between \$58 million and \$65 million. This estimate includes \$50 million in funding from the overall \$40 billion 2001 Emergency Supplemental Appropriations Act for Recovery From and Response to Terrorist Attacks on the United States (Public Law 107-38).

The Aviation and Transportation Security Act (Public Law 107-71, 115 Stat. 597), which was enacted on November 19, 2001, established the Transportation Security Administration (TSA) and transferred the Civil Aviation Security functions and responsibilities of the FAA to the TSA not later than 3 months after the date of enactment.



FAA FY 2001 FINANCIAL STATEMENTS

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30

(Dollars in Thousands)

<u>State/Territory</u>	<u>FY 2001</u>	<u>FY2000</u>	<u>FY 1999</u>
Alabama	\$ 27,421	\$ 19,653	\$ 18,134
Alaska	83,563	51,788	70,802
Arizona	51,783	58,381	53,135
Arkansas	32,412	17,534	21,694
California	179,447	87,617	106,161
Colorado	26,340	29,860	43,452
Connecticut	3,480	1,788	4,971
Delaware	4,704	2,515	197
District of Columbia	61	83	54
Florida	110,428	64,694	71,746
Georgia	33,652	43,911	43,556
Hawaii	34,569	6,567	12,131
Idaho	25,477	13,106	15,578
Illinois	85,566	66,003	63,596
Indiana	30,544	24,141	27,467
Iowa	35,159	16,169	30,450
Kansas	7,587	7,378	7,451
Kentucky	46,166	26,205	32,741
Louisiana	32,841	29,200	24,442
Maine	7,496	3,828	4,943
Maryland	18,953	14,900	18,136
Massachusetts	20,709	14,560	15,259
Michigan	99,278	27,363	50,995
Minnesota	49,143	30,561	27,902
Mississippi	28,203	9,281	14,393
Missouri	62,701	35,137	30,089
Montana	19,254	13,157	16,727
Nebraska	22,983	8,534	14,240
Nevada	57,332	32,106	22,981
New Hampshire	16,173	8,582	8,789
New Jersey	18,047	10,012	25,906
New Mexico	10,882	7,671	10,149
New York	118,792	57,671	86,754
North Carolina	60,908	26,084	50,572
North Dakota	25,221	11,490	8,263
Ohio	51,601	45,691	46,374

FAA FY 2001 FINANCIAL STATEMENTS



U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Years Ended September 30

(Dollars in Thousands)

State/Territory	FY 2001	FY2000	FY 1999
Oklahoma	19,780	8,678	14,949
Oregon	31,655	9,847	16,138
Pennsylvania	62,343	34,011	57,544
Rhode Island	9,547	11,705	10,813
South Carolina	18,895	11,792	22,926
South Dakota	10,466	12,301	8,893
Tennessee	58,638	39,237	36,477
Texas	127,046	111,585	103,308
Utah	39,235	14,328	8,808
Vermont	5,487	1,157	4,141
Virginia	75,555	41,109	31,069
Washington	34,023	35,498	44,454
West Virginia	18,564	7,400	12,592
Wisconsin	27,541	26,278	25,512
Wyoming	16,446	14,972	7,871
American Samoa	5,374	241	676
Guam	3,653	3,399	10,341
Northern Mariana Island	5,455	1,610	4,027
Puerto Rico	6,399	9,179	7,163
Trust Territory of Pacific	-	138	27
Virgin Islands	5,056	2,411	9,231
Administration	58,542	55,196	75,680
Totals	\$ 2,178,576	\$ 1,375,293	\$ 1,612,867

STEWARDSHIP INVESTMENT

Non-Federal Physical Property.

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



FAA FY 2001 FINANCIAL STATEMENTS

**U.S. Department of Transportation
Federal Aviation Administration
Stewardship Investment
Research and Development
For the Fiscal Years Ended September 30**

(Dollars in Thousands)

Expenditures	2001	2000	1999
Applied Research	\$ 120,395	\$ 99,777	\$ 118,834
Development	3,419	7,175	18,358
R&D Plant	46,988	12,800	14,290
Administration	10,130	46,219	36,466
Total	\$ 180,932	\$ 165,971	\$ 187,948

Stewardship Investment

Research and Development.

FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency.

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine, and human factors.

NOTE: The FY 1999 amounts reported above are based on actual amounts and differ from those reported in FY 1999, which were based on estimates.

FAA FY 2001 FINANCIAL STATEMENTS



U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
Intragovernmental Transactions
 For the Fiscal Year Ended September 30, 2001

(Dollars in Thousands)

Intragovernmental Assets

<u>Agency</u>	<u>Fund Balance with Treasury</u>	<u>Accounts Receivable</u>	<u>Investments</u>	<u>Other</u>
Department of the Treasury	\$ 1,998,297	\$ 76,862	\$ 13,866,780	\$ -
Department of Agriculture		245		-
Department of Commerce		75		-
Department of Defense		3,614		-
Department of Justice		1,322		-
Department of the Air Force		12,578		5,355
Department of the Army		1,782		-
Department of the Interior		3,521		-
Department of the Navy		5,131		46
Department of State		105		-
Department of Transportation		5,025		32,200
Fed. Emergency Mgmt. Agency		160		-
General Services Administration		333		3
National Aeronautics & Space Admin.		2,252		-
Other Agencies		14,424		8,489
Total	<u>\$ 1,998,297</u>	<u>\$ 127,429</u>	<u>\$ 13,866,780</u>	<u>\$ 46,093</u>

Intragovernmental Liabilities

<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt/ Borrowings from Other Agencies</u>	<u>Other</u>
Other Agencies	\$ 49,930	\$ -	\$ 105,834
Department of Agriculture			5,632
Department of Commerce			1,187
Department of Defense			463
Department of Education			20
Department of Energy			42
Department of Health & Human Services			13
Department of Justice			3,463
Department of Labor			194,318
Department of the Air Force			2,634
Department of the Army			125
Department of the Interior			67
Department of the Navy			136
Department of the Treasury		28	733
Fed. Emergency Management Agency			245
General Services Administration			66
National Aeronautics & Space Admin.			2,560
National Science Foundation			9
Office of Personnel Management			40,064
Social Security Administration			9,781
Total	<u>\$ 49,930</u>	<u>\$ 28</u>	<u>\$ 367,392</u>



FAA FY 2001 FINANCIAL STATEMENTS

**U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Intragovernmental Transactions
For the Fiscal Year Ended September 30, 2001**

(Dollars in Thousands)

Intragovernmental Expenses and Revenues

<u>Agency</u>	<u>Expenses</u>	<u>Revenues</u>
Department of the Treasury	\$ 1,986	\$ 1,986
Department of Agriculture	248	248
Department of the Air Force	35,792	35,792
Department of the Army	2,018	2,018
Department of Commerce	1,320	1,320
Department of Defense	3,263	3,263
Department of the Interior	444	444
Department of Justice*	148,144	2,118
Department of Labor	13	13
Department of Labor - FECA*	86,365	
Department of the Navy	9,588	9,588
Department of Transportation	15,524	15,524
Fed. Emergency Mgmt. Agency	216	216
General Services Administration	314	314
Health & Human Services	87	87
National Aeronautics & Space Admin.	5,739	5,739
Office of Personnel Management*	1,031,099	
Veterans Administration	73	73
Total Expenses	\$ 1,342,233	\$ 78,743

* Represents imputed costs funded by other agencies on behalf of FAA and/or employee-related expenses.

Intragovernmental Non-Exchange Revenue

	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of the Air Force	\$ -	\$ 27
Department of Commerce		350
Department of the Navy		15
General Services Administration	67	119
Office of the Secretary of Defense - Defense Agencies		4,516
Other Agencies	1,158	47,228
Total	\$ 1,225	\$ 52,255

FAA FY 2001 FINANCIAL STATEMENTS



U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Intragovernmental Transactions
For the Fiscal Year Ended September 30, 2000

(Dollars in Thousands)

Intragovernmental Assets

<u>Agency</u>	<u>Fund Balance with Treasury</u>	<u>Accounts Receivable</u>	<u>Investments</u>	<u>Other</u>
Department of the Treasury	\$ 886,325	\$ 226,265	\$ 13,355,134	\$ -
Department of Agriculture		12		
Department of Commerce		1,130		
Department of the Interior		1,372		
Department of Justice		544		
Department of Labor		5		
Department of State		3,925		
Department of the Army		45		
Department of the Navy		729		
General Services Administration		42		
Department of the Air Force		6,443		7,742
Fed. Emergency Mgmt. Agency		46		
National Aeronautics & Space Admin.		3,991		
Department of Energy		362		
Department of Education		20		
Department of Defense		3,692		
Department of Transportation		6,948		
Other Agencies		11,867		37,288
Total	<u>\$ 886,325</u>	<u>\$ 267,438</u>	<u>\$ 13,355,134</u>	<u>\$ 45,030</u>

Intragovernmental Liabilities

<u>Agency</u>	<u>Accounts Payable</u>	<u>Debt/ Borrowings from Other Agencies</u>	<u>Other</u>
Other Agencies	\$ 130,245	\$ -	\$ 115,904
Department of the Treasury		26	
Department of Labor			192,015
Office of Personnel Management			36,645
Total	<u>\$ 130,245</u>	<u>\$ 26</u>	<u>\$ 344,564</u>



FAA FY 2001 FINANCIAL STATEMENTS

**U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Intragovernmental Transactions
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Intragovernmental Expenses and Revenues

<u>Agency</u>	<u>Expenses</u>	<u>Revenues</u>
Department of the Treasury	\$ 7,449	\$ 7,449
Department of Agriculture	112	112
Department of Commerce	516	516
Department of the Interior	139	139
Department of Justice*	84,110	771
Department of Labor	20	20
Department of Labor - FECA*	84,364	
Department of the Navy	9,633	9,633
Office of Personnel Management*	937,826	
Department of the Army	476	476
Veterans Administration	90	90
General Services Administration	69	69
Department of the Air Force	16,418	16,418
Fed. Emergency Mgmt. Agency	601	601
Health & Human Services	112	112
National Aeronautics & Space Admin.	3,470	3,470
Department of Defense	437	437
Department of Transportation	16,350	16,350
Other Agencies	172,430	28,149
Total Expenses	\$ 1,334,622	\$ 84,811

* Represents imputed costs funded by other agencies on behalf of FAA and/or employee-related expenses.

Intragovernmental Non-Exchange Revenue

	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of Commerce	39	15
Department of the Treasury	136	20
Department of Health and Human Services	343	
Office of the Secretary of Defense - Defense Agencies	51	5,221
Department of Interior		31
Department of the Navy		41
Department of the Army		6,498
Social Security Administration		21
General Services Administration		1,555
Department of the Air Force		1,972
Department of Housing and Urban Development		16
Department of Justice		11
Other Agencies	625	10,247
Total	\$ 1,194	\$ 25,648

FAA FY 2001 FINANCIAL STATEMENTS



U.S. Department Of Transportation
FEDERAL AVIATION ADMINISTRATION
Supplementary Information
Deferred Maintenance
For the Fiscal Years Ended September 30
 (Dollars in Thousands)

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition				
			FY 2001	FY 2000	FY 1999	FY 1998	
Land			-	-	-	-	[a]
Buildings	Condition Assessment Survey	4&5	\$ 50,568	\$ 30,971	\$ 17,539	\$ 18,214	
Other Structures and Facilities	Condition Assessment Survey	4&5	22,928	59,290	37,442	1,231	
Aircraft and Aircraft Engines		-			-	-	[b]
National Airspace System (NAS) Equipment		-			-	-	[c]
General Purpose Equipment		-			-	-	[d]
Assets Under Capital Lease		-			-	-	
Total			<u>\$ 73,496</u>	<u>\$ 90,261</u>	<u>\$ 54,981</u>	<u>\$ 19,445</u>	

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

Information on FAA's deferred maintenance is based on condition assessment survey (annual inspection). Standards (orders) are provided for evaluating the fixed assets condition. These standards are combined with FAA's technicians' knowledge, past experiences, and judgment to provide the following:

- Minimum and desirable condition descriptions
- Suggested maintenance schedules
- Standard costs for maintenance actions
- Standardized condition codes

There have not been material changes in the standards in recent years. FAA recognizes maintenance expense as incurred. However, maintenance was insufficient during the past several years and resulted in deferred maintenance on Buildings and Other Structures and Facilities.

[a] No material maintenance was deferred on land.

[b] Maintenance was not deferred on the FAA aircraft. The aircraft maintenance was ensured through the aircraft maintenance, inspection, preventive maintenance, and alteration programs of the Flight Inspection Maintenance Division programs.

[c] The FAA did not defer maintenance on NAS equipment. The maintenance of the Airway Facilities (AF) system, subsystems, and equipment in the NAS is guided by the general principle of ensuring availability and reliability of air traffic control, navigation, and communication services. In order to minimize the quantity and duration of service interruption and outages, both planned and unplanned, AF does not generally defer the maintenance of the electronic equipment. Various reasons may cause a maintenance cycle to be skipped, but the maintenance is performed during the next cycle. FAA Order 6000.30 states the minimum standards for reliability and availability of NAS equipment. AF's following initiatives ensure the highest possible levels of performance of NAS equipment:

- Periodic and preventive maintenance programs
- Maintenance of backup equipment for key services in case of equipment interruption or missed maintenance
- Competent technical maintenance staff

[d] The amount recorded as FAA's general purpose equipment was not material; therefore, no material maintenance was deferred on these equipment.



FAA FY 2001 FINANCIAL STATEMENTS

**FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2001
(Dollars in Thousands)**

	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development
BUDGETARY RESOURCES				
Budget Authority	\$ (334,826)	\$ 6,402,500	2,656,765	\$ 187,000
Unobligated Balances - Beginning of Period	10,445,872	903,901	282,850	15,900
Spending Authority From Offsetting Collections Adjustments	-	(4,020,418)	72,091 63,427	4,302 5,747
Total Budgetary Resources	\$ 10,111,046	\$ 3,285,983	\$ 3,075,133	\$ 212,949
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ -	3,285,593	2,521,288	193,549
Unobligated Balances-Available	10,111,046	390	508,983	15,740
Unobligated Balances-Not Available	-	-	44,862	3,660
Total Status of Budgetary Resources	\$ 10,111,046	\$ 3,285,983	\$ 3,075,133	\$ 212,949
OUTLAYS				
Obligations Incurred	\$ -	3,285,593	2,521,288	193,549
Less: Spending Authority From Offsetting Collections and Adjustments	-	(90,529)	(172,791)	(10,460)
Obligated Balance, Net Beginning of Period	-	3,199,772	1,538,631	147,352
Obligated Balance Transferred, Net	-	-	-	-
Less: Obligated Balance, Net - End of Period	-	(4,378,147)	(1,619,922)	(163,192)
Total Outlays	\$ -	\$ 2,016,689	\$ 2,267,206	\$ 167,249

FAA FY 2001 FINANCIAL STATEMENTS



U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2001
(Dollars in Thousands)

	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
BUDGETARY RESOURCES					
Budget Authority	\$ -	\$ -	\$ 6,617,235	\$ 36,000	\$ 15,564,674
Unobligated Balances - Beginning of Period	79,211	71	94,962	294	11,823,061
Spending Authority From Offsetting Collections	9,329	235,234	4,502,674	-	4,823,630
Adjustments	58	-	(20,228)	-	(3,971,414)
Total Budgetary Resources	\$ 88,598	\$ 235,305	\$ 11,194,643	\$ 36,294	\$ 28,239,951
STATUS OF BUDGETARY RESOURCES					
Obligations Incurred	\$ 357	206,686	\$ 10,996,582	\$ -	\$ 17,204,055
Unobligated Balances-Available	88,241	28,619	147,714	29,623	10,930,356
Unobligated Balances-Not Available	-	-	50,347	6,671	105,540
Total Status of Budgetary Resources	\$ 88,598	\$ 235,305	\$ 11,194,643	\$ 36,294	\$ 28,239,951
OUTLAYS					
Obligations Incurred	\$ 357	206,686	\$ 10,996,582	\$ -	\$ 17,204,055
Less: Spending Authority From Offsetting Collections and Adjustments	(9,387)	(235,234)	(4,544,881)	-	(5,063,282)
Obligated Balance, Net Beginning of Period	149	8,983	827,241	276	5,722,404
Obligated Balance Transferred, Net	-	-	-	-	-
Less: Obligated Balance, Net - End of Period	(128)	(45,993)	(922,614)	(272)	(7,130,268)
Total Outlays	\$ (9,009)	\$ (65,558)	\$ 6,356,328	\$ 4	\$ 10,732,909



FAA FY 2001 FINANCIAL STATEMENTS

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
BALANCE SHEETS

(Dollars in Thousands)

	As of September 30	
	2001	2000
Assets		
Intragovernmental		
Fund Balance with Treasury	\$ 74,525	\$ 8,967
Accounts Receivable, Net	3,686	447
Other (Note 5)	93	10
Total Intragovernmental Assets	<u>\$ 78,304</u>	<u>\$ 9,424</u>
Accounts Receivable, Net	\$ (60)	\$ 1
Inventory and Related Property, Net	438,101	
General Property, Plant, and Equipment, Net	48,260	2,014
Other Assets	17	
Total Assets	<u><u>\$ 564,622</u></u>	<u><u>\$ 11,439</u></u>
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	\$ -	\$ (238)
Other Intragovernmental Liabilities	63,184	1,542
Total Intragovernmental Liabilities	<u>\$ 63,184</u>	<u>1,304</u>
Accounts Payable	10,340	3,859
Other Liabilities	13,997	1,812
Total Liabilities	<u>87,521</u>	<u>\$ 6,975</u>
Net Position Balances:		
Cumulative Results of Operations	<u>\$ 477,101</u>	<u>\$ 4,464</u>
Total Net Position	<u>477,101</u>	<u>\$ 4,464</u>
Total Liabilities and Net Position	<u><u>\$ 564,622</u></u>	<u><u>\$ 11,439</u></u>

FAA FY 2001 FINANCIAL STATEMENTS



**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENTS OF NET COST**

(Dollars in Thousands)

	For the Years Ending September 30	
Costs:	<u>2001</u>	<u>2000</u>
Programs		
Intragovernmental	\$ 203,470	\$ 32,209
Less Earned Revenues	<u>(208,945)</u>	<u>(31,231)</u>
Net Program Costs	<u>(5,475)</u>	<u>978</u>
Net Cost of Operations	<u>\$ (5,475)</u>	<u>\$ 978</u>



FAA FY 2001 FINANCIAL STATEMENTS

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2001**

(Dollars in Thousands)

Net Cost of Operations	\$ 5,475
Financing Sources	
Imputed Financing	4,283
Transfers-In	481,792
Transfers-Out	(18,913)
Total Financing Sources	<u>\$ 467,162</u>
Net Results of Operations	\$ 472,637
Prior Period Adjustments	<u>-</u>
Net Change in Cumulative Results of Operations	472,637
Change in Net Position	472,637
Net Position Beginning of Period	<u>4,464</u>
Net Position End of Period	<u>\$ 477,101</u>

FAA FY 2001 FINANCIAL STATEMENTS



**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
BALANCE SHEETS**

(Dollars in Thousands)

	As of September 30	
	<u>2001</u>	<u>2000</u>
Assets		
Intragovernmental		
Fund Balance with Treasury	\$ 85,081	\$ 140
Investments		75,932
Other		
Total Assets	<u>\$ 85,081</u>	<u>\$ 76,072</u>
Liabilities		
Intragovernmental		
Accounts Payable	\$ 2	\$ -
Other	5	5
Total Intragovernmental Liabilities	<u>\$ 7</u>	<u>\$ 5</u>
Accounts Payable	\$ 2	\$ 4
Other Liabilities	24	21
Total Liabilities	<u>\$ 33</u>	<u>\$ 30</u>
Net Position Balances:		
Cumulative Results of Operations	<u>85,048</u>	<u>76,042</u>
Total Net Position	<u>\$ 85,048</u>	<u>\$ 76,042</u>
Total Liabilities and Net Position	<u>\$ 85,081</u>	<u>\$ 76,072</u>



FAA FY 2001 FINANCIAL STATEMENTS

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENTS OF NET COST**

(Dollars in Thousands)

	For the Year Ended September 30	
	<u>2001</u>	<u>2000</u>
Costs:		
Programs		
Public	\$ 331	\$ 219
Less Earned Revenues	<u>(9,329)</u>	<u>(4,009)</u>
Net Program Costs	<u>\$ (8,998)</u>	<u>\$ (3,790)</u>
Net Cost of Operations	<u><u>\$ (8,998)</u></u>	<u><u>\$ (3,790)</u></u>



**U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 AVIATION INSURANCE REVOLVING FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the year ended September 30, 2001**

(Dollars in Thousands)

Net Cost of Operations	\$ 8,998
Financing Sources	
Imputed Financing	<u>9</u>
Net Results of Operations	9,007
Prior Period Adjustments	<u>(1)</u>
Net Change in Cumulative Results of Operations	9,006
Change in Net Position	9,006
Net Position Beginning of Period	<u>76,042</u>
Net Position End of Period	<u><u>\$ 85,048</u></u>



FAA FY 2001 FINANCIAL STATEMENTS

REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background/Fund Establishment

The Government Management Reform Act (GMRA) of 1994, Public Law 103-356, provided for the establishment of a franchise fund pilot program. This program is designed to create competition within the public sector in the performance of a wide variety of support services. The franchise allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other Government agencies.

Six franchise fund pilot programs were created by GMRA; and the pilots were selected by the President's Chief Financial Officers' (CFO) Council for participation in the program prior to submission of the FAA Franchise Fund proposal. However, the CFO Council's Franchise Fund Working Group strongly endorsed the FAA proposal, and recommended submission to Congress as a franchise-like operation. This endorsement resulted in Congressional approval of the application, and the FAA Administrative Services Franchise Fund was authorized under Public Law 104-205, Department of Transportation and Related Agencies Appropriation Act, 1997.

Services

The Administrative Services Franchise Fund offers a wide variety of services. These include accounting, payroll, travel, duplicating, multi-media, information technology, and international and management training. In FY 2001, the fund was expanded to include logistics functions at the FAA Logistics Center and aircraft maintenance functions in the Office of Aviation System Standards. The customer base includes Department of Transportation (DOT) and non-DOT government agencies.

Benefits/Accomplishments

The objective of the franchise is to enhance the support provided to the core programmatic mission functions within FAA. Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships, consolidation of like functions, and expansion of volume. Efforts in the franchise are directed toward identifying the most efficient and cost effective methods to provide support services, and this is consistent with current Presidents' initiatives relating to competitive sources.

The franchise has been a catalyst for management initiatives relating to improved business practices that have resulted in the following general impacts/benefits:

- Reduced unit cost of services/products by spreading fixed cost across increased volumes
- Increased emphasis on cost accounting and labor distribution by franchise organizations



- Increased emphasis on development and tracking of cost and performance measures
- Improved business practices and a more business-like orientation
- Increased focus on customer satisfaction and customer-driven decisions
- Improved analysis relating to the mix of in-house versus contract support; currently over 60 percent of the total franchise budget can be identified as paid to private sector sources
- Ability to grow new capital over time to enhance and refresh technology and systems through use of the revolving fund environment
- Generated retained earnings for capital improvements that enhance services and reduce their cost
- Increased emphasis on the cost of providing services/products and on the full recovery of costs
- Ability to level the budget from one fiscal year to another and to accommodate delays in the appropriation process through use of flexibilities associated with the revolving fund environment
- The carryover provision of the revolving fund allows a “buy on demand/need” ability versus forced buying to avoid expiration of funding authority

Specific accomplishments associated with a few of the individual franchise activities include:

- Implemented a process in the FAA Logistics Center to allocate budgets to field offices and charge against these allocations when products are ordered. This has resulted in improved buyer behavior patterns and a reduction in demand as customers order according to need
- Improvements in many key cost and performance measures in the FAA Logistics Center as a result of the franchise initiative including:
 - Customer satisfaction has maintained a high level during time of considerable organizational change (up from 3.93 in 1997 to a current level of 4.02 on a scale of 5)
 - Customer delivery time on shipments within 24 hours up from 86.92% in FY 2000 to 91.14% in FY 2001
 - Warehouse refusals decreased from 7.3 per thousand in FY 1999 to 2.1 per thousand in FY 2001
 - Reduced average cost recovery (mark-up rate for parts and repairs by 7.41% in FY 2001
 - Reduced the distribution cost per issue from \$51.77 in FY 1999 to \$41.52 in FY 2001
 - Improved inventory accuracy from 96.65% in FY 1999 to 99.9 % in FY 2001
 - Reduced shipping errors per 1,000 issued by 4.9% in one year
- Reduced in-house cost per printing impression by 8% by spreading fixed cost across a greater workload volume. Maintained this reduction for 2 years resulting in a cost savings to customers of \$128,678



FAA FY 2001 FINANCIAL STATEMENTS

- Used the carryover provision of the revolving fund to invest in up-to-date printing technology resulting in a wider range of available products and services, greater level of productivity, and competitive costs
- Optimized efficiency in delivery of domestic training courses by filling unused quota with tuition-paying international students, and by reimbursing the FAA Academy for contract and government employees used during off-peak periods to instruct international training courses
- Enhanced the FAA's financial systems and statement posture through extensive support actions relating to asset and inventory management processes in the franchise environment
- Increased support to DOT and FAA strategic goals in global aviation system leadership (e.g., Safe Skies) without an increase in appropriated funds through advancement of the international training program.



GLOSSARY OF ACRONYMS

A		DP/STAR	departure procedures /standard terminal arrival route
AC	advisory circular	DSR	display system replacement
AD	advisory directive		
AF	Airway Facilities	E	
AIP	Airport Improvement Program	EAPS	enhanced airworthiness program for airplane systems
AMASS	airport movement area safety system	EDC	early display configuration
		EDS	explosives detection system
ANCA	Airport Noise and Capacity Act		
ARTCC	air route traffic control center	EIS	environmental impact statement
ASAP	Aviation Safety Action Program	ERAM	en route automation modernization
ASDE	airport surface detection equipment	ETD	explosives trace detectors
AT	air traffic		
ATC	air traffic control	F	
ATCSCC	ATC Systems Control Center	F&E	Facilities and Equipment
ATO	Air Traffic Organization	FAA	Federal Aviation Administration
ATOS	Air Transportation Oversight System	FAR	Federal Aviation Regulations
ATS	Air Traffic Services	FASAB	Federal Accounting Standards Advisory Board
		FAST	final approach spacing tool
C		FFP1	Free Flight Phase 1
CAEP	Committee on Aviation Environmental Protection	FFP2	Free Flight Phase 2
CAS	cost accounting system	FOQA	flight operations quality assurance
CFO	Chief Financial Officer	FSS	flight service station
CIP	Aviation System Capital Investment Plan	FY	fiscal year
CTAS	center/TRACON automation system		
CY	calendar year	G	
		GA	general aviation
D		GAO	General Accounting Office
DOT	Department of	GPS	global positioning system



FAA FY 2001 FINANCIAL STATEMENTS

Transportation

I

ICAO International Civil Aviation Organization
 ILS instrument landing system

L

LAAS local area augmentation systems
 LDR labor distribution reporting

N

NAS National Airspace System
 NASA National Aeronautics and Space Administration
 NOCC National Operations Control Center
 NPIAS National Plan of Integrated Airport Systems
 NPRM Notice of Proposed Rulemaking
 NRP North American Route Program

O

OEP Operational Evolution Plan
 OIG Office of the Inspector General, Department of Transportation
 OMB Office of Management and Budget

P

PFAST passive final approach spacing tool
 PFC passenger facility charge
 PP&E property, plant and equipment

Q

QAR quality assurance review process

R

R,E&D Research, Engineering, and Development
 REDAC Research, Engineering & Development Advisory Committee
 RESTORE revitalizing existing structures, technology, and operational resources

S

SFAR Special Federal Aviation Regulation
 SPAS safety performance analysis system
 STAR standard terminal arrival route
 STARS standard terminal automation replacement system
 SUP suspected unapproved parts

T

TIP threat image projection
 TMA traffic management advisor
 TRACON terminal radar approach control
 TSA Transportation Security Administration

U

URET user request evaluation tool

W

WAAS wide area augmentation systems

