LIMITATIONS OF THE FINANCIAL STATEMENT

- 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.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEET
As of September 30, 1998

(Dollars in Thousands)

Assets		
Entity Assets:		
Intragovernmental		
Fund Balance with Treasury (Note 2)	$	1,569,560
Investments (Note 3)		8,752,638
Accounts Receivable, Net (Note 4)		54,894
Other Assets (Note 5)		160,330
Total Intragovernmental Assets	$	10,537,422
Accounts Receivable, Net (Note 4)		26,318
Loans Receivables and Related		-
Foreclosed Property, Net (Note 6)		394
Cash and Other Monetary Assets (Note7)		59,710
Inventory and Related Property, Net (Note 8)		819,580
General Property, Plant, and Equipment, Net (Note 9)		8,375,113
Other Assets (Note 5)		8,462
Total Entity Assets:	$	19,826,999
Total Assets	$	19,826,999
Liabilities		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	$	179,788
Other Intragovernmental Liabilities (Note 11)		69,097
Total Intragovernmental Liabilities		248,885
Accounts Payable		505,979
Lease Liability (Note 12)		687
Other Liabilities (Note 11)		189,008
Total Liabilities Covered by Budgetary Resources	$	944,559
Liabilities Not Covered by Budgetary Resources:		
Intragovermental Liabilities:		
Debt (Note 10)	$	24
Other Intragovernmental Liabilities (Note 11)		181,065
Total Intragovermental Liabilities		181,089
Lease Liabilities (Note 12)		103,532
Environmental and Disposal Liabilities (Note 13)		3,244,300
Federal Employees and Veterans Benefits Payable (Note 14)		926,780
Contingent Liabilities (Note 15)		465,394
Other Liabilities (11)		408,072
Total Liabilities Not Covered by Budgetary Resources	$	5,329,167
Total Liabilities	$	6,273,726
Net Position Balances:		
Unexpended Appropriations (Note 16)	$	336,470
Cumulative Results of Operations (Note 17)		13,216,803
Total Net Position	$	13,553,273
Total Liabilities and Net Position	$	19,826,999

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST
For the year ended September 30, 1998

(Dollars in Thousands)

Costs: (Notes 18 and 19)		
Programs		
Air Traffic Services		
Intragovernmental	$	449,742
With the Public		5,299,603
Total		5,749,345
Less Earned Revenues		(21,149)
Net Air Traffic Services Costs	$	5,728,196
Regulation & Certification		
Intragovernmental	$	25,571
With the Public		664,827
Total		690,398
Less Earned Revenues		25
Net Regulation & Certification Costs	$	690,423
Research and Acquisition		
Intragovernmental	$	14,888
With the Public		1,076,509
Total		1,091,397
Less Earned Revenues		(47,015)
Net Research and Acquisition Costs	$	1,044,382
Airports		
With the Public		
Grant Program	$	1,384,466
Administration		52,075
Net Airports Costs	$	1,436,541
Civil Aviation Security		
Intragovernmental	$	4,144
With the Public		152,714
Total		156,858
Less Earned Revenues		(819)
Net Civil Aviation Security Costs	$	156,039
Commercial Space		
Intragovernmental		132
With the Public	$	6,895
Net Commercial Space Costs	$	7,027
Other Programs		
Intragovernmental	$	26,513
With the Public		23,398
Total		49,911
Less Earned Revenues		(33,950)
Net Other Program Costs	$	15,961
Costs Not Assigned to Programs	$	16,631
Less Earned Revenues Not Attributed to Programs	$	(13,388)
Deferred Maintenance, unaudited (Note 20)		
Net Cost Of Operations	$	9,081,812

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the year ended September 30, 1998

(Dollars in Thousands)

Net Cost of Operations	$	(9,081,812)
Financing Sources		
Appropriations Used		3,312,612
Taxes and Other Non-Exchange Revenues (Note 21)		8,725,972
Donations (Non-Exchange Revenue)		(774)
Imputed Financing (Note 22)		355,732
Transfers-In		11,691
Transfers-Out		(64,268)
Total Financing Sources	$	12,340,965
Net Results of Operations		3,259,153
Prior Period Adjustments (Note 23)		(5,528,065)
Net Change in Cumulative Results of Operations		(2,268,912)
Increase (Decrease) in Unexpended Appropriations (Note 24)		(380,032)
Change in Net Position		(2,648,944)
Net Position Beginning of Period		16,202,217
Net Position End of Period	$	13,553,273

FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 1998

(Dollars in Thousands)

Budgetary Resources (Note 25)		
Budget Authority	$	11,184,553
Unobligated Balances - Beginning of Period		7,229,820
Spending Authority From Offsetting Collections		2,033,195
Adjustments		114,148
Total Budgetary Resources	$	20,561,716
Status Of Budgetary Resources		
Obligations Incurred	$	11,338,673
Unobligated Balances-Available		522,739
Unobligated Balances-Not Available		8,700,304
Total Status of Budgetary Resources	$	20,561,716
Outlays		
Obligations Incurred	$	11,338,673
Less: Spending Authority From Offsetting Collections and Adjustments		(2,161,115)
Obligated Balance, Net Beginning of Period		5,074,554
Obligated Balance Transferred, Net		-
Less: Obligated Balance, Net - End of Period		(5,038,337)
Total Outlays	$	9,213,775

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 1998

(Dollars in Thousands)

Obligations and Nonbudgetary Resources		
Obligations Incurred	$	11,338,673
Less: Spending Authority for Offsetting Collections and adjustments		(2,161,115)
Donations not in the Budget		(774)
Financing Sources for Cost Subsidies		355,732
Transfers-in (out)		(52,577)
Exchange Revenue not in the Budget		(40)
Other		20,736
Total Obligations as Adjusted, and Nonbudgetary Resources	$	9,500,635
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services, and Benefits Ordered but not yet Received or Provided	$	(95,987)
Change in Unfilled Customer Orders		(26,288)
Costs Capitalized on the Balance Sheet (Note 26)		2,995,785
Financing Sources that Fund Costs of Prior Periods (Note 27)		(85,504)
Other - Identified Prior Period Adjustments		(3,517,446)
Reconciling Difference		(876,930)
Total Resources That Do Not Fund Net Cost of Operations	$	(1,606,370)
Costs That Do Not Require Resources		
Depreciation and Amortization	$	180,059
Revaluation of Assets and Liabilities		(483,498)
Loss on Disposition of Assets		511,737
Cost of Goods Sold		133,222
Total Costs That Do Not Require Resources	$	341,520
Financing Sources Yet To Be Provided (Note 27)	$	846,027
Net Cost Of Operations	$	9,081,812

These consolidated financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, the status and availability of budgetary resources and the reconciliation between proprietary and budgetary accounts of the Federal Aviation Administration (FAA), as required by 31 U.S.C. 3515, as added by the Chief Financial Officer's 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 the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board, The Office of Management and Budget (OMB) Bulletin 97-01, Form and Content of Agency Financial Statement, the Department of Transportation (DOT) and the FAA's accounting policies which are summarized in this note. These statements, with the exception of the statement of Budgetary Resources, are, therefore, different from the financial management reports 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 and complies with operating policies and procedures established, issued, and implemented by the General Accounting Office (GAO), the OMB, and the Department of Treasury, as recommended by the Federal Accounting Standards Advisory Board (FASAB). The financial statements have been prepared in accordance with the following hierarchy of accounting principles and standards, which constitutes another comprehensive basis of accounting:

1. Individual Standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.

2. Interpretations related to the Statement of Federal Financial Accountings Standards (SFFAS) issued by OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards."

3. Requirements contained in OMB Bulletin 97-01, Form and Content and its amendments in effect for fiscal year 1998.

4. The DOT accounting policies and reporting requirements

5. FAA accounting policies summarized in this note and FAA Order No. 2700.31, Uniform Accounting Systems Operations Manual, and related documentation containing the FAA-specific accounting policy.

6. Accounting principles published by authoritative standard-setting bodies and other authoritative sources (1) in the absence of other guidance in the first five parts of this hierarchy, and (2) if the use of such accounting standards improve the meaningfulness of these financial statements.

B. Reporting Entity

The FAA was created in 1958. The FAA's mission is to operate the Nation's air traffic control system and to regulate the aviation's safety and security. FAA is responsible to provide U.S. air travelers with an efficient, safe, secure, and technically advanced airspace system.

The FAA activities as per Treasury designation can be grouped into four funds.

Entity	Title
1. Trust Fund	Airport and Airway Trust Fund Cash and Investments
	Grants-in-Aid
	Facilities and Equipment
	Research and Development
	Programs Administered by Other Agencies
2. Revolving Fund	Aviation Insurance Program
3. Franchise Fund	Administrative Services
4. All Others	Operations
(Unsegmented)	Facility and Equipment Development

	Aircraft Purchase Loan Guarantee - Borrowing Authority for Program Expenses - Appropriation to Liquidate Borrowed Funds and Accrued Interest
	General Fund Miscellaneous Receipts
	Suspense Clearing Accounts
	Items Not Classified by Financing Source

The Airport and Airway Trust Fund (Trust Fund) financed approximately 62 percent of the fiscal year (FY) 1998 total budget. The only appropriations receiving General Fund financing are the Operations appropriation and, when enacted, the appropriation to liquidate debts to the Treasury incurred for the Aircraft Purchase Loan Guarantee Program. (No such liquidating appropriation was enacted in FY 1998.) Approximately 37 percent of the FY 1998 funding of the Operations appropriation was financed by the General Fund, and the remainder was funded by the Trust Fund. Infusing funds from the Trust Fund to the Operations appropriation is accomplished by periodic transfers. Once a transfer is made, the corresponding portion of the Operations account derived from the Trust Fund is accounted for under the General Fund Operations appropriation symbol, thus losing the identity of the source.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. For FY 1998, the FAA was accountable for Trust Fund appropriations, General Fund appropriations, a Revolving Fund, a Franchise Fund, 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. See paragraph B above.

D. Basis of Accounting

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 treated differently. They are recorded on the basis of cash transferred from the General Fund to the Trust Fund. Transactions are also classified by fund account. This is accomplished by assigning to each transaction a unique attribute (Treasury symbol) identifying the corresponding appropriation and its period of availability.

Budgetary accounting facilitates complying 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 petty cash (imprest funds) outside the Treasury to facilitate small purchases. The FAA does not maintain cash in commercial bank accounts. The FAA does not maintain any 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 statement includes 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. Upon default, the FAA established accounts receivable in the General Fund Miscellaneous Receipts account to reflect the amount due from the borrower for principal and interest. The FAA also established 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. In FY 1998, the FAA discontinued the use of standard cost and began valuing materials and supplies using moving weighted average. Other classifications of materials and supplies are valued on the basis of actual prices paid.

Adjustments for the proper valuation of reparable, excess, obsolete, and unserviceable items are made to the appropriate allowance account at fiscal yearend. The allowance for reparable items is recognized as a current period expense. The allowance for excess, obsolete, and unserviceable items is recognized as a gain or a loss. Operating materials and supplies are reclassified as expenses or work in progress when consumed or issued.

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

In FY 1998, the FAA increased the capitalization threshold from $5,000 to $25,000 for all PP&E. Acquisitions with costs exceeding $25,000 and a useful life exceeding 2 years are capitalized. Acquisitions not meeting these criteria are recorded as operating expenses. Capitalization thresholds differ from the thresholds for classifying property as accountable or sensitive. The FAA currently reports general PP&E at original acquisition cost.

In FY 1998, FAA fully implemented the depreciation of general PP&E. The depreciation expense is calculated using the straight-line method; except for aircraft that is depreciated to a 25 percent salvage value, the FAA does not recognize residual value for its PP&E. No depreciation expense is recognized on an asset during the fiscal year it is put in service. A full year's depreciation will be recognized during the asset's final year of use. The useful life classifications for capitalized assets are as follows:

Asset Classification	Useful Life (Years)
Offices, Buildings, Warehouse Buildings, Residential Properties, Air Traffic Control Towers, and Air RouteTraffic Control Centers	40
Mobile Homes, Aircraft	20
Original Roads, Sidewalks, Parking Lots, and All Other Structures	15
Printing, Photographic and Projection equipment	13
Capital Improvements, Facility Modifications, Leasehold Improvements (or expiration of lease whichever comes first), Portable and Installed Communications Equipment Excluding Air Navigation and Air Traffic Control Facilities and Avionics Equipment	10
Office Furniture and Equipment including the following categories: Prototype and Experimental, Research and Development Test, Shop, Emergency Readiness, Training, Portable Test and Rack Mounted Test equipment for Air Navigation and Air Traffic Control Facilities, Aircraft Test Equipment and Other nonclassified Equipment	7
Vehicles and Automatic Data Processing Equipment	5

The FAA has established two categories of economic service life for some of its personal property and facilities and equipment assets. The two categories are based on whether the assets were in service prior to the full implementation of the depreciation policy or they were put in service in the year of the depreciation implementation, as follows:

Functional Area	Economic Service Life (Range) Existing	Economic Service Life (Range) New
Decision Support Systems	4-20	2-20
Communications	10-20	10
Weather	15-20	10-20
Navigation/Landing	20	15-20
Surveillance	20	10-20
Facilities	40	40
Facilities' Support Equipment	20	20
Mission Support	20	20
User Equipment	10-20	7-10

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 direct (actual) costs, plus applied overhead and other indirect costs as accumulated by the regional project materiel system.

The General Services Administration (GSA) receives payment for real property that is under its control and is used by the FAA. Payments are made from an appropriation to the Office of the Secretary of Transportation (OST), part of which (corresponding to the FAA costs) is derived from the Trust Fund.

K. 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.

L. Liabilities

A liability represents the amount to be paid by the FAA as the result of a transaction or event that has already occurred. However, 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.

M. Borrowing 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 1998.

N. Interest Payable to the Treasury

The FAA owes interest to the Treasury based on its debt to the Treasury as a result of borrowing for the Aircraft Purchase Loan Guarantee Program.

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 biweekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of nonvested leave are expensed when taken.

In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement System (FERS) became eligible, upon retirement, for a sick leave buy back option.

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. 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 DOL's reimbursement.

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 and 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 an offsetting revenue as imputed financing sources for the extent of these additional expenses that will be paid by OPM.

R. Contingencies

The FAA recognizes losses for contingent liabilities when such losses are probable and reasonably estimable. The FAA recognizes material contingent liabilities in the form of claims that have been brought to the attention of the Office of Chief Counsel (OCC) and: (1) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (2) in the opinion of the OCC are more likely to be paid than not; and (3) for which the OCC can estimate the probable payment.

Note 2. Fund Balances with Treasury

(Dollars in Thousands)

	Obligated	Unobligated & Available	Unobligated & Restricted	Total
Trust Fund	$2,174,366	$ (1,049,195)	$ (276,524)	$ 848,647
Operations General Fund	676,299	(6,699)	30,753	$ 700,353
Franchise Fund	3,954	2,178	-	6,132
Revolving Fund	189	73	-	262
Other Funds	390	13,776	-	14,166
Total	$2,855,198	$ (1,039,867)	$ (245,771)	$1,569,560

Unobligated and restricted fund balances represent balances of appropriations for which the period of availability for (voluntary) obligation has expired. These balances are only available for upward adjustments of obligations incurred during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriation. Pursuant to 31 U.S.C. 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 the amount of **$**27.6 million in canceled appropriations at fiscal yearend were removed from the balance sheet.

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

(Dollars in Thousands)

	Cost	Amortization Method	Unamortized (Premium) Discount	Investments Net	Other Adjustments	Market Value Disclosure
Intragovernmental Securities:						
Nonmarketable, Par Value						
Trust Fund (1)	$ 8,549,630		$ -	$ 8,549,630		$ -
Nonmarketable, Market-Based						
Aviation Insurance Revolving Fund (2)	71,029	Straight Line	(2,149)	68,880	-	-
Subtotal	8,620,659		(2,149)	8,618,510	-	-
Accrued Interest	134,128			134,128		-
Total	$ 8,754,787			$ 8,752,638		$ -

A total of $8.5 billion was invested in U.S. Treasury Certificates of Indebtedness as of September 30, 1998, at a rate of 6.5 percent, maturing June 30, 1999.

(1) 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 Trust Fund investments are made by the Fund's trustee, the Secretary of the Treasury.

(2) 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. The following amounts are invested in market-based Treasury securities:

	Maturity Date	Effective Interest Rate	Amount
1	12/10/98	5.17%	$ 13,505
2	4/01/99	5.07%	23,565
3	6/24/99	5.12%	16,000
4	9/16/99	4.46%	17,959
			$ 71,029

Note 4. Accounts Receivable

(Dollars in Thousands)

	Gross Accounts Due	Allowance for Uncollectible Amounts	Net Amount Due
Intragovernmental Receivables	$ 54,894	$ -	$ 54,894
Other Receivables	32,186	(5,868)	26,318
Total Receivables	$ 87,080	$ (5,868)	$ 81,212

Reconciliation of Uncollectible Amounts:

	Intragovernmental	Other
Beginning Balance	$ -	$ (5,012)
Additions	-	(3,151)
Reductions	-	2,295
Ending balance	-	(5,868)

Delinquency notices are sent to debtors when billings remain uncollected for 30 days. Followup notices are sent if the debtor does not respond. Additional actions, such as salary or retirement offset (when the debtor is a current or former Federal employee), as well as tax refund offset, consumer reporting, and referral to collection agencies may be taken, depending on the circumstances of each case. An allowance for uncollectible accounts receivable is established when, based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur. Accounts receivable in appropriations canceled pursuant to 31 U.S.C. 1552 on September 30, 1998, are no longer FAA assets. An accounts receivable balance in the amount of $235,000 for canceled appropriations at fiscal yearend was removed from the balance sheet.

Note 5. Other Assets

(Dollars in Tousands)

Other Entity Assets Intagovernmental		
Advances and Prepayments	$ 106,203	(1)
Undistributed Foreign Costs	191	
Undistributed Costs - Treasury Clearing	1,098	
Other Assets - Undistributed	52,838	(2)
Total Intragovernmental	$ 160,330	
Advances and Prepayments	$ 8,462	(3)
Total Other Entity Assets	$ 168,792	

(1) Represents advance payments to other Federal Government entities under the 31 U.S.C., 1535 for agency expenses not yet incurred or for goods or services not yet received.

(2) Includes 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.

(3) Represents advance payments to employees for agency expenses not yet incurred.

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

(Dollars in Thousands)

Defaults on Pre-1992 Guaranteed Loans:

Aircraft Purchase Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
	$ 496	$ 235	$ (337)	$ -	$ 394

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.

Accounts receivable from debtors on account of defaulted guaranteed loans are reported net of an allowance for estimated uncollectible amounts. 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, Foreign Currency and Other Monetary Assets

(Dollars in Thousands)

Imprest Fund Cash	$ 60
Undeposited Collection	59,650
Total Cash, Foreign Currency, and Other Monetary Assets	$ 59,710

Note 8. Inventory and Related Property

Operating Materials and Supplies:

(Dollars in Thousands)

	Value	Allowance	Net Value	Valuation Method
Items Held For Use	$ 732,137	$ -	$ 732,137	Moving Weighted Average
Excess, Obsolete, and Unserviceable	18,553	6,417	12,136	Moving Weighted Average
Items Held for Repair	215,160	139,854	75,306	Moving Weighted Average
Total Inventory and Related Property	$ 965,850	$ 146,271	$ 819,579	

Inventory and related property consist of general operating material and supplies, aircraft parts, and spare parts located at field facilities. Effective in FY 1998, FAA began using the moving weighted average cost method to value operating materials and supplies**.** This change resulted in $64.7 million decrease in the value of inventory. In FY 1998, FAA conducted an inventory of 100 percent of its spare parts, which resulted in an increase of $118 million in spare parts recorded as a prior period adjustment. FAA currently expenses operating materials and supplies as issued or consumed.

(1) In FY 1998, FAA recognized a $21.9 million gain as a result of a decrease in the allowance for excess, obsolete, and unserviceable items.

(2) Items are considered for repair based on condition levels and if the maximum repair cost does not exceed 65 percent of the original cost. The allowance method is used to account for operating materials and supplies held for repair, reducing the net carrying value of such items to 35 percent of their original cost. Current period expenses are recognized for the amount of the annual increase or decrease to the allowance account. In FY 1998, FAA recognized $11.2 million decrease in the allowance for items held for repair.

(3) FAA increased its operating material and supplies as a result of an adjustment of a $146 million in its inventory clearing accounts. FAA is assessing the clearing account process and will modify the process based on its evaluation.

Scrap and salvage items are written down to zero value and may be sold for nominal amounts. FAA transfers excess items for disposal into the Governmentwide automated disposal system. Disposal proceeds may go to the General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method. FAA may not donate items.

Note 9. Property, Plant and Equipment, Net

(Dollars in Thousands)

Classes of Fixed Assets	Depreciation Method	Service Life (yrs)	Acquisition Value	Accumulated Deprec.	Net Book Value
Land	None	None	$ 76,742	-	$ 76,742
Buildings and Structures	SL	15-40	$ 2,480,938	(1,232,989)	1,247,949
Leasehold Improvements	SL	*	27,861	-	27,861
Aircraft	SL	20	320,827	(69,159)	251,668
Aircraft Engines	SL	7	2,761	-	2,761
ADP Software	SL	*	33,419	-	33,419
Equipment	SL	5-13	4,149,372	(2,100,470)	2,048,902
Assets Under Capital Lease	SL	Term-40	192,008	(91,888)	100,120
Construction in Progress	None	None	4,497,220	-	4,497,220
Property Not in Use	*	*	88,471	-	88,471
Total			$ 11,869,619	$(3,494,506)	$ 8,375,113

(1) In FY 1998, FAA changed its real property capitalization threshold from $5,000 to $25,000. This resulted in a prior period adjustment of $238.8 million. In addition, FAA made a $104.6 million prior period adjustment as a result of the change in the personal property capitalization threshold.

(2) In FY 1998, FAA fully implemented depreciation of general PP&E. This implementation resulted in a prior period adjustment of $3,171 million. The depreciation of aircraft and assets acquired under capital lease was implemented in FY 1996.

(3) In FY 1998, a reconciliation of the property systems to the general ledger was performed. This reconciliation resulted in a prior period adjustment of $228 million for real property and a $13.9 million adjustment for personal property.

(4) Currently, FAA is in the process of reconciling its construction in progress accounts. This requires extensive reconciliation that includes identifying those items that are actually work in progress and those that have been commissioned. It also involves reconciliation of the purchases-in-transit account.

(5) In FY 1998, FAA recognized a loss on fixed assets of $14.8 million for excess and surplus property in the Utilization Screening and Disposition (USD) system.

(6) Documentation to support the historical costs of real property assets that were placed in use between 1960 and 1980 were not readily available, and what was available was inconsistent. Alternative methods to estimate historical costs, such as the use of modeling techniques, will be used when actual documentation cannot be found. Real property records will be adjusted in FY 1999 to reflect results of modeling/documentation efforts.

(7) Personal property is understated by a significant amount as a result of FASAB requirements and change in the capitalization policy. Adjustments to personal property will be made in FY 1999, based on an analysis of related contract costs, e.g., common contract costs that were previously expensed because there was no applicable FAA capitalization policy. The understatement of personal property will also have a corresponding impact on accumulated depreciation.

Note 10. Debt

(Dollars in Thousands)

	Beginning Balance	Net Borrowing	Ending Balance
Other Debt:			
Aircraft Purchase Loan			
Guarantee Program			
Debt to the Treasury	$ 21	$ 3	$ 24
Total Debt	$ 21	$ 3	$ 24

Note 11. Other Liabilities

(Dollars in Thousands)

Other Liabilities Covered by Budgetary Resources

	Noncurrent Liability	Current Liability	Total	
Intragovernmental:				
Advances from Others	$ -	$ 24,315	$ 24,315	
Accrued Payroll & Benefits to Other Agencies	-	38,504	38,504	
Proceeds From Replacement of Property	-	12	12	
	-	6,266	6,266	
Total Intragovernmental	$ -	$ 69,097	$ 69,097	
Other Liabilities				
Advances from Others, Unclassified	$ -	$ 7,747	$ 7,747	
Accrued Payroll & Benefits to the Employees	-	165,462	165,462	(1)
Liability for Unapplied Collections	-	15,933	15,933	
Other		(134)	(134)	
Total Other Liabilities	$ -	$189,008	$189,008	

(Dollars in Thousands)

Other Liabilities Not Covered by Budgetary Resources

	Noncurrent Liability	Current Liability	Total	
Intragovernmental:				
Federal Employees Compensation Act	$ 102,978	$ 78,087	181,065	(2)
Total Intragovernmental Liabilities	$ 102,978	$ 78,087	$181,065	
Accrued Unfunded Annual Leave & Assoc. Benefits	$ 351,646	$ -	$351,646	(3)
Sick Leave Compensation Benefits for Air Traffic Controllers	56,426	-	56,426	(4)
Total	$ 408,072	$ -	$408,072	

(1) Accrued payroll and employee benefits represent the unpaid pay period September 23 through September 30, 1998.

(2) An unfunded liability is recorded for unreimbursed actual cost to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA) to the Department of Labor (DOL), that administers the Federal Employees' Compensation Fund. Funding for the amount charged 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 FY 1998 accrued liability includes workers' compensation benefits paid by DOL for the periods July 1, 1996, through June 30, 1997; July 1, 1997, through June 30, 1998; and July 1, 1998, through September 30, 1998.

(3) The estimated liability for accrued wages includes annual, home, and military and compensatory hours plus the agency's cost of employee benefits associated with such compensated absences for the period ending September 30, 1998.

(4) In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a Sick Leave Buy Back Option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty (40) percent of the value of his or her accumulated sick leave as of the effective date of his or her retirement. The total estimated sick leave buy back contingency for FAA for those air traffic controllers eligible for retirement, based on current sick leave balances, for FY 1998 is $56.4 million.

Note 12. Leases

FAA as Lessee:

Capital Leases:

(Dollars in Thousands)

Summary of Assets Under Capital Lease:	
Land and Buildings:	$192,008
Accumulated Amortization	(91,888)
Net Assets Under Capital Lease	$100,120
Future Payments Due:	Land and
Fiscal Year	Buildings
Year 1 (FY 1999)	$ 19,452
Year 2 (FY 2000)	14,308
Year 3 (FY 2001)	12,862
Year 4 (FY 2002)	12,867
Year 5 (FY 2003)	12,735
After 5 Years (FY 2004 to Contract End)	78,813
Less: Imputed Interest	(46,818)
Total Capital Lease Liability	$104,219
Liabilities Covered by Budgetary Resources	$ 687
Liabilities Not Covered by Budgetary Resources	$103,532

Capital leases cover land and buildings at the Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, Oklahoma, and at the William J. Hughes Technica Center (WJHTC) in Pomona, New Jersey. (Operating leases discussed in the following section cover other real property.) FAA leases the MMAC land and buildings from the Oklahoma City Airport Trust at $12 million per year. FAA leases real property, including the WJHTC technical building, from the Atlantic County Improvement Authority at $4.8 million per year.

FAA's capital lease payments are funded annually. The following represents capital lease accounting treatment under generally accepted accounting principles:

(1) 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.

(2) In FY 1996, FAA implemented the depreciation/amortization provision of Statement of Federal Financial Accounting Standards (SFFAS) No. 6, which is applicable to assets acquired under capital lease. In FY 1998, FAA identified and recorded capital leases that represented a $12.1 increase in Assets Under Capital Leases.

(3) 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 (aggregating $46.8 million) are not recorded as unfunded liabilities in the Departmental Accounting and Financial Information System (DAFIS).

Operating Leases:

(Dollars in Thousands)

Future Payments Due:

Fiscal Year	Land & Buildings	Mach. & Equipment	Other	Total	
Year 1 (1999)	$ 44,762	$ 322	$ 2,708	$ 47,792	
Year 2 (2000)	39,038	228	1,909	41,175	
Year 3 (2001)	32,628	235	1,905	34,768	
Year 4 (2002)	27,465	242	1,877	29,584	
Year 5 (2003)	21,495	249	1,885	23,629	
After 5 Years (2004 to Contract End)	56,446	3,643	11,772	71,861	(1)
Total Future Operating Lease Payments	$ 221,834	$ 4,919	$22,056	$ 248,809	

FAA leases property, aircraft, equipment, and telecommunications under operating leases. Such leases are funded annually and expensed as recurring charges in DAFIS. Unfunded liabilities and future funding requirements for operating lease payments due in future years are not recorded in DAFIS.

(1) The cumulative amount due on operating leases 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.

FAA as Lessor:

Capital Leases:

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

Operating Leases:

(Dollars in Thousands)

Future Projected Receipts:

Fiscal Year	Land & Buildings	Mach. & Equipment	Other	Total
Year 1 (1999)	$ 4,193	$ 90	$ 2	$ 4,285
Year 2 (2000)	4,279	90	2	4,371
Year 3 (2001)	4,297	90	2	4,389
Year 4 (2002)	4,712	90	2	4,804
Year 5 (2003)	5,169	90	2	5,261
After 5 Years (2004 to Contract End)	170,750	90	2	170,842
Total Future Operating Lease Receivables	$ 193,400	$ 540	$12	$ 193,952

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.

Note 13. <u>Environmental and Disposal Liabilities</u>

(Dollars in Thousands)

Environmental Remediation	$ 828,900	(1)
OSHA & Environmental Compliance	512,200	(2)
Decommissioning Cleanup	1,900,000	(3)
Air Traffic Control at Closed DOD Bases	3,200	(4)
Total Environmental and Disposal Liabilities	$ 3,244,300	

(1) Environmental remediation includes fuel storage tank program and environmental cleanup, associatedwith normal part of operations or as a result of an accident, e.g., the superfund cleanup.

(2) Occupational Safety and Health Administration (OSHA) and environmental compliance includes environmental, occupational safety and health compliance, and energy conservation. In FY 1996, OSHA and environmental compliance were combined with environmental remediation.

(3) SFFAS #6 defines cleanup costs as the "cost of removing, containing, and/or disposing of (1) hazardous waste from property, or (2) material and/or property that consist of hazardous waste at permanent or temporary closure or shutdown of associated property, plant, or equipment. As of September 30, 1998, the total liability for the estimated cleanup costs was $1.9 billion that will result from future decommissioning of FAA facilities and equipment. Of that amount, $1.5 billion was recorded as prior period adjustment, and $376 million was previously recognized as a liability in FY 1997. FAA complies with the Federal Facilities Compliance Act, 40 CFR, specifically the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) and RCRA, as well as all state and local environmental regulations.

(4) Providing air traffic control (ATC) services, where needed, is FAA's responsibility under 49 U.S.C. 44502(a)(1)(B). FAA will continue providing ATC functions for civilian users of the National Airspace System near certain DOD bases scheduled for closure. FAA's costs include those for national air space equipment, real property, and personnel relocation.

Note 14. Federal Employee and Veterans Benefits Payable

(Dollars in Thousands)

Other Post-Employment Benefits	
Federal Employees Compensation Act:	
Actuarial Liabilities	$ 926,780
Total	$ 926,780

The liability consists of the net present value of estimated future payments calculated by the DOL. The liability estimates include death, disability, medical, and miscellaneous costs for approved compensation cases.

Note 15. Contingent Liabilities

(Dollars in Thousands)

	Noncurrent Liability	Current Liability	Total
Contingent Liabilities for Legal Claims	$ 433,444	$ -	$ 433,444
Contingent Liabilities for Return Rights Program	22,150	9,800	31,950
Total Contingent Liabilities	$ 455,594	$ 9,800	$ 465,394

(1) In FY 1997, FAA recognized contingent liabilities of $438.3 million associated with claims that had been brought to the attention of the OCC and that: (a) had been asserted, or, if not yet asserted, in the opinion of the OCC were more likely to be asserted than not; (b) in the opinion of the OCC were more likely to be paid than not; and (c) for which the OCC could estimate probable payment. Such claims represent a variety of administrative proceedings and legal actions against which the OCC was then defending or then expected to defend. During FY 1998, contingent liabilities for legal claims decreased by the amount of $4.8 million.

Of the contingent liabilities recognized, approximately $96.1 million could be payable from agency appropriations, and approximately $337.3 million could be payable from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice.

OMB issues official interpretations to provide agencies clarification on the SFFAS's. OMB has issued Interpretation No. 2, on SFFAS Nos. 4 and 5 (effective for fiscal years beginning after September 30, 1996), which requires agencies to recognize an expense and a liability for the full amount of an expected loss, whether payable from agency appropriations or from the Judgment Fund. In accordance with Interpretation No. 2, "once the claim is either settled or a court judgment is assessed against the Federal entity and the Judgment Fund is determined to be the appropriate source for the payment of the claim, liability should be removed from the financial statements of the entity that incurred the liability and another financing source amount (which represents the amount to be paid by the Judgment Fund) would be recognized." The amount of the legal liabilities recognized by FAA during FY 1998 known to be paid or payable from the Judgment Fund iscontingent upon a final claim settlement or court assessment. FAA did recognize other financing sources in the amount of $39 million for claims paid by the Judgment Fund during FY 1998.

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

FY 1999	9,800,000
FY 2000	8,600,000
FY 2001	13,550,000
	$31,950.000

Note 16. Unexpended Appropriations

(Dollars in Thousands)

	Operations General Fund	Other Funds	Total
(1)Unobligated			
(a) Available	$ 4,014	$ 1,878	$ 5,892
(b) Unavailable	42,853	-	42,853
(2) Undelivered Orders	302,992	77	303,069
Sub-total	$ 349,859	$ 1,955	$351,814
Less: Other Differences	(15,841)	497	(15,344)
Total Unexpended Appropriations	$ 334,018	$ 2,452	$336,470

The differences represent the amount of undelivered orders and accounts payable that exceeds the total amount of unrequisitioned cash authority, the Treasury cash balance and the unobligated authority, and other differences carried forward from prior years.

Note 17. Cumulative Results of Operations

FAA's Cumulative Results of Operations is $13,216,803,000 which includes unexpended appropriation a mounts associated with the Trust Fund activity. Appropriations were issued for the Airport Improvement Program (grants) in the amount of $1,640,000,000 for paying (liquidating appropriations) claims resulting from authorizations to enter into agreements (contract authority). Appropriations were also issued for the Facilities and Equipment, Research, Engineering and Development, and Operations programs in the amount of $11,616,412,486. The unexpended appropriations included undelivered orders for $4,080,237,911 and unobligated balances of $9,176,174,575. Of the unobligated portion, $518,724,722 is unavailable for obligation and $8,657,450,053 is available for obligation.

Note 18. Total Cost and Earned Revenue by Budget Functional Classification

(Dollars in Thousands)

	Total Cost	Earned Revenue	Net Cost
Functional Classification:			
Transportation Programs	$ 9,197,759	$ (116,296)	$9,081,463
Community and Regional Development Programs	302	-	302
General Government Programs	47	-	47
Total Cost	$ 9,198,108	$ (116,296)	$9,081,812

Note 19. 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 expenses.

Note 20. Deferred maintenance (unaudited)

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 Structure and Facilities. The following table presents information on deferred maintenance on major categories of the FAA's PP&E:

(Dollars in Thousands)

Category	Method	Asset Condition *	Cost to Return to Acceptable Condition	
Land				(1)
Buildings	Condition Assessment Survey	4 &5	18,214	
Other Structures and Facilities	Condition Assessment Survey	4&5	1,231	
Aircraft and Aircraft Engines			-	(2)
National Airspace System (NAS) Equipment			-	(3)
General Purpose Equipment			-	(4)
Assets Under Capital Lease			-	
Total			19,445	

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

(1) No material maintenance was deferred on land.

(2) Maintenance was not deferred on the FAA aircraft. The aircraft maintenance was insured through the aircraft maintenance, inspection, preventive maintenance, and alteration programs of the Flight Inspection Maintenance Division programs.

(3) The FAA did not defer maintenance on NAS equipment. The maintenance of the Airway Facilities (AF) systems, 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

(4) The amount recorded as FAA's general-purpose equipment was not material; therefore, no material maintenance was deferred on this equipment.

Note 21. Taxes and Other Nonexchange Revenue

(Dollars in Thousands)

Passenger Ticket Tax	$ 6,190,226
Waybill Tax	313,503
International Departure Tax	947,775
Fuel Taxes	702,336
Tax Refunds and Credits	(43,191)
Investment Income	582,273
Other Nonexchange Revenue	33,050
Total Taxes and Other Nonexchange Revenue	$ 8,725,972

Taxes are collected by the Department of the Treasury (Treasury), Internal Revenue Service, for FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by various FAA appropriations. The amounts reflected above are taxes reported to FAA by Treasury. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections. The Taxpayer Act of 1997 (P.L. 105-34) delayed the collection date of excise taxes for the Airport and Airway Trust Fund until the first quarter of FY 1999. Because of the delayed deposit rule, these receipts, otherwise due in the fourth quarter of FY 1998, were not included in the tax receipt amounts reported for FY 1998. The Treasury, Office of Tax Analysis (OTA), estimated the tax receipt amount as approximately $1.1 billion for the tax quarter ending September 30, 1998, that would be due in October 1998.

Note 22. Imputed Financing:

Dollars in Thousands

Office of Personnel Management	316,853	(1)
Dept. of Justice Judgment Fund	38,879	(2)
Total Imputed Financing	355,732	

(1) In FY 1998, FAA recognized 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.

(2) In FY 1998, amounts paid by the Judgment Fund in settlement of claims or court assessments against the FAA were recognized as imputed financing.

Note 23. Prior Period Adjustments

In FY 1998, FAA recorded the following prior period adjustments:

(Dollars in Thousands)

Implementation of Depreciation	$ (3,171,304)
Change in Capitalization Threshold	(343,389)
Reconciliation of Property Systems to General Ledger	(241,955)
Operating Materials and Supplies Price Adjustment	(32,479)
Operating Materials and Supplies Field Spares Inventory	265,604
Cleanup Cost Implementation	(1,524,000)
Correction of Airport Improvement Program Grants	(145,602)
Judgment Fund Correction	(38,879)
Other	(296,061)
Total Prior Period Adjustment	$ (5,528,065)

Note 24. Increase (Decrease) in Unexpended Appropriations

Upon receipt of the Apportionment and Reapportionment Schedule, SF-132, the Trust Fund activity is recorded in the FAA general ledger as appropriations. The Department of Treasury, which requested agencies *not* to report these amounts as unexpended appropriations, is in the process of working with OMB and FASAB to resolve the issue. In FY 1998, as directed by OMB and Treasury FAA reclassified these amounts from unexpended appropriations to cumulative results of operations. However, the year-to-date accounting of the Trust Fund activity (excluding closing entries) is included in the increase (decrease) of the unexpended appropriation amount.

Note 25. Statement of Budgetary Resources Disclosures

FAA reclassified $8.5 billion of Unobligated Balances-Available reported by the U.S. Department of Treasury for the Airport and Airway Trust Fund (Corpus) to Unobligated Balances-Not-Available. These invested amounts cannot be utilized by FAA for program purposes unless appropriated by Congress.

As of September 30, 1998, FAA recorded $337.3 million as the net amount of budgetary resources obligated for undelivered orders.

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

Under Congressional legislation in FY 1998, FAA was authorized $1.7 billion in contract authority and liquidating authority for $1.6 billion, which is derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid Programs. The contact authority available as of September 30, 1998, was $75 million.

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

FAA does not have any differences between the information reported on the statement and the amounts described as "actual" in the Budget of the United States Government for FY 1998.

FAA incurred several adjustments to its budgetary resources in FY 1998. Contract authority for Grants-in-Aid program was reduced by a $412 million rescission (PL 105-66), and $295 million rescission for the Emergency Supplemental Bill (PL 105-174). The Operations appropriation was reduced by $.9 million for services associated with the Transportation Administration Service Center and $50 million for funds transferred to the Essential Air Service and Rural Airport Improvement Program Fund.

In an effort to accurately reflect the status of budgetary resources, FAA compiled data from the SF-132, Apportionment and Reapportionment Schedule, and the SF-133, Report on Budget Execution, to prepare the Statement of Budgetary Resources. Some of the budgetary account balances from the general ledger were not accurate or were incomplete because the processes to record specific transactions were not available in the accounting system.

Note 26. Costs Capitalized on the Balance Sheet

In FY 1998, FAA reported a decrease of $2.9 billion in costs capitalized on the balance sheet. This decrease resulted from the implementation of the depreciation policy, the change in capitalization threshold, reconciliation of the property systems to the general ledger, and the operating materials and supplies price adjustment.

Note 27. Financing Sources Yet to be Provided

(Dollars in Thousands)

Liabilities Not Covered By Budgetary Resources (FY 98)	$ 5,329,167	
Liabilities Not Covered By Budgetary Resources (FY 97)	3,061,782	
Financing Sources Yet to be Provided:		$ 2,267,385
Decreases:		
Federal Employee Compensation Act (FECA Actuarial)	$ (67,129)	
Contingent Liability for Legal Claims	(4,807)	
Contingent Liabilities for Return Rights	(9,600)	
Voluntary Separation	(3,968)	
Total Decreases		$ (85,504)
Increases:		
Debt	$ 3	
Federal Employee Compensation Act (FECA Actual)	5,811	
(Includes Prior Period Adjustment of $19,138)		
Accrued Unfunded Annual Leave	7,373	
Sick Leave Buy- Out for Air Traffic Controllers	56,426	
Capital Lease Liability	1,876	
Environmental and Disposal Liability	2,279,400	
(Includes Prior Period Adjustment of $1,524,000)		
Total Increases (Prior Period Adjustment Included)		$ 2,350,889
Prior Period Adjustment (Cleanup Cost Implementation)	$ (1,504,862)	
Financing Sources Yet To Be Provided (Increases less Prior Period Adjustment)		$ 846,027

Note 28. Custodial Activity

Revenue Activity:

Sources of Cash Collections:

(Dollars in Thousands)

Miscellaneous Receipts	$ 1,102
Fines	17,873
Penalties	59
Total Cash Collections	19,034
Accrual Adjustment	1,105
Total Custodial Revenue	$ 20,139
Disposition of Collections:	
Transferred to Others (by Recipient):	
Treasury (General Fund)	$ 19,034
Increase (Decrease) in Amounts Yet to be Transferred	1,105
Collections Used for Refunds and Other Payments	-
Retained by the Reporting Entity	-
Total Disposition of Custodial Revenue	$ 20,139
Net Custodial Activity	$ -

Note 29. Other Disclosures

Legal Proceedings. FAA recognized contingent liabilities of $433.4 million for certain claims. This represents a decrease in the amount of $4.8 million from FY 1997. Such claims are those that have been brought to the attention of the OCC and that (a) have been asserted, or, if not yet asserted, in the opinion of the OCC are more likely to be asserted than not; (b) in the opinion of the OCC are more likely to be paid than not; and (c) for which the OCC can estimate the probable payment. The maximum exposure associated with such claims is $81.4 billion. Therefore, FAA's exposure to loss for such contingent liabilities in excess of the amount recognized is $81 billion.

Contract Negotiations. FAA had a total of $73.1 million in commitments (funds reserved for possible future obligations) under unexpired Facilities and Equipment and Research, Engineering, and Development appropriations 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 FY 1998.

Contract Options. As of September 30, 1998, FAA had $2.8 billion in contract options that, if exercised, would require the obligation of funds in future years.

Letter of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letter of intent (LOI) to enter into AIP grant obligations; but, LOI's do not create obligations. FAA has issued LOI's covering FY 1988 through FY 2010 in the aggregate amount of $2.930 billion. FAA had obligated $1.655 billion of this total from FY 1988 through FY 1998, leaving $1.275 billion unobligated as of September 30, 1998. FAA anticipates obligating $183 million of this total in FY 1999.

AIP Grants. The FY 1998 AIP grant authority totaled $1.7 billion, including $989 million in entitlements to specific locations. The sponsors of these entitlements claimed all but $66 million. This amount will be available from unused or newly enacted contract authority to those sponsors through FY 2000, or 2001 in case of non-hub primary airport locations.

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

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

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

U.S. Department of Transportation
Federal Aviation Administration
Stewardship Investment
Non-Federal Physical Property
Airport Improvement Program
Current Year Expenses
For the Fiscal Year Ended September 30, 1998
(Dollars in Thousands)

State/Territory	
Alabama	15,556
Alaska	77,949
Arizona	47,243
Arkansas	19,291
California	101,896
Colorado	44,768
Connecticut	1,348
Delaware	284
District Of Columbia	206
Florida	60,752
Georgia	41,604
Hawaii	7,142
Idaho	12,532
Illinois	74,514
Indiana	21,213
Iowa	16,983
Kansas	11,250
Kentucky	43,116
Louisiana	20,338
Maine	5,505
Maryland	9,765
Massachusetts	22,615
Michigan	47,890
Minnesota	23,430
Mississippi	9,788
Missouri	35,996
Montana	13,367
Nebraska	13,015
Nevada	30,420
SUBTOTAL	829,777

State/Territory	
New Hampshire	11,743
New Jersey	9,918
New Mexico	5,327
New York	67,664
North Carolina	31,226
North Dakota	10,980
Ohio	33,843
Oklahoma	5,240
Oregon	17,682
Pennsylvania	63,025
Rhode Island	2,692
South Carolina	15,419
South Dakota	10,112
Tennessee	34,885
Texas	98,154
Utah	12,910
Vermont	5,219
Virginia	21,733
Washington	18,405
West Virginia	19,564
Wisconsin	30,406
Wyoming	9,337
American Samoa	1,329
Guam	1,260
North Mariana Island	3,272
Puerto Rico	10,482
Trust Territory of Pacific	479
Virgin Island	2,384
Administration	52,075
SUBTOTAL	606,765
GRAND TOTAL	**1,436,541**

STEWARDSHIP INVESTMENT

Non-Federal Physical Property.

Airport Improvement Program. The FAA makes project grants for airport planning and development to maintain a safe and efficient nationwide system of public-use airports that meets both present and future needs of civil aeronautics. The FAA works in partnership with airport authorities, local units of governmen t, metropolitan planning organizations, and states.

In FY 1998, FAA awarded a total of 1,040 new grants to improve and expand the Nation's airports. In FY 98 the FAA focused on award of grants to eligible airports to enhance capacity, improve safety and security, and mitigate noise.

U.S. Department Of Transportation
Federal Aviation Administration
Stewardship Investment
Research and Development
For the Fiscal Year Ended September 30, 1998

(Dollars in Thousands)

Expenses

Applied Research	$	103,274
Development		48,237
Research and Development Plant		11,254
Administration		54,179
Total	$	**216,944**

The classification of Applied and Development expenses were calculated using percentages from the National Science Foundation's fiscal year 1997 Survey of Federal Funds . for Research and Development Table II.

STEWARDSHIP INVESTMENT

Research and Development.

Research. The FAA conducts research and invests in essential infrastructure to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. Critical areas of research and development include explosive detection, weather, aircraft structures, noise mitigation, human factors, and satellite navigation. For air traffic control, the FAA is introducing new technologies such as satellite navigation using the global positioning system (GPS), data link communications, and collaborative decisionmaking tools.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
As Of September 30, 1998

(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	$ 2,191,405	$ 1,640,000	$ 1,900,477	$ 199,183
Unobligated Balances - Beginning of Period	6,358,301	72,333	638,660	8,035
Spending Authority From Offsetting Collections	-	-	32,494	9,312
Adjustments	-	24,279	79,587	2,659
Total Budgetary Resources	$ 8,549,706	$ 1,736,612	$ 2,651,218	$ 219,189
Status Of Budgetary Resources				
Obligations Incurred	$ 75	$ 1,661,227	$ 2,201,874	$ 211,249
Unobligated Balances-Available	-	75,385	361,099	7,940
Unobligated Balances-Not Available	8,549,631	-	88,245	-
Total Status of Budgetary Resources	$ 8,549,706	$ 1,736,612	$ 2,651,218	$ 219,189
Outlays				
Obligations Incurred	$ 75	$ 1,661,227	$ 2,201,874	$ 211,249
Less: Spending Authority From Offsetting Collections and Adjustments	-	(36,612)	(112,081)	(11,971)
Obligated Balance, Net Beginning of Period		2,388,645	1,780,526	187,647
Obligated Balance Transferred, Net		-	-	-
Less: Obligated Balance, Net - End of Period	-	(2,502,678)	(1,643,899)	(184,340)
Total Outlays	$ 75	$ 1,510,582	$ 2,226,419	$ 202,584

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
As Of September 30, 1998

(Dollars in Thousands)

Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
$ -	$ -	$ 5,253,488	$ -	$ 11,184,553
69,111	426.348	81,423	1,531	7,229,820
3,672	22,292	1,965,425	-	2,033,195
-	-	8,121	(498)	114,147
$ 72,782	$ 22,719	$ 7,308,458	$ 1,032	$ 20,561,716
$ 355	$ 21,767	$ 7,242,015	$ 111	$ 11,338,674
72,428	951	4,014	921	522,739
-	-	62,428	-	8,700,304
$ 72,783	$ 22,719	$ 7,308,458	$ 1,032	$ 20,561,716
$ 355	$ 21,767	$ 7,242,015	$ 111	$ 11,338,674
(3,672)	(22,292)	(1,974,486)	(2)	(2,161,115)
94	1,414	715,911	318	5,074,554
-	-	-	-	
(189)	(3,953)	(702,892)	(385)	(5,038,337)
-				
$ (3,412)	$ (3,065)	$ 5,280,549	$ 42	$ 9,213,775

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
BALANCE SHEET
As of September 30, 1998

(Dollars in Thousands)

Assets		
Entity Assets:		
Intragovernmental		
Fund Balance with Treasury	$	262
Investments		68,880
Total Intragovernmental Assets	$	69,142
Total Entity Assets:	$	69,142
Total Assets	$	69,142
Liabilities		
Liabilities Covered by Budgetary Resources:		
Accounts Payable	$	3
Other Liabilities		21
Total Liabilities Covered by Budgetary Resources	$	24
Total Liabilities	$	24
Net Position Balances:		
Cumulative Results of Operations	$	69,118
Total Net Position	$	69,118
Total Liabilities and Net Position	$	69,142

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 1998

(Dollars in Thousands)

Costs:		
Programs		
With the Public	$	288
Less Earned Revenues		-
Net Program Costs	$	288
Net Cost Of Operations	$	288

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 1998

(Dollars in Thousands)

Net Cost of Operations	$	(288)
Financing Sources		
Taxes and Other Nonexchange Revenues		3,704
Net Results of Operations		3,416
Net Change in Cumulative Results of Operations		3,416
Change in Net Position		3,416
Net Position Beginning of Period		65,702
Net Position End of Period	$	69,118

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
BALANCE SHEET
As of September 30, 1998

(Dollars in Thousands)

Assets		
Entity Assets:		
Intragovernmental		
Fund Balance with Treasury	$	6,132
Accounts Receivable, Net		57
Total Intragovernmental Assets	$	6,189
General Property, Plant, and Equipment, Net		910
Total Entity Assets:	$	7,099
Total Assets	$	7,099
Liabilities		
Liabilities Covered by Budgetary Resources:		
Intragovernmental Liabilities:		
Accounts Payable	$	(250)
Other Intragovernmental Liabilities		615
Total Intragovernmental Liabilities		365
Accounts Payable		440
Lease Liability		687
Other Liabilities		1,053
Total Liabilities Covered by Budgetary Resources	$	2,545
Total Liabilities	$	2,545
Net Position Balances:		
Cumulative Results of Operations	$	4,554
Total Net Position	$	4,554
Total Liabilities and Net Position	$	7,099

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 1998

(Dollars in Thousands)

Costs:		
Programs		
Multi-Media Services and Information Technology		
Intragovernmental	$	1,253
Less Earned Revenues		(1,353)
Net Multi-Media Services and Information Technology	$	(100)
Duplicating		
Intragovernmental	$	5,345
Less Earned Revenues		(5,429)
Net Duplicating	$	(84)
Financial Services		
Intragovernmental	$	9,771
Less Earned Revenues		(13,003)
Net Financial Services	$	(3,232)
International and Management Training		
Intragovernmental	$	2,261
Less Earned Revenues		(2,448)
Net International and Management Training	$	(187)
Net Cost of Operations	$	(3,603)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 1998

(Dollars in Thousands)

Net Cost of Operations	$	3,603
Financing Sources		-
Net Results of Operations		3,603
Prior Period Adjustments		(685)
Net Change in Cumulative Results of Operations		2,918
Change in Net Position		2,918
Net Position Beginning of Period		1,636
Net Position End of Period	$	4,554

REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE SERVICES FRANCHISE FUND

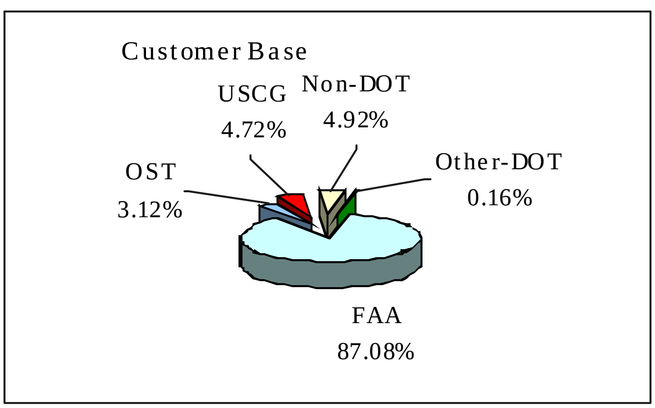
Background/Fund Establishment

The franchise concept is designed to create competition within the public sector for the performance of a variety of support services. This allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and to gain the efficiencies and economies of scale associated with the competitive offering of services to other Government agencies.

The Government Management Reform Act (GMRA) of 1994, Public Law 103-356, provided for the establishment of six franchise fund pilot programs. The six pilots were authorized by the President's Chief Financial Officers (CFO) Council 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, and the Administrative Services Franchise Fund was established in FY 1997.

Services

The Administrative Services Fund offers a wide variety of services. These include international training, accounting, payroll, travel, duplicating, multimedia, information technology, and management training. In addition, new services are planned for subsequent years including logistics support in FY 2000.



The customer base for Franchise Fund services includes DOT and non-DOT Government agencies. The FY 1998 revenue percentages by customer is identified in the pie chart.

Benefits/Accomplishments

Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. During the first 2 years of operation, activities within the Administrative Services Franchise Fund have identified a number of advantages, benefits, and results from participation in the Fund. The general impacts/benefits are:

- A more business-like orientation
- Customer-driven decisions
- Emphasis on the cost of doing business and the full recovery of costs
- Reduction in the delivery price of some products and services
- Flexibility of the revolving fund environment including reduction of yearend crunch
- Use of retained earnings to build a base for equipment upgrades, improved services, etc.
- Renewed employee enthusiasm and the sense of challenge
- Development and refinement of specific measurement processes
- Identification of partnering/consolidation opportunities
- Development of a set of operating principles for entrepreneurial activities

Specific accomplishments include:

- Centralized/consolidated international training activities at the FAA Academy at no additional cost.
- Increased FAA influence on global aviation system and improvement of overall safety through advancement of the international training program.

- Absorption of a reduction in the printing budget allocation with no commensurate reduction in service level.
- Consolidation of two services (multimedia and printing) into one division with a single manager (instead of two) resulting in ability to shift resources to the working level.
- Purchase of equipment upgrades in printing and multimedia to improve technology, increase capability, and replace worn-out units through use of the retained earnings provisions of the revolving fund. This resulted in improved service delivery and would not have been possible using the annual appropriation cycle alone.
- A cost avoidance of approximately $2.8 million annually due to significantly lower prices than local quick print competitors ($0.025 versus $0.07 per impression.
- A proposed reduction in cost per impression from $0.025 to $0.023 (8 percent) in FY 1999 resulting from efficiencies gained through new technology and economies of scale associated with new customers and increased product output.
- Projected savings of $40,000 in FY 1999 maintenance costs through movement of mainframe printing to the printing and distribution team from another organization.
- Reduction of payroll technician personal compensation and benefit cost per payroll account by 17.5 percent over 2 years.
- Addition of a new customer for permanent change of station (PCS) processing and laid the groundwork for centralization of PCS processing within the agency.
- Negotiated an agreement with a new customer for collections processing.

FY 1998 Fund Activity

The fund provided services totaling $21,667,000 in FY 1998. The following is a graphic presentation of the distribution of customer reimbursement by service activity for FY 1998.

In addition, collections of $615,000 were made during FY 1998 for services to be performed in FY-99. The breakdown of this $615,000 deferred revenue is: $274,000 deferred revenue collected by International & Management Training; $204,000 deferred revenue collected by Multimedia & Information Technology, and $137,000 deferred revenue collected by Financial Services.