2001 Financial Statements

Federal Aviation Administration

U.S. Department of Transportation
Federal Aviation Administration

A MESSAGE FROM THE ADMINISTRATOR

I am pleased to present the FY 2001 audited financial statements of the Federal Aviation Administration (FAA). The statements offer Congress and the public a clear and concise source of information regarding our mission, operations, and performance. The unqualified audit opinion we received on this year's financial statements is strong evidence of our commitment to effective management of our resources.

The horrific events of September 11 challenged aviation in ways that we could never have imagined. All of us at the FAA express our deep sorrow and unwavering support to fellow Americans in the wake of the attacks on our Nation. We will carry forward with our pledge to provide safe, expeditious air traffic service and to restore confidence in air travel.

As we closed out one fiscal year and began another, aviation security continued to be our uppermost concern. With leadership from President Bush, Secretary Mineta, and the Congress, a major ramping-up of our security system is underway. Aviation security, which had been the responsibility of the airlines, is now a direct Federal responsibility, overseen by a new Transportation Security Administration (TSA) under the leadership of Undersecretary John Magaw. Aviation security oversight responsibilities performed by the FAA have also been transferred to the TSA. This vastly expanded effort will help to fortify America against future acts of terrorism in aviation and across all modes of transportation. We at the FAA will work with the TSA to ensure that the Nation's air transportation system operates with the highest possible levels of security.

The coming months will require even higher levels of vigilance and preparedness, but also give us the opportunity to make real progress in resolving some longstanding issues in aviation. Confidence in the safety and security of air travel will be restored. Our economy will recover. And with renewed growth will come renewed concern and frustration over congestion and delays. We are continuing our efforts to build an aviation system designed to meet the burgeoning needs of the 21st century. This effort is spelled out in Version 4.0 of the FAA's Operational Evolution Plan (OEP) – a flexible, programmatic approach that will allow us to deliver almost 30 percent additional capacity by 2010.

FY 2001 saw significant advances toward this goal. We can report substantial progress in eliminating "choke points" in the airspace of the eastern United States, and we have taken steps to streamline procedures to speed the environmental review process for new runways.

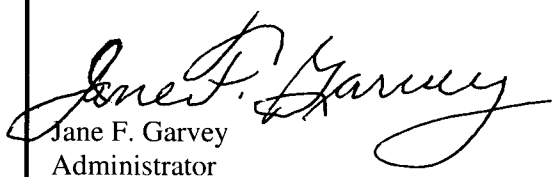
During the past year, we also accelerated the rollout of the user request evaluation tool (URET), bringing us near to the successful completion of Free Flight Phase 1. Controllers are excited about the value of this tool for increasing productivity, helping them better focus attention on critical tasks, and adding a new conflict probe capability. With this accomplishment, we are delivering on our commitment to modernize the air traffic control system–providing tangible benefits with the surface movement advisor, collaborative

decisionmaking, and the traffic management advisor. As the result of using these new technologies, routes are shorter, more direct, and arrival capacities are increased.

Looking forward to FY 2002, we will continue with our plans to set up a new Air Traffic Organization (ATO) that will assume responsibility for the day-to-day operation of air traffic services. Headed by a chief operating officer, ATO will be results oriented with its mission clearly stated in measurable terms. We are now establishing precise performance measures that will define success for the new organization in meeting safety standards and in quickly responding to findings from an appointed oversight board for safety.

Among our most urgent safety issues is the reduction of runway incursions. In FY 2001, we deployed the airport movement area safety system (AMASS) at Detroit and San Francisco. This new technology adds to the capability of the airport surface detection equipment (ASDE-3) to provide controllers with visual and aural alerts of potential runway incursions. AMASS will be installed at an additional 32 of the Nation's busiest airports by the end of 2002. The 25 next busiest airports are scheduled to receive a new surveillance system, called ASDE-X that is now being developed.

All of these initiatives were begun long before September 11 and will continue during the months ahead as our Nation secures itself from the threat of terrorism and restores its economic vitality. To adhere to our long-term plans is to strongly affirm our belief in the future of aviation and our country.



Jane F. Garvey
Administrator

Table of Contents

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INTRODUCTION

The FAA FY 2001 Financial Statements have been prepared in accordance with the Chief Financial Officers Act of 1990, with guidance on form and content provided by the Office of Management and Budget (OMB) and the Federal accounting standards provided by the Federal Accounting Standards Advisory Board (FASAB). It consists of two chapters.

The first chapter contains a three-part Management Discussion and Analysis. Part one provides a high-level overview of the FAA, its mission, and organization–who we are and what we do – and a summary of how the agency responded to the unprecedented assault on America on September 11, 2001. Part two contains a set of performance measures used to track the agency's overall progress toward achieving its strategic plan goals. These performance measures are primarily for FY 2000, as FY 2001 data will not be available until the DOT Performance Report is sent to Congress on March 31, 2002. It should be understood, therefore, that the performance measures are based on goals, objectives, and strategies planned before the September 11, 2001, terrorist attacks. Part three of the chapter contains the FY 2001 financial highlights describing how the FAA is financed and the funding of major programs. New to this year's report is a comparative analysis of current year to prior year finances.

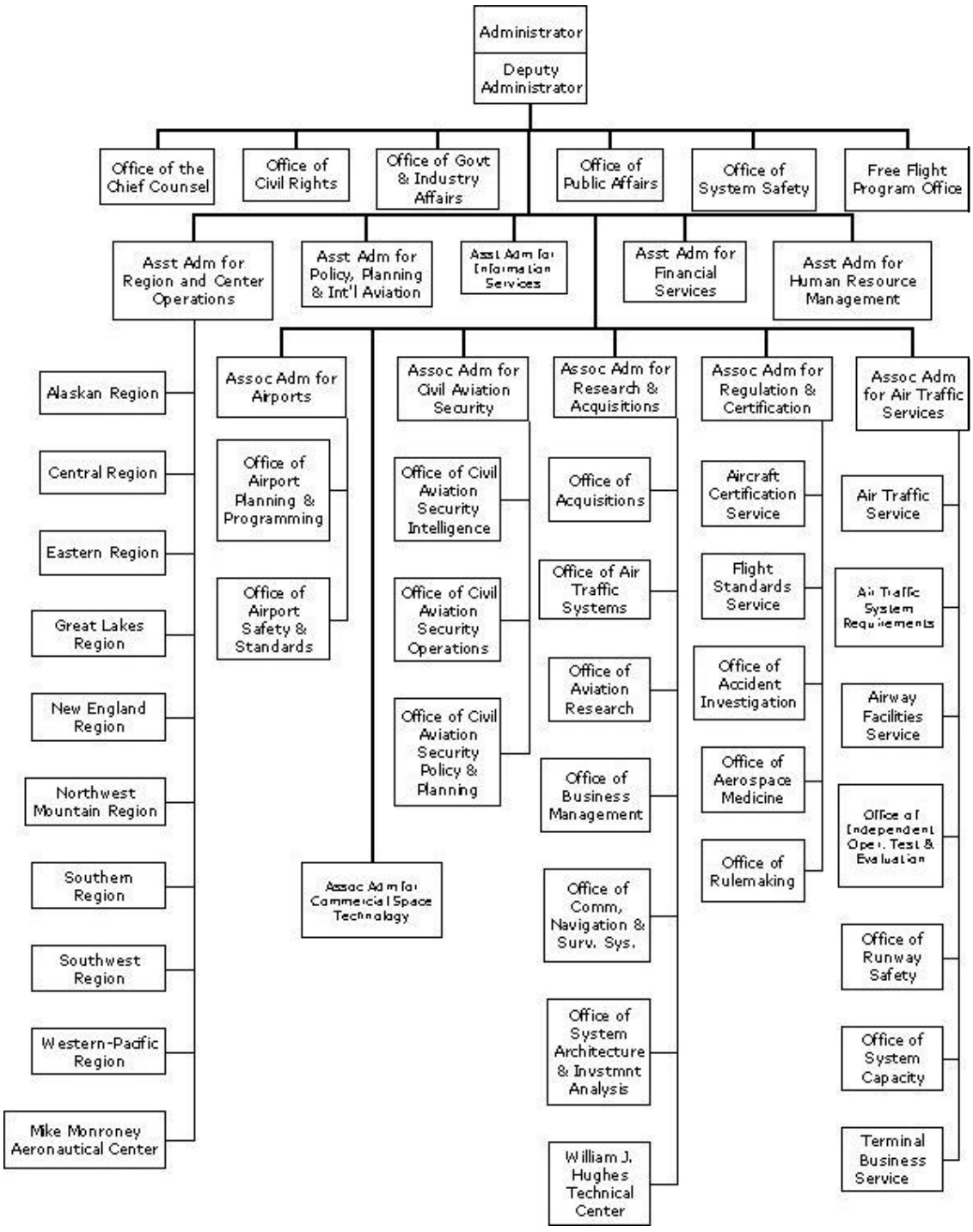
The second chapter presents the FAA's detailed FY 2001 financial statements. It opens with a message from the Chief Financial Officer, followed by the auditor's report, the financial statements and notes, and required supplemental information pertaining to the agency's stewardship of its resources and other matters.

Relationship of the Financial Statements to Other Plans

The FAA Strategic Plan formally states the agency's mission and sets the goals, long-range objectives (i.e., 5 to 20 years), and key strategies for achieving the mission. FAA measures contained in the DOT Performance Plan define the performance indicators and strategies that are used to gauge progress in achieving the agency's Strategic Plan goals. The FAA Strategic Plan 2001 Supplement brings together the Strategic Plan and the FAA measures contained in the DOT Performance Plan to provide a focused set of initiatives that the FAA will take in the near-term (i.e., 3 years) to achieve its objectives. The Supplement describes each performance goal, the major projects that support it, how long it will take, who will accomplish it, and the estimated investment required.

FAA is investing in improved financial systems that will provide the flexibility to more clearly relate the agency's budgetary resources with activities, outputs, outcomes, and performance goals.

FAA ORGANIZATION CHART



MANAGEMENT DISCUSSION AND ANALYSIS
FEDERAL AVIATION ADMINISTRATION

OVERVIEW

The Federal Aviation Administration (FAA) is the leading Federal agency responsible for the safety of civil aviation and for guiding and helping develop commercial space transportation. Major activities include issuing and enforcing aviation safety rules and standards; rating and certifying pilots, aircraft, and airports; around-the-clock operation and maintenance of the Nation's air traffic control system; modernizing the National Airspace System (NAS) infrastructure; working with local security, intelligence, and law enforcement agencies to prevent incidents that threaten airport and aircraft security; the distribution of Federal funds to airports to maintain and enhance airport safety and security, preserve existing infrastructure, and expand capacity and efficiency; the regulation of the commercial space industry; and the licensing of commercial space launches.

On September 11, 2001, terrorists hijacked four U.S. commercial jet airliners, crashing them into the twin towers of the World Trade Center in New York, the Pentagon, and the Pennsylvania countryside. Once the nature and scale of the attacks were realized, Secretary of Transportation Norman Y. Mineta ordered, for the first time ever, the closing of America's airspace. Moments after the first attack, FAA issued a ground stop to prevent any aircraft from taking off and ordered the 4,873 aircraft already airborne to land as quickly as possible at the nearest available airport. Each of these planes landed safely.

Stringent new security measures were implemented immediately in response to the attacks. The new measures included close monitoring of vehicles parked near the airport; discontinuance of curbside and off-airport check-in; the increased presence of law enforcement officers and canine units; random security and identification checks throughout the entire terminal areas; restricted access beyond the screening area; enhanced screening procedures; the banning of all cutting instruments from carry-on luggage and the selling of such instruments beyond the security checkpoints; and other restrictions.

The national airspace was reopened to commercial aviation at 11 a.m., eastern standard time, September 13, 2001. Before resuming operations, airports and air carriers had to meet the enhanced security requirements through a certification process. In addition, President George W. Bush directed the expansion of the Federal Air Marshals program to provide a substantially increased level of coverage within the United States.

The events of September 11 changed fundamentally the assumptions underlying aviation security. On September 27, President Bush announced that he would seek congressional approval to make the expansion of the Federal Air Marshals Program permanent, and

that he would work with Congress to put the Federal Government in charge of managing airport security and screening services. The President called for the National Guard to be stationed at every commercial airport nationwide until the new security plans are put in place.

The President also announced that effective October 1, 2001, a $500 million Federal grant program would be available to finance aircraft modifications to delay or deny access to the cockpit. Two Rapid Response Teams created by Secretary Mineta contributed recommendations for consideration. The teams' most substantive recommendations included a major program for securing the cockpit doors of the Nation's entire commercial aircraft fleet and the establishment of a $20 million grant for innovative, new technology that will further enhance flight deck security.

FAA MISSION

> FAA provides a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of U.S. aerospace safety. As the leading authority in the international aerospace community, FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns.

The FAA's mission has always been, and continues to be, to provide the American people with the safest, most secure, and most technologically advanced aviation system available. This mission has never been more vital than it is today. In the months ahead, FAA will take whatever steps are necessary to maintain safety, tighten security, and ensure the efficient flow of air traffic throughout our Nation.

FAA ORGANIZATION

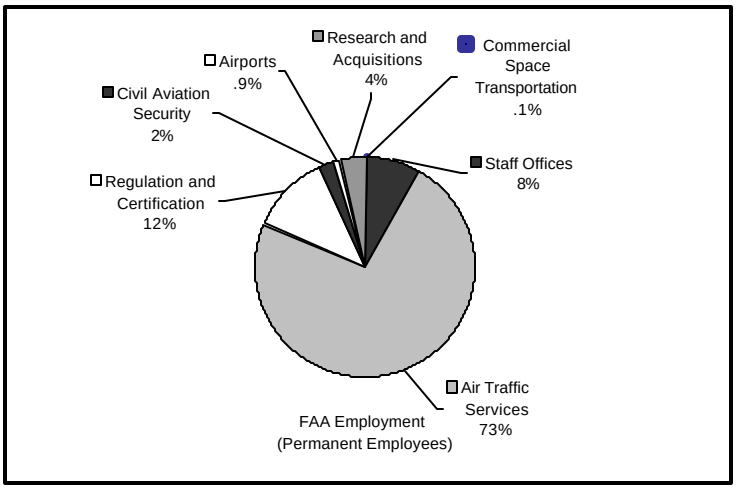
FAA Headquarters, 800 Independence Avenue SW Washington, D.C.

The FAA is headed by an Administrator and a Deputy Administrator who provide overall leadership and management direction. Both the Administrator and Deputy Administrator are appointed by the President and confirmed by the Senate.

Reporting to the Administrator are six Associate Administrators who direct the organizations that carry out the agency's principal mission. These lines of business account for over 92 percent of the FAA's workforce. Also reporting to the Administrator are the Chief Counsel and nine Assistant Administrators responsible for other key programs and without whose support the agency could not operate or hope to achieve its goals. FAA's field organizations – where more than 90 percent of all FAA employees work – are concentrated in nine geographical regions and two major centers, the Mike Monroney Aeronautical Center and the William J. Hughes Technical Center. Together, the FAA team of over 48,000 employees administers the world's busiest and safest civil aviation system.

FAA is one of 11 operating arms of the Department of Transportation (DOT) and is a full partner in the ONE DOT Management Strategy – a program that emphasizes collaboration among departmental branches.

Percent of Staffing
By Major Organization



FAA Employment (Full-Time and Part-Time Permanent Employees)		
	FY00	**FY01**
Line of Business		
Air Traffic Services	35,425	35,425
Regulation and Certification	5,864	5,865
Civil Aviation Security	1,153	1,153
Airports	446	448
Research and Acquisitions	1,898	1,897
Commercial Space Transportation	25	25
Staff Offices	3,652	3,653
Total	**48,463**	**48,466**
Region/Center/Headquarters (included in above total)		
Mike Monroney Aeronautical Center	1,566	1,566
Alaskan	1,348	1,358
Central	2,511	2,512
Eastern	5,326	5,324
Great Lakes	6,515	6,514
New England	1,923	1,923
Northwest Mountain	4,175	4,175
Southern	7,718	7,718
Southwest	5,340	5,340
Western Pacific	5,562	5,562
Washington Headquarters (DC area)	3,672	3,676
Washington Headquarters (Field)	1,825	1,825
William J. Hughes Technical Center	972	972

FY 2001 PROGRAM ACTIVITY HIGHLIGHTS

Air Traffic Services

Airport traffic control towers, such as this one at Salt Lake City, Utah, are the public's most recognizable air traffic control function.

From the time pilots begin pre-flight activities until they shut down the aircraft at their destination, air traffic controllers provide an integrated set of services to ensure that each aircraft operation is safe. Controllers at local airport towers direct airplanes that are taking off, landing, or flying within the visual range of their tower – usually 2 to 5 miles. Controllers in terminal radar approach control (TRACON) facilities handle aircraft approaching or departing within 5 to 50 miles of the airport. Controllers at 21 air route traffic control centers (ARTCC) guide airplanes in flight from one city to another. Traffic management specialists at the David J. Hurley Air Traffic Control Systems Command Center (ATCSCC) plan and balance the flow of air traffic, nationwide, to maximize safety and minimize delays and congestion. Flight service station (FSS) specialists provide flight plan filing, weather data, and information briefings to pilots. Controllers rely on a complex network of radar, computer, and communications systems that is kept operating at peak efficiency by highly trained electronics and environmental technicians.

Throughout FY 2001, DOT and FAA continued work to minimize delays in the air traffic control system. Capacity benchmarks, representing the maximum number of flights that an individual airport can routinely handle, were established for 31 major airports. Plans were also developed to improve operational efficiency at the eight airports with the highest delay rates (Atlanta, Boston, Chicago O'Hare, Newark, New York Kennedy, New York LaGuardia, Philadelphia, and San Francisco). FAA also identified tactical measures to alleviate the chokepoints, or bottlenecks, in the "triangle" between Chicago, Washington, D.C., and Boston. These initiatives focus on the creation of new procedures and changes to existing programs designed to gain greater efficiency from the current airspace. Of 21 initiatives identified, 16 were completed in FY 2001, and five are planned for completion in FY 2002.

The reduction of runway incursions continues to be one of the FAA's most important safety initiatives. FAA is working to enhance pilot and controller communication, identify and implement procedural changes to reduce surface operational errors, and develop and promote runway safety training for airline, airport, and FAA personnel. Site-specific solutions are underway at approximately ten airports that sustain the highest number of runway incursions. In FY 2001, FAA began commissioning the airport movement area safety system (AMASS) – an enhancement to the airport surface detection equipment Model 3 (ASDE-3) that provides controllers with visual and aural alerts of potential

ASDE provides radar surveillance of aircraft and airport service vehicles at high activity airports.

runway accidents caused by runway incursions. AMASS will be installed at the Nation's 34 busiest airports. It became operational at airports in San Francisco and Detroit in June 2001, with the remaining 32 airports scheduled to have the system in operation by the end of 2003. FAA is also developing a new surveillance system, called ASDE-X, which will be deployed at the 25 next busiest airports.

On September 11, 2001, FAA air traffic controllers responded to a challenge that was unprecedented in the history of aviation after terrorists hijacked four planes and turned them into guided missiles. Four minutes after receiving the order to shut down the national airspace, controllers had directed 700 planes to safe landings. Another 2,800 planes had landed within 54 minutes. By 12:16 p.m., 3 1/2 hours after the first attack, FAA air traffic controllers had safely cleared the U.S. airspace of air traffic. The quick action and extraordinary performance of controllers under these trying conditions have been credited with possibly preventing more attacks and saving hundreds of lives. In recognition of their services, the Nation's air traffic controllers were presented the Secretary's 2001 Gold Award.

Safety Regulation and Certification

FAA aviation safety inspectors and technical staff oversee the safety of planes and the credentials and competency of pilots and mechanics, develop mandatory safety rules, and set the standards that have helped make air travel among the safest modes of transportation. On May 7, 2001, for example, FAA issued a rule that requires airplane manufacturers and operators to change how airplane fuel tanks are designed, maintained, and operated. It includes regulation to minimize the potential for failures that could cause ignition sources in fuel tanks on new and existing airplanes and, for the first time, mandates airplane design changes to minimize the flammability of fuel tanks on new airplanes. The rule is the most comprehensive fuel tank safety initiative ever put forward.

FAA safety inspectors and industry partners work together to ensure high standards of airworthiness.

On August 16, 2001, FAA unveiled a broad new initiative designed to enhance the continued safety of aircraft wiring systems from their design and installation through their retirement. The enhanced airworthiness program for airplane systems (EAPAS) is based on results from an intensive data-gathering effort on aircraft wiring systems done in cooperation with industry. It combines a variety of near- and longer-term actions into a plan to increase awareness of wiring system degradation, implement improved procedures for wiring maintenance and design, and disseminate that information throughout the aviation community.

Two of the FAA Administrator's top priorities are the air transportation oversight system (ATOS) and the Safer Skies initiative.

ATOS, which the FAA implemented 3 years ago, is a new approach to FAA certification and surveillance oversight of the Nation's airlines. The program incorporates the structured application of new inspection tasks, analytical processes, and data collection techniques to the oversight of individual air carriers. This approach enables Flight Standards inspectors to be more effective by focusing on the most critical safety aspects of an air carrier's operation.

ATOS is being applied for the Nation's 10 largest airlines – which handle 95% of U.S. passengers – and will ultimately include all U.S. airlines. A new training management course on system safety and risk management was developed in FY 2001 that will provide the knowledge of the concepts needed for enhanced ATOS implementation.

The Safer Skies initiative, begun in partnership with the industry in June 1998, is designed to bring about a five-fold reduction in fatal accidents. Safer Skies focuses on the prevention of accidents by addressing recurrent causes, sharing safety information, and improving certification and surveillance. The initiative has already produced 13 actions that are being used in day-to-day commercial operations to prevent some of the leading causes of accidents. Safety interventions are being implemented for controlled flight into terrain, uncontained engine failures, and approach and landing accidents. Intervention strategies for runway incursions, loss of control, and weather are in development.

In the aftermath of the September 11 attacks, Regulation and Certification personnel are working to expedite recommendations of President Bush and the Rapid Response Teams to restrict access to the cockpit during flight; fortify cockpit doors against forced entry; to alert the cockpit crew to activity in the cabin; and to ensure continuous operation of the aircraft transponder in the event the crew faces an emergency. FAA issued a Special Federal Aviation Regulation (SFAR) allowing airlines to quickly strengthen cockpit doors without having to follow normal requirements for modifying planes. At the end of 6 months, each airline must submit a plan for a long-term fix. The President has made $500 million available to the FAA to finance aircraft modifications to support near- and long-term fixes, and the FAA is prepared to quickly evaluate each airline's proposal.

Civil Aviation Security

The deployment of new technology and improved training and testing of screeners will enhance the safety and security of passengers.

FAA works with local security, intelligence, and law enforcement agencies to protect passengers, personnel, aircraft, and critical national airspace facilities against terrorist and other criminal acts. Since implementing the new security measures on September 11, 2001, FAA has continuously monitored the effectiveness of these measures and has worked with airports and air carriers to refine and expand them as necessary. On October 8, FAA issued new guidance on the kinds of items that can be carried on board and limited passengers to one carry-on bag and a pocketbook or briefcase. The restrictions on carry-on luggage were recommended by the Rapid Response Team for Airport Security and mirror rules imposed on flights to and from Reagan National Airport.

Since the early 1970's, the FAA has required the screening of passengers and property to prevent unlawful or dangerous weapons, explosives, or other destructive substances from being carried onto commercial aircraft. Under current law, the FAA sets the standards for screener selection, training and testing, and the airlines implement those requirements, usually through contracting with security screening companies. Before they are hired, security screeners and

their supervisors are subject to an employment investigation and, in some cases, a criminal history background check (i.e. an FBI fingerprint check). Last year, under the Airport Security Improvement Act of 2000 (Security Act), Congress expanded the fingerprinting requirement to include all new screeners. This additional level of scrutiny is already in effect at major airports and will include all other regulated airports by November 2003.

The Security Act also directed the FAA to accelerate its rulemaking on the certification of screening companies and set a minimum of 40 hours of classroom instruction or its equivalent, 40 hours of on-the-job training, and passage of a written and practical, on-the-job exam. FAA's proposed rule incorporating these requirements would also give the agency direct oversight of screening companies, impose uniformly high standards for training and testing of security screeners, and give the FAA a role in monitoring the ability of screening companies to meet performance criteria at checkpoints. Although this rule was ready to be published, action has been temporarily suspended as part of the ongoing congressional evaluation of what further security measures are needed.

For effective performance, screeners must be given the best tools available and trained to use them properly. In addition to the conventional screening tools, hand-held and walk-through metal detectors, and the x-ray system, screeners now have explosives trace detection (ETD) devices that can detect the presence of explosive materials in a passenger's carry-on items. To help test and measure screeners' performance, FAA is deploying a new software technology called threat image projection (TIP) that runs on the checkpoint x-ray machines. FAA expects to replace x-ray machines at every airport security checkpoint in the country with new TIP-installed x-rays.

FAA is also continuing airport placement of explosives detection systems (EDS) for checked bags. EDS detects, without human intervention, the amounts and types of explosives likely to be used by terrorists to cause catastrophic damage to commercial aircraft.

FAA is also working with airport operators to deploy additional canine teams to screen suspicious packages, cargo and bags, and to search airlines and terminals. FAA-certified canine teams are in place at 39 of the largest U.S. airports. FAA has identified 25 additional airports that will have FAA-certified teams. The goal is to place teams at each of the Nation's busiest airports.

The phenomenal growth of the Internet and computer skills of the public has created unprecedented potential to threaten the critical infrastructure of the United States, including the air traffic management system. Compounding these risks is the rapid growth of automated information exchange between the FAA and airspace users. Responding to these threats, FAA has developed a comprehensive program to assure that the NAS and its supporting systems are immune to attack. Additionally, the agency has established a computer security incident response center that will analyze attacks when they occur, ensure that they are promptly addressed, and continually probe the agency's information systems for new weaknesses.

Airports

FAA provides leadership in planning and developing a safe, secure, and efficient national airport system. As part of its safety oversight mission, FAA certifies airports serving commercial aircraft operating with more than 30 seats and periodically inspects those airports for compliance with established safety standards.

There are 429 US airports with commercial service.

The Airport Improvement Program (AIP) is the primary program for distributing Federal funds to airports to maintain and enhance airport safety and security, preserve existing airport infrastructure, expand capacity and efficiency throughout the airports system, and reduce the impact of airport noise on the surrounding community. The AIP, which receives funds from the Airport and Airway Trust Fund maintained through the payment of user taxes, makes it possible to fund one-fourth to one-third of all capital development at the Nation's public use airports. In FY 2001, airport grants were funded at $3,193 million. The Passenger Facility Charge (PFC) Program provides an additional source of capital funding for improving airports. At the end of calendar year 2000, annual PFC collections exceeded $1.6 billion.

In FY 2001, DOT and FAA streamlined the approval procedures for moving major new runway projects through the environmental review pipeline. The goal is to reduce unnecessary delays while complying with all environmental protection requirements. FAA has established an environmental impact statement (EIS) team of experts for each planned major runway project that has not completed FAA's environmental review and is reallocating staff to help speed the process. FAA is also working with the Council on Environmental Quality to revise FAA's environmental orders and has entered into an agreement with the National Association of State Aviation Organizations to improve Federal/state coordination. A guide to best practices for EIS management and preparation, issued on July 13, 2001, is available on the FAA website, www.faa.gov.

In response to the September 11 attacks, FAA reexamined the existing statutory provisions of AIP grants to broaden eligibility for funding security equipment. In particular, FAA expanded the definition of equipment and revised the standards for determining what constitutes a "significant contribution" to security to fund projects to protect passengers and terminal buildings. Previously, the focus of AIP had been on the security of aircraft. Under the new policies, FAA is prepared to fund equipment identified by the FAA Civil Aviation Security Office as needed at an individual airport. Examples include canines trained for explosives detection, kennels, and security equipment of the type normally required by regulation at larger air carrier airports. FAA is also giving higher priority to the funding of equipment necessary to satisfy airline security requirements.

Recognizing that some individual airports, particularly smaller airports, might be in dire financial circumstances following the attacks, FAA reviewed the statutes and regulations

governing AIP and PFC to identify any flexibility to provide emergency financial assistance. Specifically, FAA is prepared to grant individual airports short-term emergency authority to borrow unliquidated PFC cash balances to cover general airport expenses.

Research and Acquisitions

This controller at the El Paso TRACON is using the new STARS.

FAA provides the essential infrastructure and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency. In order to sustain the current systems and renew the aviation infrastructure, FAA is incorporating both major and minor changes to the air traffic control system. FAA's 21 en route centers are significantly upgraded with new equipment – the display system replacement (DSR), the new Host computer, and air traffic control voice switching. FAA has also begun to deploy the standard terminal automation replacement system (STARS). STARS will replace computer and radar displays at 173 terminal radar approach control (TRACON) facilities. The initial phase of STARS, called the early display configuration (EDC) , is operational at two sites: El Paso, Texas, and Syracuse, New York, setting the stage for national deployment to 11 additional EDC sites starting in early 2002.

The Operational Evolution Plan will allow FAA to deliver almost 30 percent additional capacity by 2010.

In June 2001, FAA unveiled a cooperative 10-year Operational Evolution Plan (OEP) that addresses the growing gap between demand and capacity in the air transportation system. The OEP is unique in that it integrates and aligns the agency's activities with those of the aviation industry and users of the system. It calls for changes in how aircraft operate to better utilize available capacity; a redesign of the airspace to accommodate greater numbers of aircraft while maintaining safety; deployment of new technology to increase flexibility; construction of new runways; and new procedures to improve management and mitigation of delays.

FAA's FY 2001 Research, Engineering and Development (R,E&D) initiatives included increased efforts in safety-critical areas such as runway incursion prevention; aircraft safety, improved weather prediction, detection, and dissemination; wake turbulence monitoring technologies; programs that support the introduction of Free Flight; the improvement of airport surface operations; the investigation of human factors in the aviation environment, and other programs that support the Safer Skies initiative.

A major element of FAA's research program is the development of new security technologies. Researchers at the William J. Hughes Technical Center are investigating technology that can improve metal detectors so they can detect very small quantities of metal, such as those found in some plastic guns. FAA is accelerating this research and is looking at a variety of imaging technologies that could be used to detect items like plastic guns or plastic knives hidden on a passenger's person. Researchers and engineers are working aggressively with industry to determine how best to harden the flight deck. As part of the $500 million initiative announced by President Bush, Secretary Mineta created a $20 million grant program to develop new technologies for improved aircraft security. The grants can be used to test any new technology that leads to safer, more secure aircraft.

Following the September 11 attacks, FAA Administrator Garvey expanded the Research, Engineering & Development Advisory Committee (REDAC) Security Subcommittee and tasked them to assess various aviation security research opportunities. The Committee will assemble a list of all relevant research and development across Government and industry that could potentially mitigate terrorist activities associated with aviation and submit their recommendations to the Administrator. FAA has also issued an announcement on its website (www.faa.gov) requesting information about any product or technology that could be helpful in improving aviation security.

Commercial Space Transportation

The Office of Commercial Space Transportation oversees the safety of commercial space launches and regulates the growing commercial space industry. The Office licenses commercial space launches that take place in the United States or are conducted by U.S. entities anywhere in the world. Since the first launch in 1989, there have been 137 licensed commercial launches. In February 2001, FAA released the first study of the U.S. commercial launch industry's effect on the Nation's economy. The report shows that, in 1999, over $61.2 billion in economic activity was linked to the U.S. commercial space industry and that over 497,000 people were employed in the United States as a direct or indirect result of commercial space transportation and enabled industries.

Free Flight

URET aids controllers in granting pilot requests to change their flight path for more direct routes or for different altitudes.

The Free Flight program was established in 1998 to develop and install selected automation capabilities for controllers to provide more flexible and efficient management of the airspace. Both Free Flight Phases 1 (FFP1) and 2 (FFP2) are on track.

The FFP1 segments of the center/TRACON automation system (CTAS), surface management, and collaborative decisionmaking tools are complete.

The prototype of the user request evaluation tool (URET) reached 1 million hours of use at Memphis and Indianapolis Air Route Traffic Control Centers (ARTCC) in May 2001 and was deployed to the Kansas City ARTCC in December 2001. URET will be delivered to Indianapolis, Memphis, Atlanta, Chicago, Cleveland, and Washington Centers in early 2002. The CTAS en route tool, known as the traffic management advisor or TMA, is operational at all seven of the seven scheduled centers. The CTAS prototype for terminal airspace is operational at the Southern California TRACON through the use of auxiliary displays at the controller position and large screen displays at the Traffic Management Unit.

Administration

FAA strives to make its operations more efficient and responsive by employing sound business practices, introducing advanced information technology, maintaining a highly skilled workforce, and operating a model workplace. To this end, FAA is implementing a comprehensive new cost accounting system (CAS) that will provide financial information to better understand and manage the cost of FAA products and services. The CAS also provides the agency credible information on the cost of end-user services in support of user fees. To strengthen the CAS, a labor distribution reporting process is being put in place to capture the time that FAA employees spend on various project and activities. Both CAS and LDR are tools for providing cost data which, when combined with performance data, will assist the FAA in achieving its cost and performance measurement objectives.

Because of its complexity, CAS is being accomplished in a phased approach. In FY 1999, CAS produced the annual cost of air traffic services (ATS) en route and oceanic services, which were used as the basis for overflight fees. In FY 2000, CAS produced cost data quarterly and added ATS flight services. CAS was expanded in FY 2001 to include monthly reporting and costs associated with ATS terminal services. By the end of FY 2002, FAA expects to complete the implementation of CAS in the remaining FAA lines-of-business.

FAA has also begun implementing "portfolio management"–an investment management approach that will be used to identify the investment opportunities that will deliver the most value to the agency and its customers, in terms of operational benefits, and to manage those investments to ensure that value is delivered. With the implementation of portfolio management, FAA is shifting its focus from product delivery to service delivery. The Terminal Business Service, established in January 2001, is evaluating key aspects of the portfolio management approach.

In FY 2001, FAA also completed work on a new performance management system that became effective on October 1, 2001. The new system covers most FAA employees, excluding senior executives. Unlike the old "once-a-year, check-the-box" performance rating, the new system is an ongoing process that links performance standards to organization and agency goals. Designed with feedback and input from employees, it also expands the role of employees in the performance management process through shared responsibility and accountability with their supervisors. Most employees will transition into the new performance management system during FY 2002.

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FAA STRATEGIC GOALS

STRATEGIC PLAN

The FAA's Strategic Plan sets forth the overall vision, mission, and direction of the agency that will guide FAA activities for the next 5 to 20 years as it responds to the challenges and changes facing aviation. The Plan sets three mission-based strategic goals for the aerospace system: Safety, Security, and System Efficiency. Each goal stems directly from FAA's legal charter and the DOT 1998 and 2000 Strategic Plans. FAA has defined long-term objectives and strategies, near-term projects, and performance targets to achieve each goal. In addition, the Strategic Plan sets supporting goals that will enable FAA to achieve its mission. These goals address people (model work environment), reform, environment, and global leadership. A strategic plan supplement is published annually that describes proposed near-term (1-3 years) accomplishments, interim milestones, and the investment needed to achieve the mission-oriented goals.

FAA's Mission Driven Goals		
Safety	**Security**	**System Efficiency**
Reduce fatal aviation accident rates by 80 percent in 10 years (2007)	Prevent security incidents in the aviation system	Provide an aerospace transportation system that meets the needs of users and is efficient in applying resources
Annual Performance Goals • Reduce commercial aviation fatal accident rate • Limit general aviation accidents • Reduce runway incursions • Reduce operational errors	Annual Performance Goals • Improve explosive devices and weapons detection	Annual Performance Goals • Reduce rate of air travel delays • Maintain runway pavement condition • Improve all weather access to airports by adding vertical guidance approaches • Increase flight route flexibility with non-ATC preferred routings
2001 Projects • Safer Skies – runway safety • Safer Skies – commercial • Safer Skies – GA • GPS implementation • Air Transportation Oversight System (ATOS) • Aviation Safety Action Program (ASAP) • Space transportation safety	2001 Projects • Certification of screening companies • Deploy advanced technology • Passenger bag match/screening • Information systems security	2001 Projects • Free Flight Phases 1 and 2 • National Airspace Redesign • STARS • Improve Weather Information • Revitalize existing structures, technology, and operational resources • En route automation modernization (ERAM) • Major procurement program goals • Capacity improvements

FAA's Supporting Goals			
People	**Reform**	**Environment**	**Global Leadership**
Prepare the workforce for the demands of the 21st century.	Become more businesslike while increasing customer responsiveness.	Maintain number of people exposed to aircraft noise at current levels.	Improve safety and security of the international aviation system.

DOT ANNUAL PERFORMANCE PLAN/FAA STRATEGIC PLAN SUPPLEMENT

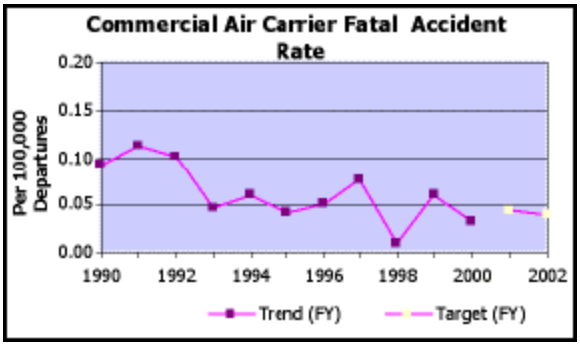
The DOT Annual Performance Plan includes the performance goals and measures that FAA will use to monitor progress toward achieving its three overarching strategic goals. The FAA Strategic Plan and the performance measures contained in the DOT Plan serve as top-level links to the program activities found in the agency's fiscal year budget request. Taken together, they guide the FAA in its effort to provide the American people with the safest, most secure, and most efficient airspace system possible.

The following section reviews FAA's progress in attaining its key performance goals. As discussed previously, the performance measures in this Financial Statement are for FY 2000, as FY 2001 data will not be available until the DOT Performance Report is sent to Congress on March 31, 2002. Therefore, the impact of the events of September 11, 2001, is not reflected in these goals and measures.

FAA PERFORMANCE GOALS

SAFETY

AIR CARRIER FATAL ACCIDENT RATE



Performance Measure: Fatal aviation accidents (U.S. commercial carriers) per 100,000 departures	
2002 Goal:	.038
2001 Goal:	.043
2000 Goal:	.045
2000 Performance:	.033

Commercial aviation is one of the safest forms of transportation. But when passengers board an airplane, they give up personal control and face an unfamiliar risk. While fairly rare, aviation accidents can have catastrophic consequences, with large loss of life. The public demands a high standard of safety and expects continued improvement. FAA's goal is an 80 percent reduction in the U.S. commercial air carrier fatal accident rate by 2007. Based on preliminary data, FAA met the FY 2000 increment of this goal: the air carrier fatal accident rate was .033 per 100,000 departures.

In absolute terms, the fatal accident rate in commercial aviation is very low. One of the primary reasons for this is the use of jet aircraft. Also contributing to a lower accident rate are technological advances in both avionics and radar and operational procedural improvements.

Under the FAA and industry partnership's Safer Skies agenda, several critical steps were completed in addressing problems related to controlled flight into terrain and uncontained engine failure. Interventions for controlled flight into terrain included:

- Improved training aids for both pilots and air traffic controllers;
- Validation of software parameters for minimum safe altitude warning; and
- A final rule related to the manufacture and installation of terrain awareness warning system equipment—a new generation of automated warning systems used on flight decks.

Interventions for uncontained engine failure included:

- Additional airworthiness directives addressing low pressure turbine engine components and compression priority parts; and
- An advisory circular to incorporate an enhanced inspection methodology in the aircraft engine design approval process was opened for public comment.

Intervention strategies being developed under Safer Skies rely heavily on historical data. New methods of collecting, analyzing, and using current data are being developed and deployed. The FAA documented a prototype flight operations quality assurance (FOQA) system that provides maximum potential for the use of digital flight data to determine national trends relevant to the safety of flight operations, aircraft performance, and aircraft maintenance.

The FAA's safety performance analysis system (SPAS) continued to be expanded by the addition of new performance measures covering aircraft and engines, rotorcraft, air agency schools, and repair stations. The air transportation oversight system (ATOS) element query was also linked to SPAS. SPAS assists FAA in improving its deployment of inspection resources. ATOS is a systems approach to safety oversight of air transport operators.

FAA continued to sharpen programmatic focus on safety, with inspection and technological resources being concentrated on the highest risk areas. Work continued on aging aircraft and their systems, fuel tank safety, wiring harness, and fuselage insulation flammability.

Management Challenge – Commercial and General Aviation Safety (IG/GAO)

The DOT Inspector General (IG) and the General Accounting Office (GAO) have stated that the FAA must take steps to reverse the trend in known safety risks such as runway incursions and operational errors, strengthen oversight and rulemakings, and manage the aviation safety and air traffic control workforce strategically over the long term. The IG stated that safety must take priority over the impact of increased demand, new technologies, and budget cuts. The IG listed several safety issues that the FAA needs to address.

FAA faces many challenges in promoting aviation safety in a dynamic industry. To judge its progress in promoting aviation safety, DOT/FAA has done and will plan to do the following:

FY 2000

- Initiated DOT/FAA oversight of U.S. carriers' safety audits of their foreign code-share partners. Guidelines were announced, and FAA began quarterly audits of U.S. carriers' code-share partners in November 2000.
- Continued to implement the Aircraft Safety Act of 2000 that stiffened penalties for trafficking in suspected unapproved parts (SUP). FAA initiated 262 SUP investigation cases, and the IG obtained nine indictments related to the sale and use of SUP's.
- FAA issued over 40 airworthiness directives on electrical wiring and 18 on fuel systems for large commercial aircraft. FAA and industry also conducted inspections of inservice aircraft that are 20 years old or more to assess the condition of the U.S. transport fleet with respect to wiring and to identify other areas of concern.
- Published Flight Operational Quality Assurance (FOQA) NPRM in July 2000.

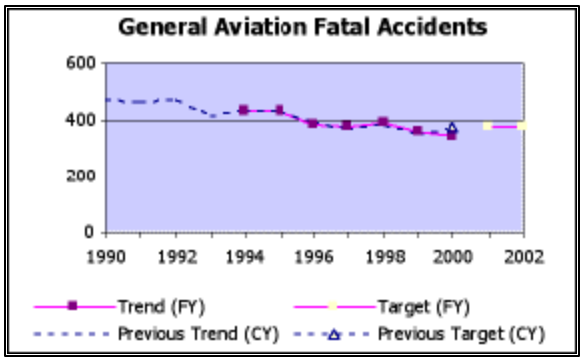
FY 2001

- To help improve runway safety, the first four airport movement area safety systems (AMASS) were commissioned (34 scheduled sites by December 2003).
- FAA has begun initial system safety training for ATOS inspectors.
- Published a notice of enforcement policy, Flight Crewmember Flight Time Limitations and Rest Requirements.
- As part of a general Departmental effort, FAA is developing a strategic human resource plan for safety and air traffic control personnel, ensuring that workforce training and succession issues are embedded in FAA's strategic and resource plans.
- FAA is in the process of publishing an NPRM for National Air Tour Safety Standards.
- The FAA receives several hundred reports per year relating to SUP's and has set a standard for assigning an investigation to the responsible field office within 5 days from receipt. Field offices are carrying out these investigations as quickly as possible.

FY 2002

- FAA will determine the feasibility of expanding ATOS beyond currently covered large air carriers to smaller commercial air carriers.

GENERAL AVIATION FATAL ACCIDENTS



Performance Measure: Number of fatal general aviation accidents	
2002 Goal:	379
2001 Goal:	379
2000 Goal:	379
2000 Performance:	341

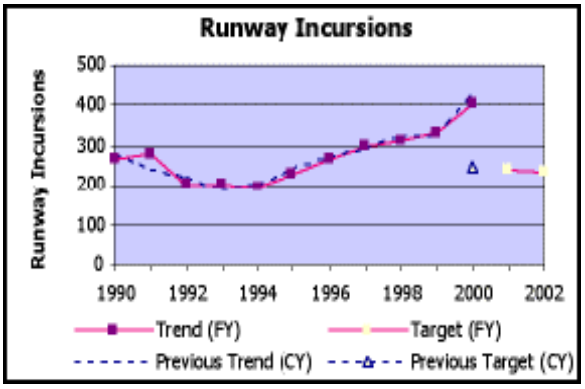
Public and corporate aircraft provide a wide range of services–such as crop dusting, firefighting, law enforcement, news coverage, sightseeing, industrial work, on-demand air taxi service, and corporate transportation – and privately owned aircraft provide personal transportation and recreation. General aviation (GA), as it is commonly called, is an important element of the U.S. transportation system and the U.S. economy, and the majority of aviation fatalities have occurred in this segment of aviation. Since 1988, there has been a gradual trend downward in the number of general aviation accidents, but progress has not been steady. FAA is working with the GA community to achieve further improvements in safety.

GA includes all segments of the aviation industry except commercial air carriers and the military. Aircraft range from single-seat home-built aircraft, to rotary wing craft, balloons, and extended-range turbojets. Levels of risk are highly variable within this aviation segment, and regulatory oversight varies considerably. Some elements of general aviation operate in hazardous environments, such as agricultural application, external-load operations, firefighting, and pipeline/power line patrol.

Based on preliminary data, FAA met its target. The GA community and the FAA jointly developed the annual performance goal. The goal takes into consideration a projected 1.6 percent per year increase in activity in this sector. With this increase in activity, the number of GA accidents would also increase if there were no further interventions.

Working together, FAA and the general aviation industry formed a Joint Steering Committee to link safety improvement efforts, focusing in particular on five causal factors: controlled flight into terrain, loss of control, runway incursions, weather, aeronautical decisionmaking, and survivability. The Committee has completed accident and incident data analysis in the categories of controlled flight into terrain and weather, settled on an appropriate set of interventions, and devised and initiated detailed implementation plans. Implementation will continue through FY 2005.

RUNWAY INCURSIONS



Performance Measure: Number of Runway Incursions	
2002 Goal:	236
2001 Goal:	243
2000 Goal:	250
2000 Performance:	405

Runway incursions create dangerous situations that can lead to serious accidents. A runway incursion occurs when an aircraft, vehicle, person, or object on the ground creates a collision hazard or results in a loss of separation with an aircraft taking off, intending to take off, landing, or intending to land. Reducing the number of runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

Increases in airport operations raise the risk of runway incursions. Some of the additional factors that contribute to the complexity of this safety problem are aircraft of different types and capabilities moving in close proximity; weather changes that impact visibility and conceal normal visual cues; unclear signs and surface markings; pilots unfamiliar with an airport; and complex and varied airport geometry.

FAA did not meet the target, and the trend is in the opposite direction from the goal. Runway incursions increased to 429 from 322 in CY 1999, a 33 percent increase. Runway incursions fall into three general classifications: operational errors, pilot deviations, and vehicle/pedestrian deviations, with different characteristics and rates of change.

- Total pilot deviations, the largest category of runway incursions, increased by more than 38 percent. Over half the deviations were attributable to communications lapses and pilots' unfamiliarity with airports.
- Total vehicle/pedestrian deviations were up by more than 12 percent, almost two-thirds of which were due to maintenance, construction, and security or emergency vehicle deviations.
- Operational errors increased by more than 7 percent, mostly attributable to communications and procedural lapses.

The main causal factors for runway incursions continue to be communications, airport knowledge, and situational awareness when operating on the airport surface. Improved guidelines and incident reporting provisions resulted in increased reporting and revealed shortcomings in both areas. The FAA broadened its approach by creating a comprehensive Runway Safety Program. Using this approach, FAA conducted a series of regional runway safety workshops, reaching out to all interested members of the aviation community and culminating in a human factors workshop. These events focused on recommendations, actions, and results to improve runway safety.

The FAA published a *National Blueprint for Runway Safety* containing major action areas. FAA began implementation of the near-term initiatives in October 2000. Regional runway safety managers were selected; a centralized library of training, education, and awareness was established; and improved runway marking standards were promulgated. Each area includes initiatives that may be implemented individually or integrated with other initiatives to provide an effective, comprehensive solution to this important problem. The major areas are:

- **Training**—Several initiatives are designed to enhance knowledge, skills, and overall performance of pilots, controllers, vehicle operators, and other personnel who interact on the airport surface.
- **Technology**—Establish a Runway Incursion Technical Evaluation Team, complete implementation of existing technology (ASDE, AMASS, and ASDE-Model X), coordinate runway safety technology initiatives with NASA and the aviation community, and develop innovative implementation strategies to ensure promising runway safety technologies are made available for various airports.
- **Communications**—Simplify and standardize radio communications within the community to those involved in surface operations.
- **Procedures**—Segregate ground vehicles from the airport operations area whenever possible, followup on perimeter road construction, continue studies on strengthening the Code of Federal Regulations section that requires positive clearance onto runways, and develop and implement national standard operating procedures for tower controllers.
- **Airport Signs/Markings/Lighting**—Improve the airport environment, increase visibility, enhance safe and efficient movement of aircraft, and test pilot knowledge of airport signs, markings, and lighting.
- **Data, Analysis, and Metrics**—In an effort to better measure how well initiatives are performing, the Runway Safety Office plans to change FAA policy, where necessary, to improve the quality and quantity of data on runway incursions.

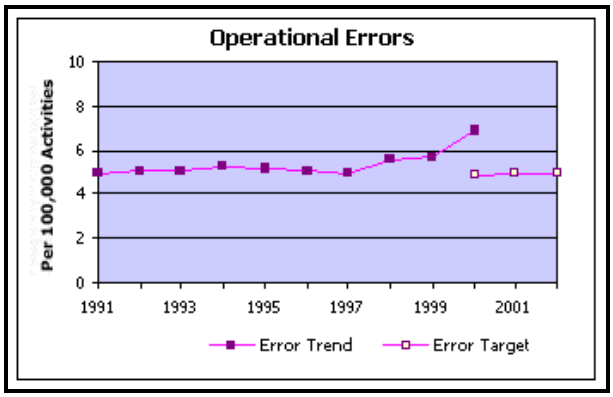
Although prevention of all incursions is important, analysis indicates that all runway incursions do not pose the same level of risk. FAA has developed a way to categorize risk to more effectively focus on root causes and to target resources appropriately. Risk categorization and analysis will also yield better indicators of FAA's effectiveness in improving runway safety. Risks are now classified A through D, with A/B being the most severe and C/D being minor.

Management Challenge – Runway Safety (IG)

Despite significant management focus, FAA has been unable to reverse the upward trend in runway incursions. The IG has indicated that reversing the sharp increase in runway incursions is a critical management challenge for DOT. FAA is pursuing a number of initiatives begun in 2000 to solve this problem and, as the IG states, is identifying and evaluating technologies that can be quickly put to use in high-risk airports.

This goal in its entirety addresses the IG's discussion of runway safety in the recent Management Challenges Report.

AIR TRAFFIC OPERATIONAL ERRORS



Performance Measure: Operational errors per 1 million activities	
2002 Goal:	5
2001 Goal:	5
2000 Goal:	4.86
2000 Performance:	6.83

One of the fundamental principles of aviation safety is “separation”—the need to maintain a safe distance from aircraft, terrain, obstructions, and certain airspace not designated for routine air travel. Air traffic controllers employ separation rules and procedures that define separation standards for many different environments where aircraft operate. Pilots flying under visual flight rules operate under a "see and avoid" policy. Pilots using instrument procedures rely on air traffic controllers' instructions to guide them. When the rules and procedures that define separation standards are not applied or followed appropriately by a controller, and separation is less than required, an operational error occurs. FAA seeks to reduce operational errors.

The continued increase in the volume of air traffic activity in congested and restricted airspace is a major factor affecting operational errors. From 1999 to 2000, air traffic operations in the top 30 airports increased by 4.3 percent, compared to a 0.2 percent increase from 1998 to 1999.

FAA did not meet the target for reducing operational errors. Operational errors totaled 1,145, or 0.683 per 100,000 activities, significantly above the goal of 0.486.

FAA continued its effort to improve the procedures, reporting, and correction of operational errors and deviations after instituting a quality assurance review (QAR) process in 1999 to identify and correct controller performance deficiencies through training. The FAA improved its internal procedures, requiring management involvement in controller recertification following an operational error or deviation.

More importantly, safety improvement is emphasized by means of operational error reporting, causal analysis, and problem correction, rather than on using controller error reports as an indication of a failure requiring punitive action. This renewed emphasis on data quality and procedural improvement and the lessening of punitive measures has contributed to the increase in reported errors and deviations. This structural change is evident in the increase in the level of monthly operational errors for FY 2000, compared to 1997-1999.

SECURITY

The United States and its citizens remain targets for terrorist groups seeking to challenge or influence international affairs. Thus, protecting air travelers against terrorist and other criminal acts is a national security concern. Beyond national security policy, public confidence in the safety and security of air travel enables its continued growth. Tourism and world economies depend upon effective aviation security measures being efficiently applied. Governments, airlines, and airports must work together cooperatively to achieve our common goal: safe and secure air transportation.

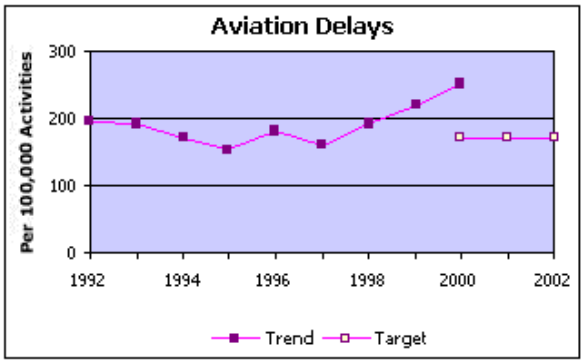
FAA's goals in the security performance area include actions to provide stricter oversight of screening companies and improve screener performance, increase the detection of explosive devices and weapons that may be brought aboard aircraft, prevent unauthorized access to parked aircraft, and ensure that FAA facilities fully meet security standards.

On November 19, 2001, Congress enacted the Aviation and Transportation Security Act– creating the Transportation Security Administration (TSA). The TSA is charged with security for all modes of transportation, including those security responsib ilities previously assigned to the FAA. As part of the transition, FAA is working with the TSA to implement its program initiatives.

Sensitive security information is protected by 14 C.F.R. Part 191, and the actual target levels will be released to appropriate parties in keeping with the provisions outlined in the Government Performance and Results Act.

SYSTEM EFFICIENCY

AVIATION DELAY



Performance Measure: Aviation delay per 100,000 activities	
2002 Goal:	171
2001 Goal:	171
2000 Goal:	171
2000 Performance:	250

Commercial aviation delays are estimated to cost airlines over $3 billion per year. Passengers are directly affected by missed flight connections, missed meetings, and loss of personal time. There are approximately 20 congested airports, each averaging over 20,000 hours of flight delay per year. Delays throughout the system are projected to increase as passenger travel demand continues to rise.

Delays throughout the National Airspace System (NAS) are generally the result of air traffic density, adverse weather, and capacity constraints, particularly at large hub airports. As traffic increases throughout the system, delays are likely to increase. Consequently, maintaining the current delay rate would represent a significant accomplishment.

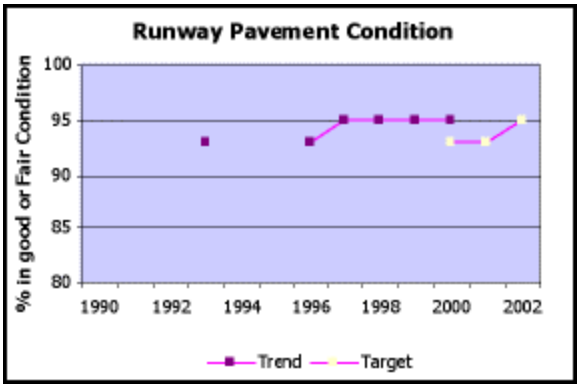
FAA did not meet its performance target. In fact, the overall delay rate significantly exceeded the target, primarily because of bad weather, which accounts for about 70 percent of all delays. Over 270 delays per 100,000 activities were due to weather alone in June 2000, the worst month of flight delay in FAA history.

Volume delays, at about 34 per 100,000 activities, increased significantly in 2000, partly due to the overall increase in activities from FY 1999 to FY 2000 (1.9 percent) and partly due to the increase in exempted flights operating out of congested, high-density airports. For example, while August 2000 operations at LaGuardia were 4.7 percent above those in August 1999, terminal volume delays rose by 329 percent.

Approximately four delays per 100,000 activities were due to equipment failure in 2000, less than the 1999 rate of five per 100,000. The National Operations Control Center (NOCC) will continue to collaborate daily with Air Traffic System managers to ensure NAS equipment and services available on any given day are put to optimal use.

"Other" delays (including runway delays), at about 39 per 100,000 activities, are slightly above last year. While delays due to runway construction at Minneapolis and Seattle have abated, projects are underway at Houston, Phoenix, and St. Louis. The unavailability of land and hold short operations (LAHSO) at several airports has also added to delays.

RUNWAY PAVEMENT CONDITION



Performance Measure: Percent of runways in good or fair condition (commercial service, reliever, and selected general aviation airports).	
2002 Goal:	95%
2001 Goal:	93%
2000 Goal:	93%
2000 Performance:	95%

Deteriorated airport runway pavement can damage propellers, turbines, and airplane landing gear. Proper design, construction, and maintenance can slow this deterioration, but runways still need complete rehabilitation every 15 to 20 years–5% to 7% of runways during a typical year. Federal airport funding helps achieve this necessary level of rehabilitation, and–combined with proper maintenance–helps keep runway conditions at or above the minimum level needed to ensure efficient airport operation.

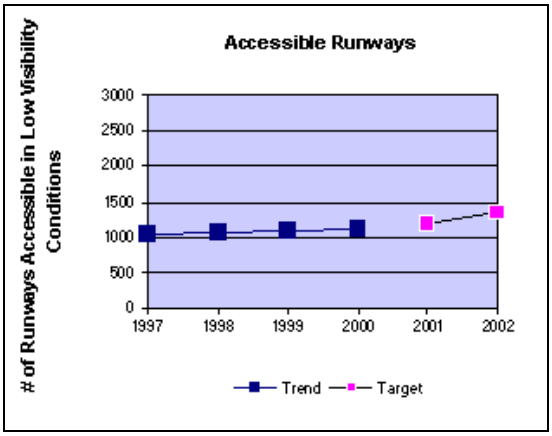
FAA met its goal of maintaining over 93% of runway pavement in good or fair condition. In 2000, 95% of the runways at airports included in the National Plan of Integrated Airport Systems (NPIAS) were reported in good or fair condition. At NPIAS airports with commercial service, 98% of runways were in good or fair condition. A robust national economy helped enable local government investment in runway pavement maintenance and rehabilitation.

Many state aviation agencies are using computer-based pavement management systems to predict when pavement maintenance and rehabilitation are needed and most likely to be cost effective. These measures enhance the effectiveness of state and Federal expenditures on airfield pavement. The National Pavement Test Facility at the William J. Hughes Technical Center was completed and is in operation.

Management Challenge — Airport Revenue Diversion (IG)

A significant ongoing challenge for FAA is ensuring the appropriate use of airport funds. A wide range of FAA actions is meeting this challenge. FAA implemented all the revenue use provisions of the Federal Aviation Reauthorization Act of 1996, issued a comprehensive policy statement, and issued an advisory circular instructing airports on the filing of annual reports to the FAA. FAA is using FAA-sponsored outreach forums; appearances at conferences and seminars conducted by airport industry trade associations and regional, state, and local aviation organizations; and similar venues to educate airport sponsors about their Federal obligations regarding proper use of airport revenue. Local government airport sponsors are required to review airport revenue use as part of their annual audit of Federal programs under the Single Audit Act. FAA, working with the Office of Management and Budget and the General Accounting Office, has issued detailed guidance to auditors on the conduct of those reviews. Enforcement actions may include withholding of grants under the Airport Improvement Program.

ALL WEATHER ACCESS TO AIRPORTS



Performance Measure: Number of runways that are accessible in low visibility conditions.	
2002 Goal:	1,354
2001 Goal:	1,191
2000 Goal:	N/A
2000 Performance:	1,109

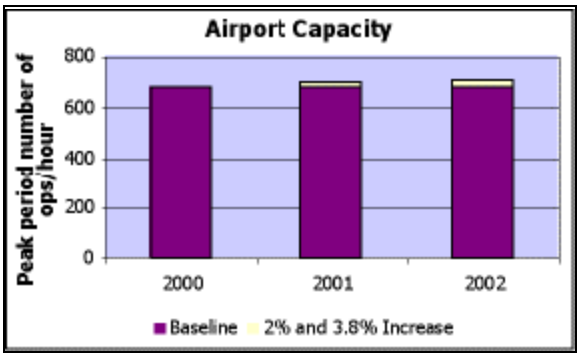
There are nearly 4,000 public use airports with paved runways in the United States. Currently, about 600 of these airports have an instrument landing system (ILS) for precision approaches. Precision approaches improve access to airports and enhance safety by providing guidance when visibility is limited. Because many airports have more than one runway, the total number of runways with precision landing guidance is about 1,200. FAA seeks to improve airport access in all weather conditions, consistent with flight safety in the critical landing phase. Developing vertically guided approaches requires accurate survey information for airport runway locations and any obstacles near the flightpath for approach. The National Geodetic Survey does these surveys. Increasing all-weather access depends on both having a published approach and increasing the number of aircraft equipped to make precision approaches.

FAA met the performance target. FAA published 504 new approaches in 2000 through a cooperative effort with the National Oceanic and Atmospheric Administration.

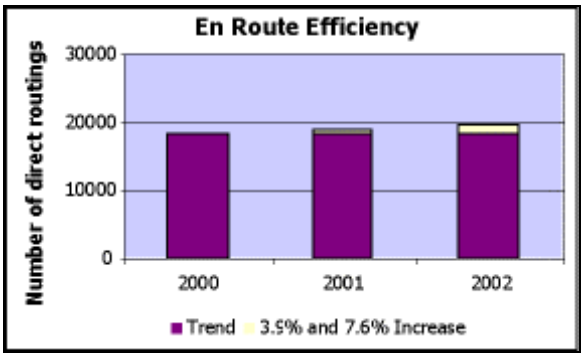
FAA expects to meet the performance target for 2001.

Access to airports, airspace, and air traffic services are basic needs of all airspace users. While there are many aspects of system accessibility that impact end users, increasing the availability of vertical descent guidance during low visibility weather conditions is critical. For aircraft to land in restricted visibility, the airport must have published procedures for a vertically guided approach and the electronic guidance to ensure the aircraft is able to follow the published approach. The FAA's navigation and landing systems are evolving from ground-based navigation aids to a satellite-based system. The system consists of the global positioning system (GPS) augmented by wide area augmentation systems (WAAS) and local area augmentation systems (LAAS). GPS/WAAS and LAAS will provide vertically guided approaches to selected airports.

AIRPORT CAPACITY AND EN ROUTE EFFICIENCY IMPROVEMENTS



Performance Measure: Cumulative increase in throughput during peak periods at certain major airports.	
2002 Goal:	3.8%
2001 Goal:	2.0%
2000 Goal:	N/A
2000 Performance	N/A



Performance Measure: Cumulative increase in direct routings for en route flight phase.	
2002 Goal:	7.6%
2001 Goal:	3.9%
2000 Goal:	N/A
2000 Performance	N/A

Air travel demand is growing steadily. U.S. airlines transport over 600 million passengers annually, and this number is expected to increase over 50 percent by 2010. In 2000, there were approximately 5 million scheduled operations for the top 10 air carriers. FAA will need to utilize available airspace more efficiently in the future to keep pace with aviation activity and increase passenger throughput.

In 2000, 79.1 percent of flights were able to fly off air traffic control (ATC) preferred routes, falling just short of the goal of 80 percent. This is approaching the upper limit of preferred route exclusions without technological improvements. The aim of eliminating required routings is to give increased flexibility to aircraft routings, which may translate into improved scheduling efficiency and reduced flight miles. The action of eliminating an ATC-preferred route does not automatically increase aviation efficiency since the ATC-preferred route might also be the air carrier preferred routing. The benefit of eliminating a required routing is determined by the amount of traffic on the route and whether air carriers use the flexibility to improve efficiency.

In 2000, FAA eliminated 219 preferred routes, up from 170 in FY 1999. However, route flexibility was also increased through significant use of the North American Route Program (NRP) and departure procedures (DP)/standard terminal arrival route (STAR) program. The NRP, which begins 200 miles from the departure airport and ends 200 miles from the arrival airport, enables the use of more efficient routes unimpeded by the preferred route system. DP/STAR expands the entry and exit positions for aircraft transitioning to NRP to points within the 200-mile limit near airports.

FAA estimates that it will meet the 2001 performance targets.

To determine capacity increases, FAA measures throughput during peak periods of operational activity. If throughput increases during peak periods, it is an indicator that capacity has increased.

Through the Free Flight program, grants for new runway construction, and other focused efforts, FAA seeks to improve use of available airspace capacity by creating new technological decision tools for controllers, either in airport towers or in en route control centers.

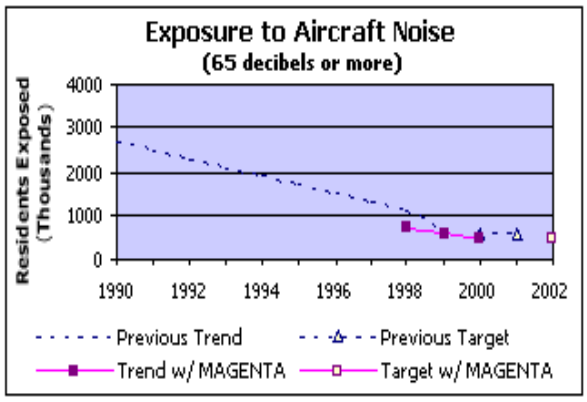
Since it takes many years to build additional runways, which provide the greatest increase in total capacity for growing levels of air traffic, FAA is undertaking projects to provide efficiency tools in the near term to maximize use of existing airspace and runway capacity. This will increase usable capacity, flexibility, and efficiency of the air traffic system. FAA has efficiency tools in use at the following locations:

- Center TRACON automation system (CTAS), a decision support tool for air traffic controllers, is operational at Minneapolis-St. Paul and Los Angeles, enabling more efficient arrival flows into terminal airspace and onto runways. CTAS is a combination of the passive final approach spacing tool (pFAST) and traffic management advisor (TMA).
- User request evaluation tool (URET), a conflict probe, is installed at the Memphis and Indianapolis En Route Centers and will enable controllers to more quickly approve user requests in en route airspace by identifying potential aircraft-to-aircraft conflicts up to 20 minutes in advance.

FAA is also examining ways to streamline environmental review of new runway construction and ways in which to shorten the overall authorization process for locally initiated expansion of airport capacity.

ENVIRONMENT

AIRCRAFT NOISE EXPOSURE



Performance Measure: Number of people in the U.S. (in thousands) who are exposed to significant aircraft noise levels (65 decibels or more).	
2002 Goal:	440
2001 Goal:	440
2000 Goal:	N/A
2000 Performance:	440

Public concern and sensitivity to aircraft noise around airports are high. In recent years, noise complaints have increased even while quieter aircraft technology has been introduced. Aircraft noise is an undesired by-product of our mobility, and the Government acts to reduce the public's exposure to unreasonable noise levels.

Much of the recent progress has been achieved by the legislatively mandated transition of airplane fleets to newer-generation aircraft that produce less noise. Most of the gains from this change were achieved by 2000. The Airport Noise and Capacity Act (ANCA) of 1990 set December 31, 1999, as the deadline for elimination of Stage 2 (older, noisier) aircraft weighing more than 75,000 pounds. Population growth around airports or increasing flight activity can impact FAA's ability to meet this goal. These factors have generally increased the numbers of people potentially exposed to aircraft noise. A positive factor in lowering noise exposure has been aircraft fleet recapitalization within the industry.

FAA appears to have met the performance target, since trends apparent in both measurement methodologies are moving in the right direction. The results reflect using a new, more accurate methodology to assess the number of people exposed to significant levels of aircraft noise around airports, known as MAGENTA. The model development has been done in conjunction with the Committee on Aviation Environmental Protection (CAEP) under the International Civil Aviation Organization (ICAO).

Updated airline fleet data for 1999 indicate a higher than expected introduction of airplanes that have been "hushkitted" to comply with the Stage 3 noise standard. At the end of 1999, airplanes that met the most stringent FAA noise standard (Stage 3 airplanes) comprised 100 percent of the total fleet of large civil subsonic turbojet airplanes, compared to an estimated 45 percent in 1990 when Congress enacted ANCA.

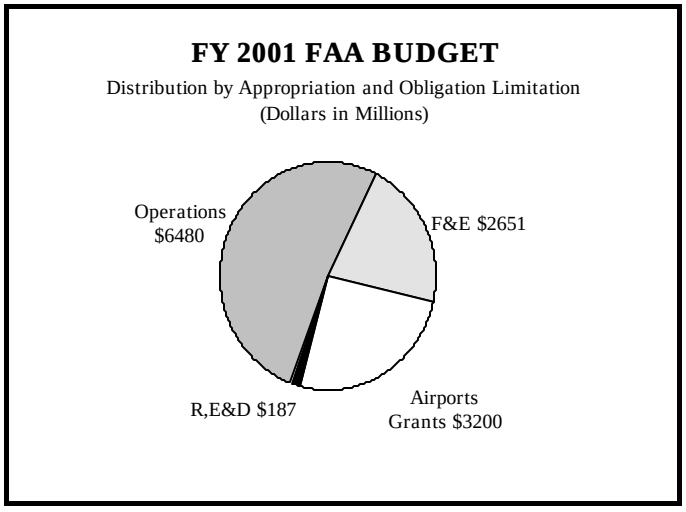
Activities in 2000 included funding for noise reduction activities such as the soundproofing of residences and buildings used for educational or medical purposes in the vicinity of airports, the purchase of buffer zones around airports, and noise reduction planning.

The FAA, representing the United States, was successful in achieving agreement at the fifth meeting of CAEP (CAEP/5) on a new international noise standard for subsonic jets and propeller-driven large transports. The new standard, which would become effective in 2006 when approved by the ICAO Council, is cumulatively 10 decibels more stringent than the current standards ("Stage 3").

FY 2001 FINANCIAL HIGHLIGHTS

FAA BUDGET

The FAA is financed through annual and multi-year appropriations authorized by the Congress. The largest appropriation–Operations–funds the salaries and associated costs to operate and maintain the air traffic control system and to carry out its safety inspection, regulatory, and security responsibilities. The FAA budget also includes three capital investment programs: (1) the Facilities and Equipment (F&E) appropriation authorizes funds to modernize and expand the air traffic control system; (2) the Airport Improvement Program (AIP) provides grants funding to expand and improve the Nation's public-use airports; and (3) the Research, Engineering, and Development (R,E&D) appropriation provides funds to develop new aviation technology and systems.



The Airport and Airway Trust Fund (Trust Fund), maintained through the deposit of aviation excise taxes, finances 100 percent of the F&E, AIP, and R,E&D capital investment programs. These critical capital investment programs are described in three regularly issued plans: the National Airspace Capital Investment Plan (CIP); the National Aviation Research Plan; and concept planning for the National Plan of Integrated Airport Systems (NPIAS). In addition to funding the capital programs, in FY 2001 the Trust Fund paid 68 percent of the FAA's operating cost. From FY 1995 through FY 2001, the Operations appropriation has received between 34 to 100 percent of its funding from the Trust Fund and the balance from the General Fund.

Airport and Airway Trust Fund. The Airport and Airway Revenue Act of 1970 created the Trust Fund to provide a stable source of funding to finance investments in the airport and airway system and, to the extent funds were available, cover the operating costs of the airway system. The Act provided for the deposit of aviation excise taxes into the Trust Fund. Since its establishment, various changes have been made to the rate structure supporting the Trust Fund. The most recent changes were centered in the Taxpayer Relief Act of 1997 (P.L. 105-34), effective October 1, 1997:

- Extends aviation taxes for 10 years (through September 30, 2007).
- Retains existing freight waybill, general aviation fuel/gas taxes.
- Converts the 10 percent ad valorem tax on domestic passenger tickets to a combination ad valorem/flight segment tax over 3 years beginning October 1, 1997, where a domestic flight segment is a flight involving a single takeoff and a single landing. The timetable for these taxes is as follows:

  9% plus $1 per segment from Oct.1, 1997, through Sept. 30, 1998
  8% plus $2 per segment from Oct.1, 1998, through Sept. 30, 1999
  7.5% plus $2.25 per segment from Oct.1, 1999, through Dec. 31, 1999
  7.5% plus $2.50 per segment from Jan.1, 2000, through Dec. 31, 2000
  7.5% plus $2.75 per segment from Jan.1, 2001, through Dec. 31, 2001
  7.5% plus $ 3 per segment from Jan.1, 2002, through Dec. 31, 2002
  After 2002, the $3 segment rate will be indexed to the Consumer Price Index (CPI)

- Imposes a new 7.5 percent tax on payments to airlines for frequent flyer and similar awards by banks and credit card companies, merchants, frequent flyer program partners, other airlines, hotels, or rental car companies, and other businesses.
- Increases the current $6 international departure tax to $12 per passenger and adds a $12 international arrival tax. If an intermediate stop exceeds 12 hours, subsequent domestic segments are taxed as domestic transportation. These taxes were indexed to the CPI as of January 1, 1999.
- Retains a special rule for flights between the Continental United States and Alaska or Hawaii at $6 for departures. This tax was indexed to the CPI as of January 1, 1999.
- Lowers tax rate on flights to certain rural airports to 7.5 percent and omits flight segment tax component beginning October 1, 1997.
- Transfers revenues from the 4.3 cents-per-gallon aviation fuel tax formerly dedicated to reduce the national U.S. deficit from the General Fund to the Airport and Airway Trust Fund.

While held by Treasury, Trust Fund monies are invested in Government securities. Any interest earned is deposited into the Trust Fund. Amounts are withdrawn from the Trust Fund as it is needed and transferred into each FAA appropriation to cover necessary outlays. The uncommitted balance in the Trust Fund was approximately $7.3 billion at the end of FY 2001.

Operations. Funds from the Operations appropriation are used to pay salaries and other costs required to operate and maintain the air traffic control (ATC) system on a 24-hour basis. For FY 2001, Congress provided separate amounts for individual organizations funded under the Operations appropriations.

The establishment of separate amounts prohibited the Administrator from moving funds among organizations, thereby limiting her ability to manage most effectively FAA Operations and the programs this appropriation supports. Realizing this, the Administration has proposed that for FY 2002 individual amounts not be specified.

Facilities and Equipment (F&E). Funds from the F&E appropriation are used to modernize, expand, and replenish the ATC infrastructure. Examples of F&E programs include the deployment of improved controller-pilot data link communications; the replacement of aging ATC computer hardware and software in en route centers and terminal radar approach control facilities; the installation of advanced radar for airport surveillance to help prevent runway incursions and to warn of hazardous weather; the augmentation of GPS; the fielding of automated decision support tools that will enable controllers to allow users greater freedom to fly more direct routes; and the deployment of explosives detection systems (EDS) and other security devices for screening passengers, baggage, and cargo.

The NAS Architecture is a comprehensive plan that describes the joint FAA and industry operational concept and long-term plan for evolving the NAS to handle future growth in aviation while enhancing safety. It outlines capabilities and proposed timelines needed to meet goals identified in the FAA Strategic Plan. F&E programs are implemented to obtain capabilities outlined in the NAS Architecture. The NAS Architecture is the principal framework of NAS infrastructure investment decisions.

Research, Engineering and Development (R,E&D). The FAA's R,E&D programs are directed toward improving safety, security, capacity, efficiency, and ensuring the environmental compatibility of the NAS. Areas of primary focus include continued research in aircraft safety, aircraft structures and materials; systems security research; improved aviation weather products, and resolution of environmental issues. FAA human factors and aviation medicine research will focus on how to best accommodate changes in equipment and procedures and other studies to reduce the risk of human error by agency personnel and air crewmembers.

The FAA publishes an annual National Aviation Research Plan. This plan describes the R,E&D efforts to improve technologies, systems, and procedures to fulfill the agency's principal operation and regulatory responsibilities in air traffic services; certification of aircraft and aviation personnel; operations and certification of airports; civil aviation security; and environmental standards for civil aviation.

Airport Improvement Program (AIP). Section 47104 of Title 49, U.S.C., authorizes the Secretary of Transportation to make project grants for airport planning and development under the AIP to maintain a safe and efficient nationwide system of public-use airports that meet both present and future needs of civil aeronautics. The payment of user taxes to the Federal Government by air travelers and shippers contributes to the Airport and Airway Trust Fund and makes it possible to fund one-fourth to one-third of all capital development at the Nation's public-use airports. Consequently, no Federal monies are withdrawn from the General Fund for federally assisted projects to maintain and enhance airport safety, preserve existing airport infrastructure, and expand capacity and efficiency throughout the airport system. Since FY 2000, the administrative expenses to implement the airports program have been paid under the AIP program.

The National Plan of Integrated Airport Systems (NPIAS) draws selectively from local, regional, and state planning studies to estimate the costs associated with establishing a system of airports adequate to meet the needs of civil aviation. Costs identified in the NPIAS are eligible (nominally) for Federal grants-in-aid. The most recent publication, in March 1999, included costs of $7 billion annually through 2002.

The Passenger Facility Charge (PFC) Program, authorized by the Aviation, Safety and Capacity Expansion Act of 1990, provides an additional source of capital funding for the expansion and preservation of airport infrastructure in the national air transportation system. After receiving approval from the FAA, this legislation allows public agencies controlling commercial service airports to charge enplaning passengers a $1, $2, $3, $4, or $4.50 facility charge.

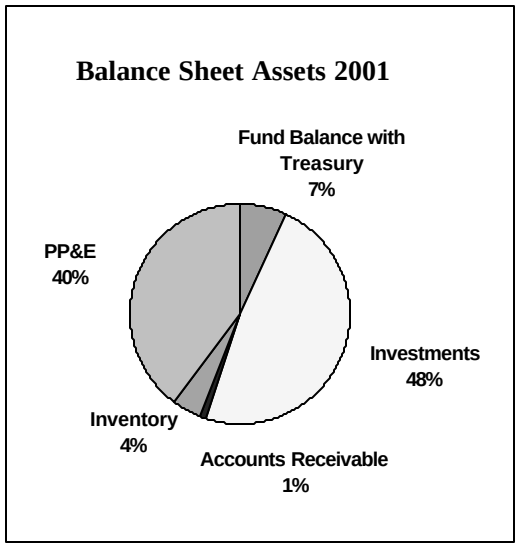
PFC collections and AIP funds are complementary in the overall funding of airport improvements. The majority of PFC approved projects are also eligible for further funding under the AIP. As of September 30, 2001, authorized collections for the 326 locations approved since 1992 totaled $32.5 billion, of which $9.3 billion has been collected. As of September 30, 2001, 58 percent of those commercial service airports eligible to collect PFC's were approved to do so, including 85 of the largest 100 airports. Collections, which first began on June 1, 1992, now produce revenue for airports at a rate exceeding $1.8 billion per year. (NOTE: Decreased enplanements caused by the September 11 terrorist attacks will negatively impact this estimate for CY 2001.)

Although these revenues are not considered Federal funds, the public agency's application to impose a PFC must be approved by the FAA.

COMPARATIVE ANALYSIS

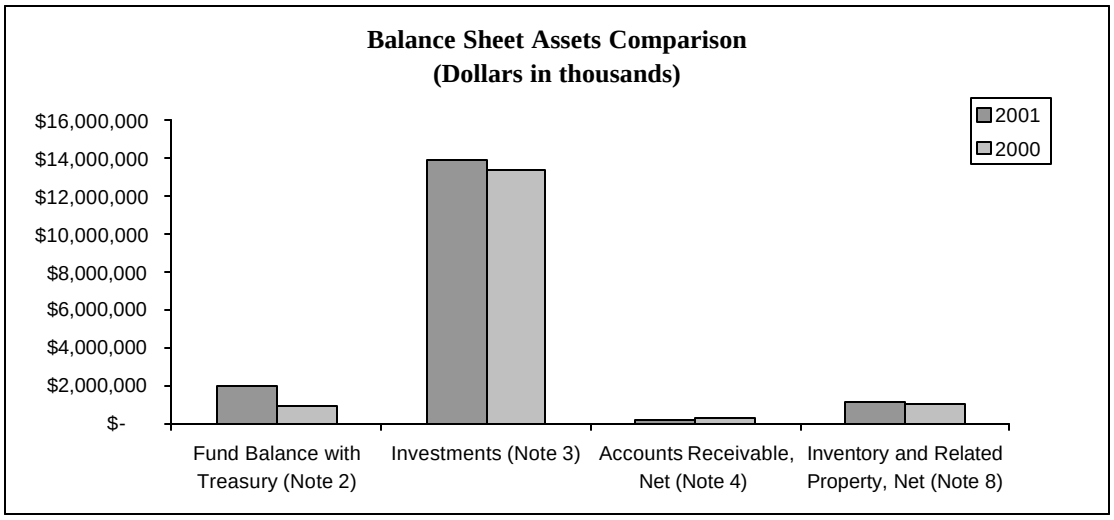
BALANCE SHEET - ASSETS

As of fiscal year end, FAA's total assets were $29 billion. The assets of the FAA are the resources available to pay liabilities or to satisfy future service needs. FAA's major categories of assets as of September 30, 2001, as a percentage of total assets, are shown in the accompanying chart:



- **48%** Investments
- **40%** General Property, Plant, and Equipment, Net
- **7%** Fund Balance with Treasury
- **4%** Inventory and Related Property, Net
- **1%** Accounts Receivable, Net (Note 4) and Other

The following chart presents comparisons of major asset balances between FY 2000 and FY 2001. A discussion of the significant fluctuations follows.



Fund Balance with Treasury

Fund Balance with Treasury increased $1.1 billion, from $886 million as of September 30, 2000, to $1.9 billion as of September 30, 2001. This increase is partly attributable to a $600 million increase in the Operations appropriation, from $5.9 billion in FY 2000 to $6.5 billion in FY 2001. The remaining increase results because FAA's Operations appropriation was funded differently in FY 2000 versus FY 2001. Each year, all or a part of FAA's Operations appropriation is funded via the Airport and Airway Trust Fund. Amounts are transferred from the Trust Fund biweekly to meet cash outlay needs. Trust Fund appropriations not yet transferred are invested and reflected on the balance sheet as Investments rather than Fund Balance with Treasury. In FY 2000, 100 percent of FAA's Operations appropriation was funded via the Trust Fund; at year-end, $487 million of these appropriations had not yet been transferred from the Trust Fund and thus were reported as Investments rather than Fund Balance with Treasury. In contrast, in FY 2001 the Operations appropriation was partially funded via a combination of the Trust Fund and through appropriations from the General Fund of the U.S. Treasury. General Fund appropriations are transferred to the agency at the beginning of the year, and are reported as Fund Balance with Treasury until disbursed.

Investments

Investments increased $512 million, from $13.4 billion in FY 2000 to $13.9 billion in FY 2001. The change was the net of a $563 million increase in investments of the Airport and Airway Trust Fund, slightly offset by a $79 million decrease of Aviation Insurance Revolving Fund investments. The remainder of the net change in investments is attributable to accrued interest.

Airport and Airway Trust Fund investments increased $563 million because in FY 2000, $10.0 billion was drawn down from the Trust Fund to meet cash outlay needs, while in FY 2001, $9.4 billion was drawn down, leaving more Trust Funds available for investment at the end of FY 2001. The variation in draw downs results from the manner in which the FAA Operations appropriation was funded in FY 2000 and FY 2001, as described above under *Fund Balance with Treasury.* In FY 2000, the Operations appropriation was fully funded via the Trust Fund, while in FY 2001, the Operations appropriation was only partially funded by the Trust Fund.

Following the terrorist attacks of September 11, 2001, all Aviation Insurance Revolving Fund investments were redeemed so the funds would be available for various aviation insurance initiatives.

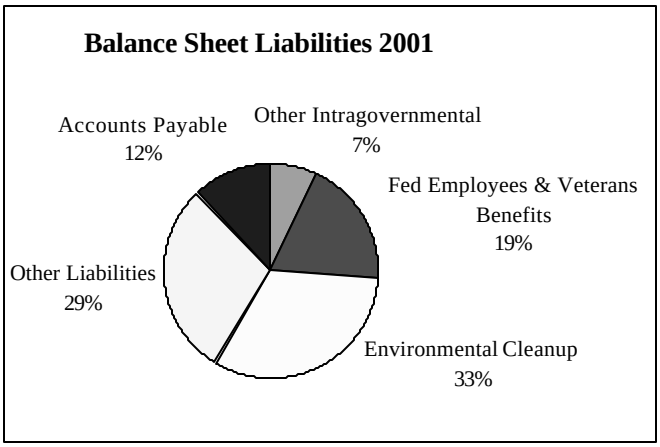
Accounts Receivable, Net

Intragovernmental accounts receivable decreased by $140 million, from $267 million in FY 2000 to $127 million in FY 2001. This decrease stems from a decrease in taxes receivable from the Internal Revenue Service to the Airport and Airway Trust Fund related to passenger ticket and other types of taxes.

Inventory and Related Property, Net

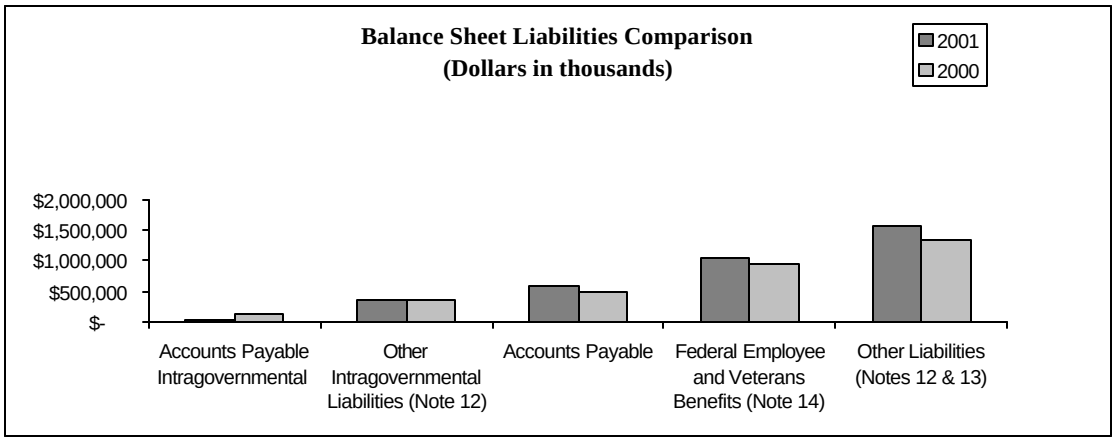
Inventory and Related Property increased from $988 million in FY 2000 to $1.1 billion in FY 2001. This increase of $133 million primarily relates to a change in the method of estimating the allowance for items held for repair. In FY 2000, the allowance was estimated at 65 percent of the gross value of associated assets. Beginning in FY 2001, the estimate was based on a detailed analysis of the historical cost to repair such items.

BALANCE SHEET – LIABILITIES



- **7%** Other Intragovernmental Liabilities
- **19%** Federal Employees and Veterans Benefits
- **33%** Environmental Cleanup Costs
- **29%** Other Liabilities
- **12%** Accounts Payable

At the end of FY 2001, the FAA reported liabilities of $5.4 billion. Liabilities are probable and measurable future outflows of resources arising out of past transactions or events. The chart above depicts FAA's major categories of liabilities, as a percentage of total liabilities, while the chart below presents comparisons of major liability balances between FY 2000 and FY 2001. A discussion of the significant fluctuations between the two years follows.



Federal Employee and Veterans Benefits

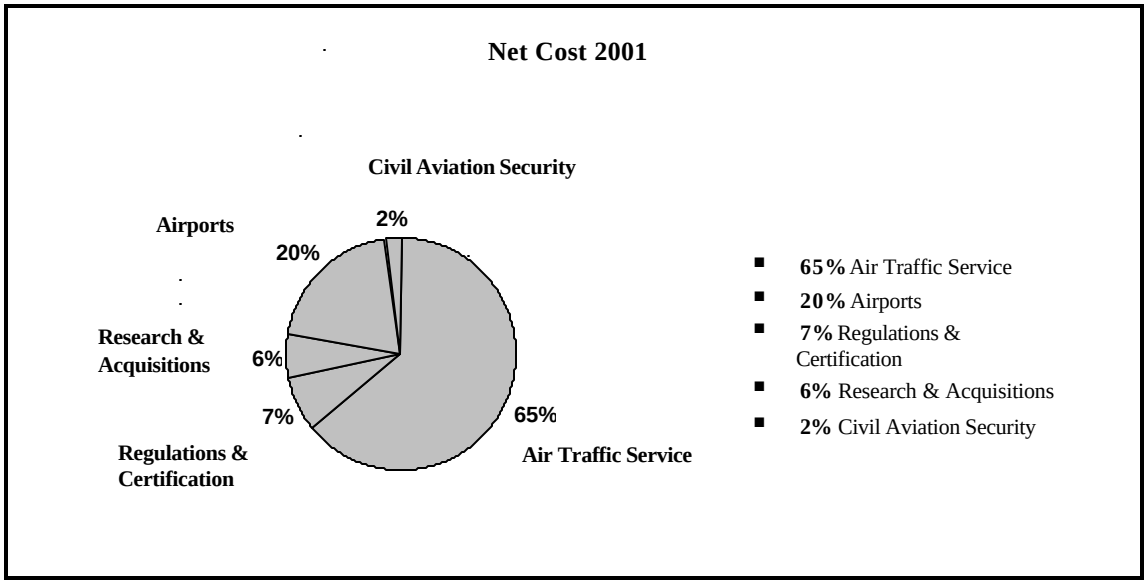
Federal Employee and Veterans Benefits consist of FAA's liability for workers compensation benefits under the Federal Employees Compensation Act (FECA). The workers compensation liability increased $99.5 million, from $944.5 million in FY 2000 to $1,044 million in FY 2001. The Department of Labor calculates the liability actuarially, and DOT attributes a proportionate amount to FAA based upon actual workers compensation payments to FAA employees over the preceding four years. The increase in the actuarially determined liability and the amount attributable to FAA results from historical increases in payments to FAA employees, and other factors considered in the actuarial calculation.

Other Liabilities

Other liabilities increased by $240 million, from $1.33 billion in FY 2000 to $1.57 billion in FY 2001, primarily as a result of increased contingent liabilities for legal claims. As shown in Note 12, FAA's legal claims liability increased by $141 million; this increase pertains substantially to tort claims.

NET COSTS

Net costs are FAA's expenses less earned revenue. For the fiscal year ending September 30, 2001, the FAA's total net costs were $10.8 billion, compared to $9.7 billion in FY 2000. The following chart illustrates the distribution of net costs by FAA's programs:



The chart below presents comparisons of net costs by program from FY 2000 to FY 2001. The most significant fluctuations were to Air Traffic Service and Airports.

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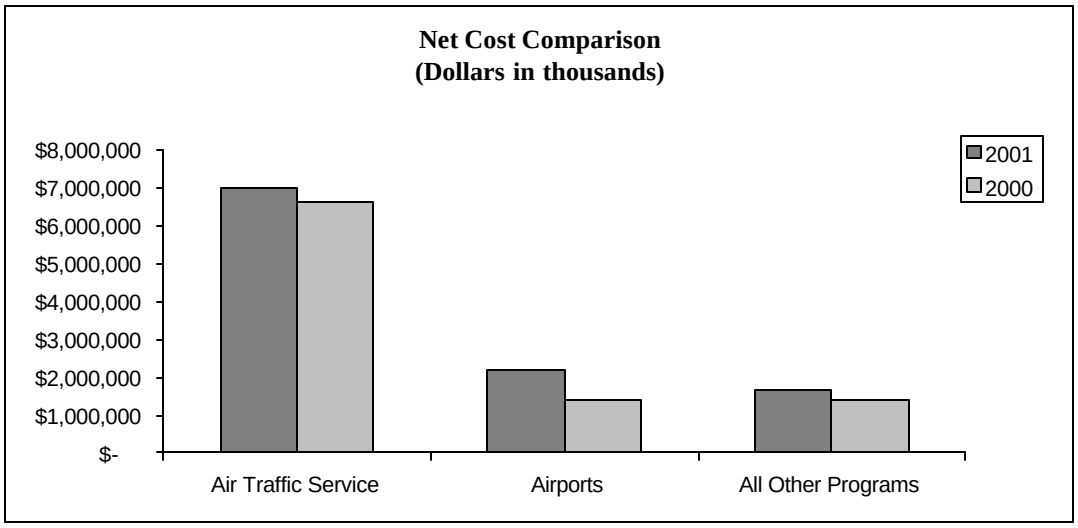

Air Traffic Service

Net costs of Air Traffic Service increased $329 million (5 percent) primarily due to increased expenses in personnel compensation and benefits, workers compensation (see discussion of *Federal Employees and Veterans Benefits* above), legal claims, and other communication services.

Airports

Net Airports costs increased $803 million (58 percent) because, under the provisions of the Wendell H. Ford Aviation Investment and Reform Act for the 21st Century (P.L. 106-181), significantly increased Airport Improvement Program (AIP) funding was made available in FY 2001.

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MANAGEMENT REPORT OF THE CHIEF FINANCIAL OFFICER

During my first year as the Chief Financial Officer for the FAA, I have continued to lay the foundation for better management and greater accountability of FAA programs. A major milestone toward achieving these goals was to restore FAA's unqualified audit opinion. With the FY 2001 financial statements, I am pleased to report that FAA has achieved this milestone.

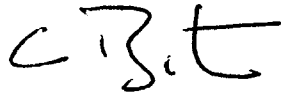
This is just one step toward more accurate, timely, and useful financial information and an integrated state-of-the-art financial management system. Like so many other Federal agencies, we in the FAA, as part of a larger Department of Transportation effort, are implementing a new accounting system, the Delphi Accounting System. Our existing accounting system, called the Departmental Accounting and Financial Information System, is not compliant with the governmentwide Standard General Ledger, nor does it provide the necessary data for preparing our financial statements. Our implementation strategy focuses on meeting the FAA's specific business requirements. In the next year, with the November 2002 implementation date ahead of us, we will be performing detailed assessments to ensure that these requirements can be met by the new system.

Another key step toward achieving our goals has been the establishment of a cost accounting system for the FAA. Our cost accounting system now generates monthly reports for about 70 percent of total FAA costs. For the first time FAA tracks the full cost (including overhead and capital projects) of every air route traffic control center, air traffic control tower, flight service station, and oceanic operation. We can benchmark our air traffic services against others performing comparable services. Our implementation of cost accounting in the agency will be completed during FY 2002.

Our new Cost and Performance Management Program will help integrate organizational performance with the budget and focus us more intently on managing for results. This year, we continued to provide our senior management with a monthly report to monitor performance goals and the corporate projects supporting these goals. Our objective is to create a results-oriented culture where every organization and every employee knows how their work and their resources contribute to delivering improved performance.

Our success in receiving an unqualified audit opinion for FY 2001 was a difficult challenge. Last year we did not receive a "clean" audit, principally due to weaknesses in our property system. Our new financial system will have an integrated financial/property capability. In the interim, we have installed temporary fixes that improve the quality and accuracy of our property data and that automatically, rather than manually, produce depreciation schedules. The interim fixed asset system aggregates into a single, central, automated system all financial data from a multitude of legacy property systems and performs edit checks, such as validating acquisition dates, the class of the asset, and the asset's disposition, to allow us to track our assets better.

It is gratifying for me to review and report on our achievements. FAA's progress in building an effective infrastructure for financial management is impressive, especially in light of the effect September 11 had on the agency and on top of our ongoing operational work. We begin FY 2002 with a growing foundation for financial accountability. We will build on that foundation, such that our managers will have the systems and tools they need to better achieve their business goals.



Christoph P. Bertram
Chief Financial Officer

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: INFORMATION: Report on Financial Statements for Fiscal Years 2001 and 2000, FAA
FI-2002-082

Date: February 27, 2002

From: Kenneth M. Mead
Inspector General

Reply To Attn. of: Meche:x61496

To: The Secretary

I respectfully submit the Office of Inspector General (OIG) report on the Federal Aviation Administration (FAA) Financial Statements for Fiscal Years (FY) 2001 and 2000. For the first time starting with FY 2001, the Office of Management and Budget requires comparative financial statements to be presented covering 2 years. This report is required by the Chief Financial Officers Act of 1990, as amended by the Government Management Reform Act of 1994.

This report presents our unqualified opinion on the FY 2001 FAA Consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position, and Combined Statement of Budgetary Resources and Statement of Financing as of, and for the year ended, September 30, 2001; and our qualified opinion on the FY 2000 FAA Consolidated Balance Sheet and Statement of Net Cost as of, and for the year ended, September 30, 2000.

Since the tragic events of September 11, the aviation community has seen a dramatic reduction in air travel. This has resulted in steep declines in revenues available to fund FAA and its programs. Since September 11, expected revenues to the Airport and Airway Trust Fund have dropped by about $2.4 billion, or about 20 percent below original projections. Congress also authorized supplemental appropriations of about $600 million from the trust fund to increase security. These events and actions will result in a substantial draw down of the trust fund's uncommitted balance. We estimate that the uncommitted balance could drop from $7.3 billion at the beginning of FY 2002 to about $4.3 billion by the end of FY 2002.

To assist us, the Department of the Treasury (Treasury) Office of Inspector General audited the schedule of assets and liabilities, and the related schedule of activity for the Airport and Airway Trust Fund accounts (referred to as the Corpus account) administered by the Treasury Bureau of Public Debt. The Treasury OIG issued an unqualified opinion on these schedules. The General Accounting Office (GAO) performed agreed-upon

procedures on tax revenue receipts at the Internal Revenue Service and distributions to the FAA Corpus account, and identified no material discrepancies.

FAA engaged KPMG LLP to audit the property, plant, and equipment accounts on the FAA Financial Statements. KPMG recommended that the net book value of FAA property be reduced by $138 million. FAA made the adjustments and KPMG issued an unqualified opinion on FAA property, plant, and equipment as of September 30, 2001. KPMG also cited FAA property accounting as a material weakness and made six recommendations. FAA agreed with the recommendations. As part of our work, we also recommended adjustments of about $184 million to the reported net book value of FAA property. FAA made these adjustments prior to the KPMG audit.

In addition to the material weakness for FAA property accounting, we identified three FY 2001 issues involving internal control weaknesses and compliance with laws and regulations. While they are important, they did not affect our audit opinion.

- FAA needs to do more to determine whether funds obligated on inactive transactions are needed. We identified $45 million of obligations that were no longer needed. FAA adjusted its financial records accordingly.

- FAA was not in compliance with the Federal Financial Management Improvement Act of 1996 because the Department of Transportation (DOT) accounting system did not provide the data for preparing the FAA Financial Statements, did not comply with the U.S. Government standard general ledger, and did not comply with the requirements for implementing managerial cost accounting standards. FAA also needs to enhance security over financial information systems. DOT plans to have a compliant accounting system by January 2003 and FAA plans to secure its financial systems by May 2003.

  FAA is making good progress and has implemented a cost accounting system in its largest line of business, Air Traffic Services. FAA still needs to implement the cost accounting system in its other four lines of business. FAA is developing its Cru-X labor distribution system, but this system has a serious flaw that must be corrected so that air traffic controllers cannot override the system's internal clock to record any start or stop time. FAA plans to have its cost accounting system fully operational early in calendar year 2003.

- The performance measures presented in the Management Discussion and Analysis did not provide information about the cost-effectiveness of programs nor relate to the Statement of Net Cost. The FY 2001 performance measures were based on FY 2000 rather than FY 2001 performance data. None of the measures was linked to the cost of achieving targeted results.

We are making three recommendations in this report. Issues that are common to FAA and other DOT agencies will be addressed in our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000.

A draft of this report was provided to the FAA and DOT Chief Financial Officers on February 22, 2002. They agreed with the report.

We appreciate the cooperation and assistance of FAA and DOT representatives. If we can answer questions or be of any other assistance, please call me at (202) 366-1959, or John Meche at (202) 366-1496.

Attachments

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DEPARTMENT OF TRANSPORTATION
INSPECTOR GENERAL'S INDEPENDENT AUDIT REPORT
ON THE FEDERAL AVIATION ADMINISTRATION
FINANCIAL STATEMENTS FOR FISCAL YEARS 2001 AND 2000

To the Federal Aviation Administrator

The Department of Transportation (DOT), Office of Inspector General (OIG), audited the Federal Aviation Administration (FAA) Financial Statements and accompanying notes as of, and for the years ended, September 30, 2001, and September 30, 2000. In our audit of the FAA Financial Statements for Fiscal Years (FY) 2001 and 2000, we found:

- the FY 2001 financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- except for depreciation expense and the net book value of property, plant, and equipment, the FY 2000 financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles;
- a material weakness in internal controls over accounting for property, plant, and equipment; and reportable conditions concerning recorded obligations, personal property acquisitions, and performance measures;
- noncompliance with the Federal Financial Management Improvement Act of 1996 (FFMIA) regarding (1) DOT's accounting system, (2) security over financial information systems, and (3) managerial cost accounting standards;
- financial information in the Management Discussion and Analysis was materially consistent with the FAA Financial Statements, except performance measures were based on FY 2000 rather than FY 2001 performance data; and
- supplementary and stewardship information was consistent with management representations and the FAA Financial Statements.

We performed our work in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin 01-02, *Audit Requirements for Federal Financial Statements*. The following sections discuss these conclusions. Our audit objectives, scope, and methodology are discussed in the Exhibit. We believe that our audit provides a reasonable basis for our opinion.

A. OPINION ON FINANCIAL STATEMENTS

In our opinion, the Consolidated Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position, and Combined Statement of Budgetary Resources and Statement of Financing, including accompanying notes, present fairly, in all material respects, in conformity with U.S. generally accepted accounting principles, the FAA assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations as of September 30, 2001, and for the year then ended.

We expressed a qualified opinion on the FY 2000 Financial Statements because FAA was unsuccessful in implementing an integrated property accounting system, calculated depreciation expense and the net book value of its property, plant, and equipment using electronic spreadsheets outside the existing property system, and these amounts could not be substantiated. Except for depreciation expense and the reported net book value, in our opinion, the Consolidated Balance Sheet and Statement of Net Cost, including accompanying notes, are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles as of September 30, 2000, and for the year then ended. During FY 2001, FAA reduced the net book value of property, plant, and equipment by $322 million, but did not restate the FY 2000 Consolidated Balance Sheet and Statement of Net Cost.

B. CONSIDERATION OF INTERNAL CONTROLS

In planning and performing our audit, we considered FAA's internal controls over financial reporting and compliance with laws and regulations. We do not express an opinion on internal controls and compliance because the purpose of our work was to determine our procedures for auditing the financial statements and to comply with OMB Bulletin 01-02 audit guidance, not to express an opinion on internal controls.

For the controls we tested, we found a material weakness in the accounting for property, plant, and equipment. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce, to a relatively low level, the risk that errors, fraud, or noncompliance that would be material to the financial statements, may occur and not be detected promptly by employees in the normal course of performing their duties. Our internal control work would not necessarily disclose all material weaknesses or reportable conditions.

Our work also identified the need to improve internal controls over financial reporting and compliance in two other areas. These reportable weaknesses in internal controls, although not considered material weaknesses, represent significant deficiencies in the design and operation of internal controls, which could adversely affect the FAA Financial Statements.

Material Weakness

Accounting for Property, Plant, and Equipment

Our report on the FY 2000 FAA Financial Statements expressed a qualified opinion because FAA was unsuccessful in implementing an integrated property accounting system; calculated depreciation expense and the net book value of its property, plant, and equipment using electronic spreadsheets outside the existing property system, and these amounts could not be substantiated.

After issuing our FY 2000 report, we initiated a review of FAA personal property (equipment) balances as of September 30, 2000. We found the net book value was overstated. FAA immediately developed a plan to correct these accounts. As a result, FAA reduced the net book value of its personal property by $184 million.

After these adjustments, FAA engaged KPMG LLP to audit the property, plant, and equipment accounts. KPMG recommended that the net book value of FAA property be reduced by $138 million. FAA made the adjustments, and KPMG issued an unqualified opinion on property, plant, and equipment as of September 30, 2001. KPMG cited a material weakness in accounting for property, plant, and equipment and made six recommendations. FAA agreed with the recommendations.

On January 11, 2002, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported this material weakness to the President and Congress. To address this material weakness, FAA is developing an integrated property accounting system that will be an integral part of DOT's new Delphi accounting system. FAA plans to have this completed by November 2002.

Recommendation 1. We recommend that the FAA Chief Financial Officer implement the KPMG recommendations and establish central oversight and control over all property functions to ensure property acquisitions are capitalized, supporting documentation is maintained, and depreciation expense and net book value of FAA property, plant, and equipment are properly reported at yearend.

Reportable Conditions

Internal control weaknesses existed because of insufficient reviews to identify inactive obligations that were no longer needed, and yearend review procedures for personal property acquisitions did not include FAA regional offices.

Inactive Obligations

In December 1999, in response to our Departmentwide review of inactive obligations, DOT issued its *Policy for Active Validation of Obligations* requiring that DOT agencies annually review obligations and expenditures to determine whether unexpended obligations exceeded needs. In February 2000, FAA expanded the policy by requiring quarterly reviews of obligations to deobligate unneeded funds prior to yearend.

During our testing, we reviewed unexpended obligations totaling $160 million that individually exceeded $100,000 with no expenditures for 18 months. We identified about $45 million of obligations that were no longer needed. FAA agreed and reduced the reported obligations accordingly in the FY 2001 Financial Statements.

Recommendation 2. We recommend that the FAA Chief Financial Officer revise existing procedures to require reviews of inactive obligations exceeding $100,000 before yearend.

Personal Property Acquisitions

To prepare yearend financial statements, FAA reviews its Headquarters expense transactions within the Facilities and Equipment appropriation, and transfers property acquisitions to the property accounts to be capitalized as assets. For FY 2001, FAA transferred $614 million. During our testing of FY 2001 expenses, we found personal property acquisitions in FAA Headquarters and three regions (Western Pacific, Alaskan, and Southern), totaling about $14 million, that were initially recorded as expenses but needed to be capitalized. This was not identified by FAA because the yearend review of expense transactions in FAA Headquarters does not include transactions posted by FAA regional offices.

Recommendation 3. We recommend that the FAA Chief Financial Officer revise the yearend review procedures of personal property transactions to include transactions by FAA regional offices.

C. COMPLIANCE WITH LAWS AND REGULATIONS

Our objective was not to express, and we do not express, an opinion on compliance with laws and regulations. Our work was limited to selected provisions of laws and regulations that would be reportable under U.S. generally accepted government auditing standards or under OMB audit guidance. Our work disclosed instances in which FAA did not comply with FFMIA. We also found noncompliance with laws and regulations for reporting obligations and performance measures.

Federal Financial Management Improvement Act of 1996

Under FFMIA, we are required to report whether or not FAA financial management systems substantially comply with: (1) Federal financial management system requirements, (2) applicable Federal accounting standards, and (3) the U.S. Government standard general ledger at the transaction level. On January 4, 2001, OMB issued *Revised Implementation Guidance for the Federal Financial Management Improvement Act*, including factors for determining compliance and auditor reporting responsibilities. To meet the FFMIA audit requirement, we performed tests of compliance with the three FFMIA section 803(a) requirements and the revised OMB guidance, including financial management systems; the standard general ledger; and accounting standards.

FAA did not meet FFMIA requirements for financial management systems because: (1) DOT's accounting system, DAFIS, cannot produce auditable financial statements; (2) FAA needs to enhance security over financial information systems; (3) DAFIS does not use the U.S. Government standard general ledger; (4) FAA has not fully implemented managerial cost accounting standards; and (5) a material weakness exists in accounting for property, plant, and equipment.

Financial Management System Requirements

FAA uses DAFIS, which cannot produce financial statements based on the information included within the system. For example, FAA made 468 adjustments, totaling about $25 billion, outside DAFIS to prepare the financial statements. These adjustments were recorded in a financial statement module, a tool used to process the adjustments. However, the adjustments were not recorded in DAFIS. DOT plans to have its new Delphi accounting system fully operational and compliant with accounting standards by January 2003. Delphi compliance with FFMIA will be discussed in our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000.

FAA also needs to enhance security over financial information systems. FAA has to complete a security plan for its five major financial management systems and perform required certification and accreditation reviews as required by OMB Circular A-130. FAA also needs to enhance security over network connections with industry associations and contractors. FAA stated that the corrective actions would be completed by May 2003. This is a Departmentwide issue that will be addressed in our report on the DOT Consolidated Financial Statements for FYs 2001 and 2000.

U.S. Government Standard General Ledger

DAFIS does not comply with the U.S. Government standard general ledger (SGL) at the transaction level because it does not use all of the SGL accounts. As a result, 468 adjustments, totaling $25 billion, were made outside DAFIS to prepare the financial statements. Delphi is compliant with the SGL, and DOT plans to have Delphi fully operational by January 2003.

Federal Cost Accounting Standards

FAA has made good progress implementing a cost accounting system, but still faces significant challenges to complete and operate a credible cost accounting system. Statement of Federal Financial Accounting Standards (SFFAS) Number 4, *Managerial Cost Accounting Standards,* require that beginning in FY 1998, each reporting entity should accumulate and report the costs of its activities on a regular basis. Costs may be accumulated either through the use of cost accounting systems or cost finding techniques. FAA began implementing a cost accounting system in 1997 and has implemented the cost accounting system for its first and largest line of business, Air Traffic Services. FAA also needs to complete the cost accounting system for its other four lines of business. FAA plans to have a fully functioning cost accounting system early in calendar year 2003.

FAA also is developing its Cru-X labor distribution system, but this system has a serious flaw that must be corrected so that air traffic controllers cannot override the system's internal clock to record any start or stop time. Because we made recommendations on the Cru-X system in a separate report, no recommendations are being made in this report.

Property, Plant, and Equipment

To be compliant with FFMIA, integrated financial management systems must maintain data accuracy between the core financial systems and feeder systems. As discussed in Section B, FAA has a material weakness concerning property accounting. FAA is taking action to resolve this issue.

On January 11, 2002, as required by the Federal Managers' Financial Integrity Act of 1982, the Secretary of Transportation reported FAA property accounting as a material weakness in DOT's FY 2001 annual report, and also reported that DOT was taking remedial and progressive actions in these areas that will bring DOT into substantial compliance with FFMIA when its actions are successfully implemented.

Inactive Obligations

Title 31, United States Code, Section 1501 and Treasury Financial Management Bulletin 2001-06 state that obligations must be supported and that agencies only report valid obligations. As discussed in Section B, about $45 million of unneeded obligations were recorded in financial records. FAA adjusted its FY 2001 Financial Statements accordingly and is taking action to resolve this issue.

Performance Data

Under OMB Bulletin 01-02, our responsibility is to obtain an understanding of internal controls relating to the existence and completeness of performance data. FAA is responsible for establishing and maintaining adequate internal controls. The FY 2001 DOT Performance Plan contained 71 performance measures, of which 10 were in the FY 2001 FAA Financial Statements. The overall presentation complied with the requirements of OMB Bulletin 01-09, *Form and Content of Agency Financial Statements*, to report performance measures consistent with goals and objectives from agencies' strategic and performance plans.

Linking to Statement of Net Cost and Measuring Cost-Effectiveness

According to OMB Bulletin 01-09:

> Entities should strive to develop and report objective measures that . . . provide information about the efficiency and cost effectiveness of programs. The discussion of performance . . . should be clearly linked to cost categories . . . featured in the Statement of Net Cost. . . . To further enhance the usefulness of the information, agencies should include an explanation of what needs to be done and what is planned . . . to improve financial or program performance.

As we reported last year, FAA still does not have the systems in place to allocate costs by major program. Consequently, the performance measures could not be linked to the Statement of Net Cost. For example, one FAA measure is to reduce U.S. commercial air carrier fatal accidents. FAA did not report the FY 2001 cost data for this measure.

The performance measures presented in the FAA Financial Statements also did not provide information about cost-effectiveness. None of the measures was linked to the cost of achieving targeted results, or to the Statement of Net Cost. For example, one FAA goal is to reduce commercial aviation delays. FAA did not report the FY 2001 cost data for reducing these delays.

DAFIS does not have the capability to accurately identify program costs. DOT is in the process of replacing DAFIS, and plans to have its Delphi accounting system in full operation by January 2003. FAA also is developing a separate cost accounting system, which is expected to be fully operational early in calendar year 2003.

Assessing Internal Controls

We performed various procedures to assess internal controls relating to performance data. While our work disclosed no material internal control weaknesses, we were not required to, and we did not, test the validity or accuracy of performance data as part of the FAA Financial Statement audit. However, FAA is facing a significant challenge to ensure the incoming data are accurate and complete.

FAA is relying on third-party organizations outside the Federal Government for some of its performance data, which are coming from external sources such as commercial airlines and airports. Although FAA has some FY 2001 data, DOT instructed the agencies to present 2000 data, for consistency across DOT.

Although not part of the financial statement audits, the OIG performed audits in FY 2001 addressing selected performance measures and data. OIG will continue to address performance measures as part of program and financial audits. For example, OIG conducted a performance audit and found that FAA should measure whether initiatives are effective in addressing the causes of runway incursions, and periodically assess regional efforts to ensure that progress is being made to reduce runway incursions at specific airports. FAA agreed to measure performance regarding runway incursions.

Reporting of Planned Actions

To enhance the usefulness of performance information, OMB Bulletin 01-09 encourages entities to include an explanation of what is planned to improve financial or program performance. As we reported last year, the Management Discussion and Analysis overview of the FAA Financial Statements includes general comments on how to improve performance; however, specific plans to improve financial performance through performance measures were not included. For example, planned action to increase the number of aircraft arrivals and departures during peak periods at nine major airports was not addressed.

D. CONSISTENCY OF OTHER INFORMATION

Management's Discussion and Analysis, required supplementary information (including stewardship information), and other accompanying information contain a wide range of data, some of which are not directly related to the financial statements.

We are not required to, and we do not, express an opinion on this information. We compared this information for consistency with the FAA Financial Statements and discussed the methods of measurement and presentation with FAA officials. Based on this work, except for FY 2001 performance measures that were based on 2000 performance data (Part C of this report), we found no material inconsistencies with the FAA Financial Statements or nonconformance with OMB guidance.

E. PRIOR AUDIT COVERAGE

Our report on the FY 2000 Financial Statements expressed a qualified opinion because FAA was unsuccessful in implementing an integrated property accounting system, calculated depreciation expense and the net book value of its property, plant, and equipment using electronic spreadsheets outside the existing property system, and these amounts could not be substantiated. We made one recommendation that FAA implement a commercial, off-the-shelf, integrated property accounting system and maintain tight controls over input data. FAA plans to have its integrated property accounting system, to include interfacing with Delphi, completed in November 2002.

This report is intended for information and use by FAA, DOT, OMB, GAO, and Congress. This report is a matter of public record, and its distribution is not limited.

Kenneth M. Mead
Inspector General

Exhibit. Objectives, Scope, and Methodology

Our audit objectives for the FAA Financial Statements for FYs 2001 and 2000 were to determine whether: (1) principal FAA Financial Statements and accompanying notes are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles; (2) FAA has adequate internal controls over financial reporting, including safeguarding assets; (3) FAA has complied with laws and regulations that could have a direct and material effect on the FAA Financial Statements or that have been specified by OMB, including FFMIA; (4) financial information in the Management Discussion and Analysis is materially consistent with the information in the principal FAA Financial Statements; (5) internal controls ensured the existence and completeness of reported data supporting performance measures; and (6) supplementary and stewardship information is consistent with management representations and the FAA Financial Statements.

FAA is responsible for (1) preparing the FAA Financial Statements for FYs 2001 and 2000 in conformity with U.S. generally accepted accounting principles; (2) establishing, maintaining, and assessing internal controls to provide reasonable assurance that broad control objectives of the Federal Managers' Financial Integrity Act are met; (3) ensuring that FAA's financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

OIG is responsible for obtaining reasonable assurance about whether (1) the FAA Financial Statements for FYs 2001 and 2000 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles and (2) management maintained effective internal controls. The objectives of these controls are:

- Financial reporting: Transactions are properly recorded, processed, and summarized to permit the preparation of financial statements and stewardship information in conformity with U.S. generally accepted accounting principles, and assets are safeguarded against loss from unauthorized acquisition, use, or disposition.

- Compliance with laws and regulations: Transactions are executed in accordance with laws governing the use of budget authority and with other laws and regulations that could have a direct and material effect on the financial statements and any other laws, regulations, and Governmentwide policies identified by OMB audit guidance.

OIG also is responsible for (1) obtaining sufficient understanding of internal controls over financial reporting and compliance to plan the audit, (2) testing compliance with selected provisions of laws and regulations that have a direct and material effect on the financial statements and laws for which OMB audit guidance requires testing, and

(3) performing limited procedures with respect to certain other information appearing in the FAA Financial Statements for FYs 2001 and 2000.

To fulfill these responsibilities, we examined the amounts and disclosures in the financial statements; assessed accounting principles and estimates; evaluated internal controls; observed physical inventories; and evaluated the presentation of the financial statements. We reviewed the work performed by KPMG LLP on FAA property to determine whether the work was performed in accordance with U.S. generally accepted government auditing standards. We also examined the validity of financial transactions and interviewed financial management officials.

We did not evaluate all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations in internal controls, misstatements due to error or fraud, losses or noncompliance may nevertheless occur and not be detected. We also caution that projecting our evaluation to future periods is subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate.

We did not test compliance with all laws and regulations applicable to FAA. We limited our tests of compliance to those laws and regulations required by OMB audit guidance that we deemed applicable to the FAA Financial Statements for FY 2001 ended September 30, 2001, and FY 2000 ended September 30, 2000. We caution that noncompliance may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. We also caution that our internal control testing may not be sufficient for other purposes.

We performed our work in accordance with U.S. generally accepted government auditing standards and OMB Bulletin 01-02, *Audit Requirements for Federal Financial Statements*.

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.

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

(Dollars in Thousands)

	As of September 30	
Assets	2001	2000
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 (Note7)	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

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

(Dollars in Thousands)

	For the Years Ending September 30	
Programs (Notes 16 & 17)	2001	2000
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**

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	$ 12,229,657
Net Results of Operations	$ 1,415,088
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	$ 22,173,161
Net Position End of Period	$ 23,656,344

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	(3,971,414)
Total Budgetary Resources	$ 28,239,951
Status Of Budgetary Resources	
Obligations Incurred	$ 17,204,055
Unobligated Balances-Available	10,930,356
Unobligated Balances-Not Available	$ 105,540
Total Status of Budgetary Resources	$ 28,239,951
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	(7,130,268)
Total Outlays	$ 10,732,909

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)		334,313
Total Obligations as Adjusted and Nonbudgetary Resources	$	12,558,165
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		(323,968)
Total Resources That Do Not Fund Net Cost of Operations	$	(3,211,610)
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		87,147
Total Costs That Do Not Require Resources	$	1,216,474
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.

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:

Fund Type	Title/Type of Services
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

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:

Asset Classification - Real Property	Useful Life (years)
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*
Asset Classification - Personal Property	
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.

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.

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

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.

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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.

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:	Intragovernmental	Other
Beginning Balance	$ -	$ (3,209)
Additions	-	(5,122)
Reductions	-	2,971
Ending Balance	$ -	$ (5,360)

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	$ 307,241	$ (3,210)	$ 304,031

Reconciliation of Uncollectible Amounts:	Intragovernmental	Other
Beginning Balance	$ -	$ (6,803)
Additions	-	(2,884)
Reductions	-	6,477
Ending Balance	$ -	$ (3,210)

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.

Note 5. Other Assets

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

	(Dollars in Thousands)	
	2001	2000
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	4,932	319
Total Other Assets Intragovernmental	$ 46,093	$ 45,030
Other Entity Assets		
Advances and Prepayments	67,204	52,642
Total Other Entity Assets	$ 113,297	$ 97,672

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.

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)

	2001	2000
Defaulted Guaranteed Loans Receivable, Gross	$ 569	$ 613
Interest Receivable	-	7
Allowance for Loan Losses	(569)	(337)
Defaulted Guaranteed Loans Receivable, Net	$ -	$ 283

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)

	2001	2000
Imprest Fund	$ 4	$ 4
Undeposited Collections	44,661	69,350
Total Cash and Other Monetary Assets	$ 44,665	$ 69,354

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.

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:	Value	Allowance	Net Value
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	$ 666,978	$ (6,085)	$ 660,893
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	$ 531,500	$ (70,695)	$ 460,805
Total Inventory and Related Property	$ 1,198,478	$ (76,780)	$ 1,121,698

As of September 30, 2000
(Dollars in Thousands)

Operating Material and Supplies:	Value	Allowance	Net Value
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	$ 1,171,919	$ (183,761)	$ 988,158

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

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:

	FY 2001	FY 2000
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)

Class of Fixed Assets	Deprec. Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
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			$ 17,805,351	$ (6,078,817)	$ 11,726,534

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

As of September 30, 2000
(Dollars in Thousands)

Class of Fixed Assets	Deprec. Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
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			$ 16,918,848	$ (5,389,512)	$ 11,529,336

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).

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)

	2001	2000
Environmental Remediation	$ 382,200	$ 441,944
Environmental Cleanup and Decommissioning	1,373,800	1,373,800
Total Environmental Liabilities	$ 1,756,000	$ 1,815,744

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)

Not Covered by Budgetary Resources	2001	2000
Beginning Balance	$ 26	$ 24
Interest Payable	2	
Net Borrowing	-	2
Ending Balance	$ 28	$ 26

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)

Other Intragovernmental Liabilities	Non-Current Liabilities	Current Liabilities	Total
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

As of September 30, 2000
(Dollars in Thousands)

Other Intragovernmental Liabilities	Non-Current Liabilities	Current Liabilities	Total
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	$ -	$ 152,549	$ 152,549
Federal Employees Compensation Act	108,681	83,334	192,015
Liabilities Not Covered by Budgetary Resources	$ 108,681	$ 83,334	$ 192,015
Total Other Intragovernmental Liabilities	$ 108,681	$ 235,883	$ 344,564
Other Liabilities			
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	$ -	$ 253,077	$ 253,076
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	$ 1,079,993	$ -	$ 1,079,993
Total Other Liabilities	$ 1,079,993	$ 253,077	$ 1,333,068

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,

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	202	$ 10,100	Total	253	$ 12,650

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.

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:

	2001	2000
Land, Buildings & Machinery:	$ 110,432	$ 109,319
Less: Accumulated Amortization	(38,769)	$ (27,995)
Net Assets Under Capital Lease	$ 71,663	$ 81,324
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	(58,858)	(66,899)
Total Capital Lease Liability	$ 80,271	$ 87,765
Liabilities Not Covered by Budgetary Resources	$ 80,271	$ 87,765

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:

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)	118,181	699	436	119,316
Total Future Operating Lease Payments	$ 508,452	$ 12,959	$ 2,184	$ 523,595

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)	71,848	3,370	142	75,359
Total Future Operating Lease Payments	$ 261,035	$ 15,957	$ 1,285	$ 278,277

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.

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)	139,890	90	-	139,980
Total Future Operating Lease Payments	$ 167,406	$ 540	$ 136	$ 168,082

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)	146,222	-	34	146,257
Total Future Operating Lease Payments	$ 172,155	$ 358	$ 270	$ 172,783

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 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

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

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

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

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

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

Gross Cost and Earned Revenue by Budget Functional Classification

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

Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

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

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)

	2001	2000
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	$ 9,984,094	$ 10,747,853

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)

	2001	2000
Office of Personnel Management	$ 360,208	$ 330,870
Dept. of Justice Judgment Fund	146,026	83,340
Total Imputed Financing	$ 506,234	$ 414,210

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	21,282
Total Prior Period Adjustments	$ 357,828

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."

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 recissions 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.

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:	$ 4,202,912
Decreases:	
Environmental Liabilities	$ 59,744
Capital Leases	7,494
Accrued and Other Liabilites	4,761
Contingent Liabilities for Return Rights	2,550
Financing Sources That Fund Costs of Prior Periods	$ 74,549
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)	2,303
Total Financing Sources Yet to be Provided	$ 251,540
Financing Sources Not Covered by Budgetary Resources, End of Period	$ 4,379,903

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)	
Revenue Activity:	2001	2000
Sources of Cash Collections:		
Tax Revenues	$ -	$ -
Miscellaneous	23,447	21,942
Total Cash Collections	23,447	21,942
Accrual Adjustments (+/-)	5,912	1,811
Total Custodial Revenue	$ 29,359	$ 23,753
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	$ -	$ -

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.

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.

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
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

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.

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.

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

Agency	Fund Balance with Treasury	Accounts Receivable	Investments	Other
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	$ 1,998,297	$ 127,429	$ 13,866,780	$ 46,093

Intragovernmental Liabilities

Agency	Accounts Payable	Debt/ Borrowings from Other Agencies	Other
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	$ 49,930	$ 28	$ 367,392

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

Agency	Expenses	Revenues
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

	Transfers-In	Transfers-Out
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

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

Agency	Fund Balance with Treasury	Accounts Receivable	Investments	Other
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		6948		
Other Agencies		11,867		37,288
Total	$ 886,325	$ 267,438	$ 13,355,134	$ 45,030

Intragovernmental Liabilities

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

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

Agency	Expenses	Revenues
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

	Transfers-In	Transfers-Out
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

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			$ 73,496	$ 90,261	$ 54,981	$ 19,445	

* 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.

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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		-	72,091	4,302
Adjustments	-	(4,020,418)	63,427	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

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

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	$ 78,304	$ 9,424
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	$ 564,622	$ 11,439
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	$ -	$ (238)
Other Intragovernmental Liabilities	63,184	1,542
Total Intragovernmental Liabilities	$ 63,184	1,304
Accounts Payable	10,340	3,859
Other Liabilities	13,997	1,812
Total Liabilities	87,521	$ 6,975
Net Position Balances:		
Cumulative Results of Operations	$ 477,101	$ 4,464
Total Net Position	477,101	$ 4,464
Total Liabilities and Net Position	$ 564,622	$ 11,439

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

(Dollars in Thousands)

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

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	$	467,162
Net Results of Operations	$	472,637
Prior Period Adjustments		-
Net Change in Cumulative Results of Operations		472,637
Change in Net Position		472,637
Net Position Beginning of Period		4,464
Net Position End of Period	$	477,101

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

(Dollars in Thousands)

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

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	
	2001	**2000**
Costs:		
Programs		
Public	$ 331	$ 219
Less Earned Revenues	(9,329)	(4,009)
Net Program Costs	$ (8,998)	$ (3,790)
Net Cost of Operations	$ (8,998)	$ (3,790)

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		9
Net Results of Operations		9,007
Prior Period Adjustments		(1)
Net Change in Cumulative Results of Operations		9,006
Change in Net Position		9,006
Net Position Beginning of Period		76,042
Net Position End of Period	$	85,048

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

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

	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