

LIMITATIONS OF THE FINANCIAL STATEMENT

- The financial statements have been prepared to report the financial position and results of operations of the Federal Aviation Administration, pursuant to the requirements of 31 U.S.C. 3515(b).
- While the statements have been prepared from the books and records of the FAA in accordance with the formats prescribed by the Office of

Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

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

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEET
As of September 30, 2000**

(Dollars in Thousands)

Assets

Intragovernmental		
Fund Balance with Treasury (Note 2)	\$	886,325
Investments (Note 3)		13,355,134
Accounts Receivable, Net (Note 4)		267,438
Other (Note 5)		<u>45,030</u>
Total Intragovernmental Assets	\$	<u>14,553,927</u>
Accounts Receivable, Net (Note 4)	\$	36,593
Loans Receivables and Related		
Foreclosed Property, Net (Note 6)		283
Cash and Other Monetary Assets (Note 7)		69,354
Inventory and Related Property, Net (Note 8)		988,158
General Property, Plant, and Equipment, Net (Note 9)		11,529,336
Other (Note 5)		<u>52,642</u>
Total Assets	\$	<u><u>27,230,293</u></u>

Liabilities

Intragovernmental Liabilities:		
Accounts Payable	\$	130,245
Environmental Cleanup Costs (Note 10)		453,936
Debt (Note 11)		26
Other Intragovernmental Liabilities (Note 12)		<u>344,564</u>
Total Intragovernmental Liabilities	\$	<u>928,771</u>
Accounts Payable	\$	488,952
Loan Guarantees		0
Federal Employee and Veterans Benefits (Note 14)		944,533
Environmental Cleanup Costs (Note 10)		1,361,808
Other Liabilities (Note 12 & 13)		<u>1,333,068</u>
Total Liabilities	\$	<u><u>5,057,132</u></u>

Net Position Balances:

Unexpended Appropriations (Note 15)	\$	125,217
Cumulative Results of Operations		<u>22,047,944</u>
Total Net Position	\$	<u><u>22,173,161</u></u>
Total Liabilities and Net Position	\$	<u><u>27,230,293</u></u>

FY 2000 FAA ANNUAL REPORT

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2000**

(Dollars in Thousands)

Programs (Note 16 & 17)

Air Traffic Service

Intragovernmental	\$ 1,006,551
With the Public	<u>5,660,107</u>
Total	6,666,658
Less Earned Revenues	<u>(33,777)</u>
Net Air Traffic Service Costs	\$ 6,632,881

Regulations & Certification

Intragovernmental	\$ 109,663
With the Public	<u>623,641</u>
Total	733,304
Less Earned Revenues	<u>(1,650)</u>
Net Regulations & Certification Costs	\$ 731,654

Research & Acquisition

Intragovernmental	\$ 115,019
With the Public	<u>456,916</u>
Total	571,935
Less Earned Revenues	<u>(30,679)</u>
Net Research & Acquisition Costs	\$ 541,256

Airports

Intragovernmental Administration	\$ 8,203
With the Public Grants Program Administration	<u>1,320,097</u> <u>46,993</u>
Total	1,375,293
Less Earned Revenues	<u>-</u>
Net Airports Costs	\$ 1,375,293

Civil Aviation Security

Intragovernmental	\$ 28,356
With the Public	<u>156,467</u>
Total	184,823
Less Earned Revenues	<u>(921)</u>
Net Civil Aviation Security Costs	\$ 183,902

Commercial Space

Intragovernmental	\$ 1,102
With the Public	<u>6,175</u>
Total	7,277
Less Earned Revenues	<u>(20)</u>
Net Commercial Space Costs	\$ 7,257

Other Programs

Intragovernmental	\$ 66,794
With the Public	<u>106,200</u>
Total	172,994
Less Earned Revenues	<u>(43,895)</u>
Net Other Program Costs	\$ 129,099

Costs Not Assigned to Programs

	146,304
Less Earned Revenues Not Assigned to Programs	<u>(11,695)</u>
	<u>9,735,951</u>

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U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
As of September 30, 2000

(Dollars in Thousands)

Net Cost of Operations	\$ (9,735,951)
Financing Sources	
Appropriations Used	244,500
Taxes and Other Non-Exchange Revenues (Note 18)	10,747,853
Donations (Non-Exchange Revenue)	2,624
Imputed Financing (Note 19)	414,210
Transfers-In	1,194
Transfers-Out	(87,607)
Other	-
Total Financing Sources	\$ <u>11,322,774</u>
Net Results of Operations	\$ <u>1,586,823</u>
Prior Period Adjustments (Note 20)	\$ (226,759)
Net Change in Cumulative Results of Operations	\$ 1,360,064
Increase (Decrease) in Unexpended Appropriations	(224,488)
Change in Net Position	1,135,576
Net Position Beginning of Period	<u>21,037,585</u>
Net Position End of Period	\$ <u><u>22,173,161</u></u>

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINING STATEMENT OF BUDGETARY RESOURCES
For the year ended September 30, 2000**

(Dollars in Thousands)

Budgetary Resources (Note 21)

Budget Authority	\$	8,935,269
Unobligated Balances - Beginning of Period		13,155,599
Spending Authority From Offsetting Collections		185,921
Adjustments		(863,173)
Total Budgetary Resources	\$	<u><u>21,413,616</u></u>

Status Of Budgetary Resources

Obligations Incurred	\$	10,477,792
Unobligated Balances-Available		10,826,197
Unobligated Balances-Not Available		109,627
Total Status of Budgetary Resources	\$	<u><u>21,413,616</u></u>

Outlays

Obligations Incurred	\$	10,477,792
Less: Spending Authority From Offsetting Collections and Adjustments		(355,911)
Obligated Balance, Net Beginning of Period		5,217,499
Obligated Balance Transferred, Net		-
Less: Obligated Balance, Net - End of Period		(5,792,299)
Total Outlays	\$	<u><u>9,547,081</u></u>

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF FINANCING
For the year ended September 30, 2000**

(Dollars in Thousands)

Obligations and Nonbudgetary Resources	
Obligations Incurred	\$ 10,477,792
Less: Spending Authority for Offsetting	
Collections and adjustments	(355,911)
Donations not in the Budget	2,624
Financing Sources for Cost Subsidies	414,210
Transfers-in (out)	(86,414)
Exchange Revenue not in the Budget	(4,438)
Nonexchange Revenue Not in the Entity's Budget	12,700
Less: Trust or Special Fund Receipts Related to Exchange Revenue in the Entity's Budget	(146,764)
Other (Year-End Accounts Payable Accruals)	<u>191,291</u>
Total Obligations as Adjusted, and Nonbudgetary Resources	\$ <u><u>10,505,090</u></u>
 Resources That Do Not Fund Net Cost of Operations	
Change in Amount of Goods, Services, and Benefits	
Ordered but not yet Received or Provided	\$ (606,885)
Change in Unfilled Customer Orders	73,320
Costs Capitalized on the Balance Sheet	
General Property, Plant & Equipment	(1,372,425)
Loans	98
Purchase of Inventory	(78,017)
Purchases of Non-Government Investments	-
Adjustment to Cost Capitalized on the Balance Sheet	(212)
Financing Sources that Fund Costs of Prior Periods (Note 22)	(51,026)
Collections That Decrease Credit Program Receivables or Increase Credit Program Liabilities	-
Adjustment for Trust Fund Outlays that do not Affect Net Cost	37
Other - Identified Prior Period Adjustments	<u>(152,370)</u>
Total Resources That Do Not Fund Net Cost of Operations	\$ <u><u>(2,187,480)</u></u>
 Costs That Do Not Require Resources	
Depreciation and Amortization	\$ 751,133
Bad Debt Related to Uncollectible Non Credit Reform Receivables	
Fixed Price Variation	
Gain on Disposition of Assets	(61,060)
Cost of Goods Sold	143,768
Other	<u>(43,204)</u>
Total Costs That Do Not Require Resources	\$ <u><u>790,637</u></u>
 Financing Sources Yet To Be Provided (Note 22)	 \$ <u><u>627,704</u></u>
 Net Cost Of Operations	 \$ <u><u>9,735,951</u></u>

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

These consolidated financial statements have been prepared to report the financial position, the net cost of operations, the changes in net position, the status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Federal Aviation Administration (FAA). 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) Bulletin 97-01, Form and Content of Agency Financial Statement, and (3) the Department of Transportation (DOT) and FAA's accounting policies which are summarized in this note. These statements, with the exception of the statement of Budgetary Resources, are, therefore, different from the financial management reports, also prepared by the FAA pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources.

The FAA applies accounting principles and standards and complies with operating policies and procedures established, issued, and implemented by the General Accounting Office (GAO), the OMB, and the Department of Treasury, as recommended by the Federal Accounting Standards Advisory Board (FASAB), which is recognized by the American Institute of Certified Public Accountants (AICPA) as the entity to establish the Generally Accepted Accounting Principles (GAAP) for the Federal Government. The financial statements have been prepared in accordance with the following hierarchy of accounting principles and standards, which constitutes another comprehensive basis of accounting:

1. Individual Standards agreed to by the Director of OMB, the Comptroller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office;
2. Interpretations related to the Statement of Federal Financial Accountings Standards (SFFAS) issued by

OMB in accordance with the procedures outlined in OMB Circular A-134, "Financial Accounting Principles and Standards";

3. Requirements contained in OMB Bulletin 97-01, Form and Content, and its amendments in effect for fiscal year 1998;
4. The Department of Transportation (DOT) accounting policies and reporting requirements;
5. FAA accounting policies summarized in this note and FAA Order No. 2700.31, Uniform Accounting Systems Operations Manual, and related documentation containing the FAA-specific accounting policy; and
6. Accounting principles published by authoritative standard-setting bodies and other authoritative sources (1) in the absence of other guidance in the first five parts of this hierarchy and (2) if the use of such accounting standards improve the meaningfulness of these financial statements.

B. Reporting Entity

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

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

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

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

The Airport and Airway Trust Fund (Trust Fund) financed approximately 98 percent of the fiscal year (FY) 2000 total budget. The only appropriations receiving General Fund financing are the Facilities, Engineering and Development appropriation and, when enacted, the appropriation to liquidate debts to the Treasury incurred for the Aircraft Purchase Loan Guarantee Program. (No such liquidating appropriation was enacted in FY 2000.) The Operations appropriation was financed completely by the Airport and Airway Trust Fund. FAA records a receivable based on the total amount designated in the Public Law, and revenue is recognized when FAA makes a draw down from the AATF cover expenditures.

C. Budgets and Budgetary Accounting

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

D. Basis of Accounting

Transactions are recorded on an accrual accounting basis and a budgetary basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. Trust

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

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

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating and capital expenditures. Additional amounts are obtained from service fees (e.g., landing and registry fees) and through reimbursements for services performed for domestic and foreign governmental entities.

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

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

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

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

G. Investment in U.S. Government Securities

Unexpended funds in the Trust Fund and Aviation Insurance Revolving Fund are invested in U.S.

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

H. Accounts and Loans Receivable

The FAA's financial statement includes the activities and balances of relevant Treasury General Fund Miscellaneous Receipt accounts. The FAA maintains accountability for defaulted loans under the Aircraft Purchase Loan Guarantee Program. Upon default, the FAA established accounts receivable in the General Fund Miscellaneous Receipts account to reflect the amount due from the borrower for principal and interest. The FAA also established an intragovernmental liability to offset the accounts receivable which represents an asset of the Treasury, not the FAA.

I. Operating Materials and Supplies

Operating materials and supplies consist primarily of unissued materials and supplies that will be consumed in normal operations. In FY 1998, the FAA discontinued the use of standard cost and began valuing materials and supplies using moving weighted average. Other classifications of materials and supplies are valued on the basis of actual prices paid.

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

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

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

Depreciation expense is calculated using the straight-line method. No depreciation expense is recognized on an asset during the fiscal year it is put in service.

A full year's depreciation will be recognized during the asset's final year of use. The FAA does not recognize residual value of its PP&E, except for aircraft, which are depreciated to a 25% salvage value. The FAA adopted this depreciation policy in FY 1998 and, at that time, recognized accumulated depreciation for prior years as well. The useful life classifications for capitalized assets are as follows:

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

The FAA has established the following categories of economic service life for some of its personal property and facilities and equipment assets.

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

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 as accumulated by the regional project materiel system.

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

K. Prepaid and Deferred Charges

Advance payments are generally prohibited by law; there are some exceptions, such as subscriptions. When permitted, payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

L. Liabilities

A liability represents the amount to be paid by the

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

M. Borrowing Payable to the Treasury

Borrowing involves loans from the Treasury to fund expenses in the Aircraft Purchase Loan Guarantee Program. Treasury renews the debt obligation until the FAA receives an appropriation to liquidate the principal and interest. No such appropriation was enacted for FY 1999.

N. Interest Payable to the Treasury

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

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. At each 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. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual leave earned but not taken. Sick leave and other types of nonvested leave are expensed when taken.

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

P. Accrued Workers' Compensation

A liability is recorded for estimated and actual future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The liability consists of the net present value of estimated future payments calculated by the U.S. Department of Labor (DOL) and the unreimbursed cost paid by DOL for compensation paid to recipients under FECA. The actual costs incurred are reflected as a liability because FAA will reimburse DOL 2 years after the actual payment of expenses. Future Appropriations will be used for 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. Contingencies

The FAA recognizes losses for contingent liabilities when such losses are probable and reasonably estimable.

Note 2. Fund Balances with Treasury

(Dollars in Thousands)

	<u>Obligated</u>	<u>Unobligated & Available</u>	<u>Unobligated & Restricted</u>	<u>Total</u>
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	<u>114</u>	<u>(66,986)</u>	<u>-</u>	<u>(66,872)</u>
Total	<u>\$ 2,998,558</u>	<u>\$ (2,071,319)</u>	<u>\$ (40,916)</u>	<u>\$ 886,325</u>

Unobligated and restricted fund balances represent balances of appropriations for which the period of availability for (voluntary) obligation has expired. These balances are only available for upward adjustments of obligations incurred during the period for which the appropriation was available for obligation or for paying claims attributable to the appropriation. Pursuant to 31 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 the amount of \$11.6 million in canceled appropriations at fiscal yearend were removed from the balance sheet. The amount withdrawn biweekly from the Trust Fund is based on cash outlays, not on obligational authority, to minimize interest costs. Negative unobligated balances are covered by invested funds in the Airport and Airway Trust Fund.

Note 3. Investments

(Dollars in Thousands)

	<u>Cost</u>	<u>Amorti- zation Method</u>	<u>Unamortized (Premium) Discount</u>	<u>Investments Net</u>	<u>Other Adjustments</u>	<u>Market Value Disclosure</u>
Intragovernmental Securities:						
Nonmarketable, Par Value						
Trust Fund (1)	\$ 13,096,852		\$ -	\$ 13,096,852	\$ -	\$ -
Nonmarketable, Market-Based						
Aviation Insurance		Interest				
Revolving Fund (2)	<u>75,932</u>	Method	<u>2,581</u>	<u>78,513</u>	<u>-</u>	<u>-</u>
Subtotal	\$ 13,172,784		<u>\$ 2,581</u>	<u>\$ 13,175,365</u>	<u>\$ -</u>	<u>\$ -</u>
Accrued Interest	<u>\$ 182,350</u>					<u>\$ -</u>
Total	<u>\$ 13,355,134</u>					<u>\$ -</u>

FY 2000 FAA ANNUAL REPORT

A total of \$13.1 billion was invested in U.S. Treasury Certificates of Indebtedness as of September 30, 2000, at a rate of 6.5 percent, maturing June 30, 2001.

(1) Nonmarketable par value Treasury securities are special series debt securities, issued by the Bureau of the Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through Treasury's Finance and Funding Branch. The securities are redeemed at face value on demand; thus, investing entities recover the full amount invested, plus interest. The Trust Fund investments are made by the Fund's trustee, the Secretary of the Treasury.

(2) Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to Federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. FAA amortizes premiums and discounts on market-based Treasury securities over the life of the security using the interest method. The following amounts are invested in market-based Treasury securities:

	Maturity Date	Effective Interest Rate	Amount
1	12/08/2000	5.33%	\$ 14,798,000
2	03/01/2001	5.90%	25,823,000
3	05/31/2001	5.79%	17,993,000
4	08/30/2001	5.75%	19,899,000
			<u>\$ 78,513,000</u>

Note 4. Accounts Receivable

(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 Receivables	<u>\$ 307,241</u>	<u>\$ (3,210)</u>	<u>\$ 304,031</u>

Reconciliation of Uncollectible Amounts:

	<u>Intragovernmental</u>	<u>Other</u>
Beginning Balance	\$ -	\$ (6,803)
Additions	-	(2,884)
Reductions	-	6,477
Ending balance	<u>\$ -</u>	<u>\$ (3,210)</u>

A delinquency notice is sent to each debtor when billings remain uncollected for 30 days after the Bill for Collection date. A second delinquency notice is sent another 30 days later if the debtor does not respond. 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 either based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur, or when an account for which no allowance has already been established is submitted to Treasury for collection. Accounts receivable in appropriations canceled on September 30, 2000, pursuant to 31 USC 1552, are no longer FAA assets. Accordingly, accounts receivable balances totaling \$116,732 in canceled appropriations at fiscal year end were removed from the balance sheet.

Note 5. Other Assets

(Dollars in Thousands)

Other Entity Assets Intragovernmental

Advances and Prepayments	\$ 43,576 (1)
Undistributed Foreign Costs	188
Undistributed Costs - Treasury Clearing	947
Other Assets - Undistributed	<u>319 (2)</u>

Total Other Assets Intragovernmental \$ 45,030

Other Entity Assets

Advances and Prepayments	<u>52,642 (3)</u>
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Total Other Entity Assets \$ 97,672

(1) Represents 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.

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

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

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

(Dollars in Thousands)

Defaults on Pre-1992 Guaranteed Loans:

Aircraft Purchase Loan Guarantee Program	Defaulted Guaranteed Loans Receivable, Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Defaulted Guaranteed Loans Receivable, Net
	<u>\$ 613</u>	<u>\$ 7</u>	<u>\$ (337)</u>	<u>\$ -</u>	<u>\$ 283</u>

FAA has no direct loan programs, but FAA administers the Aircraft Purchase Loan Guarantee Program. Authorization for issuing new loan guarantees expired in 1988. The only remaining program function is to maximize recoveries from defaulted loans.

Accounts receivable from debtors on account of defaulted guaranteed loans are reported net of an allowance for estimated uncollectible amounts. The Federal Credit Reform Act was enacted after the authority to issue new guarantees expired and, therefore, does not apply to FAA's loan guarantees.

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

Note 7. Cash, Foreign Currency and Other Monetary Assets

(Dollars In Thousands)

Imprest Fund	<u>\$ 4</u>
Undeposited Collections	<u>69,350</u>
Total Cash, Foreign Currency, and Other Monetary Assets	<u>\$ 69,354</u>

Note 8. Inventory and Related Property

(Dollars in Thousands)

Operating Material and Supplies:

	<u>Value</u>	<u>Allowance</u>	<u>Net Value</u>	<u>Valuation Method</u>
Items Held For Use	\$ 877,734	\$ -	\$ 877,734	Moving Weighted Avg
Excess, Obsolete Unserviceable	32,054	(13,376)	18,678	Moving Weighted Avg
Items Held for Repair	<u>262,131</u>	<u>(170,385)</u>	<u>91,746</u>	Moving Weighted Avg
Total Inventory and Related Property	<u>\$ 1,171,919</u>	<u>\$ (183,761)</u>	<u>\$ 988,158</u>	

Inventory and related property consist of general operating material and supplies, aircraft parts, and spare parts located at field facilities. FAA uses the moving weighted average cost method to value operating materials and supplies. FAA currently expenses operating materials and supplies as issued or consumed.

Items are considered for repair based on condition levels and if the maximum repair cost does not exceed 65 percent of the original cost. The allowance method is used to account for operating materials and supplies held

for repair, reducing the net carrying value of such items to 35 percent of their original cost. Current period expenses are recognized for the amount of the annual increase or decrease to the allowance account. In FY2000, FAA recognized \$ 18.2 million increase in the allowance for items held for repair.

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

Note 9. Property, Plant and Equipment, Net

(Dollars in Thousands)

Class of Fixed Assets	Deprec Method	Services Life	Acquis. Value	Accum. Deprec.	Net
					Book Value FY 2000
Land	None	None	\$ 84,422	\$ -	\$ 84,422
Buildings & Structures	SL	15-40	3,198,406	(1,403,311)	1,795,095
Leasehold Improvements	SL	-	27,619	-	27,619
Aircraft	SL	20	395,361	(173,474)	221,887
Aircraft Engines	SL	7	2,761	-	2,761
ADP Software	None	-	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) (*)	0
			<u>\$ 16,918,848</u>	<u>\$ (5,389,512)</u>	<u>\$ 11,529,336</u>

In FY 2000, FAA implemented a replacement Real Property System for its Land, Buildings, and Structures. The Real Estate Management System (REMS) serves as the subsidiary record and was used to support the acquisition value for FAA Financial Statement reporting.

FAA reviewed its Facilities and Equipment Major System Acquisition costs expended during FY2000 and identified more than \$553 million of additional capital costs. A capitalization percentage was applied to the FY2000 expenditures based on results from the FY 1999 “top-down” detailed analysis of two decades of NAS system acquisition. These capital costs were properly included as part of the Construction-in-Progress account balances.

FAA initiated an allocation process for its headquarters Construction-in-Progress capital accounts. This allocation process moves centrally funded capital expenditures to individual Region job orders in the Work-in-Process. The total amount that was distributed to the regions in FY2000 was approximately \$1.2 billion.

FAA continued to track its Work-in-Process account with performance measures so that project closeout to in-use assets was completed in a timely manner. Closeout is required within 6 months after new assets/capital improvements are placed in service. During FY 2000, more than \$1 billion of Work-in-Process was closed to the in-use asset accounts. In addition, the regions continue to maintain Work-in-Process centralized folders that support all accumulated project costs.

In total, 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 in the Utilization Screening and Disposal System (USD) in FY2000.

Note 10. Environmental and Disposal Liabilities

(Dollars in Thousands)

	<u>Intragovernmental</u>	<u>Other</u>	<u>Total</u>
Environmental Remediation	\$ 110,486	\$ 331,458	\$ 441,944
Environmental Cleanup and Decommissioning	343,450	1,030,350	1,373,800
Total Environmental Liabilities	<u>\$ 453,936</u>	<u>\$ 1,361,808</u>	<u>\$ 1,815,744</u>

In FY 2000 the FAA reported total environmental remediation costs of \$ 441 million, which represents a \$336 million increase from FY 1999. The increase in the environmental remediation liability is due to an increase in the number of contaminated sites identified. In FY 1999 the FAA identified 239 sites for cleanup; in FY 2000 the number of cleanup sites increased to 436.

FAA's liability for environmental cleanup and decommissioning costs as of September 30, 2000 was \$1.4 billion. This represents a \$200 million increase of the \$1.2 billion reported in FY 1999 for the ground based navigation aids. The estimate changed because the program office used a different system, i.e., Capability and Architecture Tool Suite, instead of Satellite Navigation for producing the estimates.

In FY 2000, FAA conducted a review of the assets commissioned in FY 1999 and 2000 to determine if environmental contamination and removal of hazardous materials would be necessary upon decommissioning of these assets. In response to more stringent environmental regulations, the FAA created a new division to serve as the agency's advocate for environmental compliance. The division is responsible for reviewing and eliminating the environmental impact of all assets commissioned by the FAA. As a result of the FAA's proactive measures regarding environmental contamination the review panel concluded that the environmental cleanup and disposal costs attendant to assets commissioned in FY 1999 and 2000 to be minimal.

Note 11. Debt

(Dollars in Thousands)

Not Covered by Budgetary Resources	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
Other Debt:			
Aircraft Purchase Loan			
Guarantee Program			
Debt to the Treasury	\$ 24	\$ 2	\$ 26
Total Debt	<u>\$ 24</u>	<u>\$ 2</u>	<u>\$ 26</u>

Note 12. Other Liabilities

(Dollars in Thousands)

Other Intragovernmental Liabilities

	Non-Current Liability	Current Liability	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
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 152,550</u>	<u>\$ 152,549</u>
Federal Employees Compensation Act	<u>\$ 108,681</u>	<u>\$ 83,334</u>	<u>\$ 192,015</u>
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 108,681</u>	<u>\$ 83,334</u>	<u>\$ 192,015</u>
<i>Total Other Intragovernmental Liabilities</i>	<u>\$ 108,681</u>	<u>\$ 235,884</u>	<u>\$ 344,564</u>

Other Liabilities

Advances from Others, Unclassified	\$ -	\$ 2,758	\$ 2,758
Accrued Payroll & Benefits to the Employees	-	239,790	239,790
Liability for Unapplied Collections	-	(86,437)	(86,437)
Other Accrued Liabilities	-	96,965	96,965
<i>Liabilities Covered by Budgetary Resources</i>	<u>\$ -</u>	<u>\$ 253,077</u>	<u>\$ 253,076</u>
Accrued Unfunded Annual 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
<i>Liabilities Not Covered by Budgetary Resources</i>	<u>\$ 1,079,993</u>	<u>\$ -</u>	<u>\$ 1,079,993</u>
<i>Total Other Liabilities</i>	<u>\$ 1,079,993</u>	<u>\$ 253,077</u>	<u>\$ 1,333,068</u>

(1) Accrued payroll and employee benefits represent the unpaid pay period September 10 through September 30, 2000.

(2) An unfunded liability is recorded for unreimbursed actual cost to be made for workers compensation pursuant to the Federal Employees' Compensation Act (FECA) to the Department of Labor (DOL), which administers the Federal Employees' Compensation Fund. Funding for the amount charged to FAA is normally

appropriated for the fiscal year ending 2 years after the FAA accounting period in which the expense was incurred. Therefore, FAA's FY 2000 accrued liability includes workers' compensation benefits paid by DOL for the periods July 1, 1998 through June 30, 1999; July 1, 1999 through June 30, 2000; and July 1, 2000 through September 30, 2000.

(3) The estimated liability for accrued wages includes annual, home, and military, and compensatory hours (credit hours and restored) plus the agency's cost of employee benefits associated with such compensated absences for the period ending September 30, 2000.

(4) In FY 1998, under the National Air Traffic Controller Association (NATCA) agreement, Article 25, Section 13, Air Traffic Controllers covered under the Federal Employees Retirement Systems (FERS) became eligible, upon retirement, for a Sick Leave Buy Back Option. Under this option, an employee who attains the required number of years of service for retirement shall receive a lump sum payment for forty (40) percent of the value of his or her accumulated sick leave as of the effective date of their retirement. The total estimated sick leave buy back contingency for FAA for those Air Traffic Controllers eligible for retirement, based on current sick leave balances, for FY 2000 is \$43.7 million.

(5) In FY 2000, FAA recognized \$537.8 million for legal claims that have been asserted and are pending. Of this amount, \$85 million was estimated to be paid from agency appropriations and \$453 million to be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Justice. The \$537.8 million is \$67 million higher than the \$470.8 million that was recognized in FY 1999. The \$67 million difference was recognized as a FY 2000 expense. FAA's maximum exposure for loss for contingent liabilities associated with legal claims is \$ 14.9 billion.

(6) Contingent Liabilities for the Return Rights Program decreased by \$13.25 million from \$25.9 million in FY 1999 to \$12.65 million in FY 2000. Because of evidence that the FY 1999 liability may have been overstated, the \$13.25 million decrease was treated as a prior period adjustment. The program covers temporary assignments for 2 to 4 years. At the end of FY 2000, approximately 253 employees who previously had accepted transfers to overseas or certain domestic locations were contractually entitled to a future return move at Government expense. The typical cost per move is \$50,000. The liability may be overstated because not every employee remaining in the program will exercise his or her right. If every employee in the program did exercise his or her right, the liability would be as follows:

FY 2001	\$5,100,000
FY 2002	\$6,600,000
FY 2003	\$950,000
	<u>\$12,650,000</u>

Note 13. Leases

FAA as Lessee

Capital Leases

(Dollars in Thousands)

Summary of Assets Under Capital Leases:

Land, Buildings & Machinery:	\$ 109,319
Less: Accumulated Amortization	<u>(27,995)</u>
Net Assets Under Capital Lease	<u>\$ 81,324</u>

Future Payments Due

Fiscal Year

Year 1 (FY 2001)	\$ 15,885
Year 2 (FY 2002)	15,707
Year 3 (FY 2003)	15,016
Year 4 (FY 2004)	14,957
Year 5 (FY 2005)	14,197
After 5 Years (FY 2005 to Contract End)	78,902
Less: Imputed Interest	<u>(66,899)</u>
Total Capital Lease Liability	<u>\$ 87,765</u>

Liabilities Not Covered by Budgetary Resources \$ -

Liabilities Not Covered by Budgetary Resources \$ 87,765

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

- (1) Capital lease assets are recorded at the net present value of the total minimum lease payments over the lease duration, valued at the lease inception.
- (2) In FY 1996, FAA implemented the depreciation/amortization provision of SFFAS No. 6, which is applicable to assets acquired under capital lease. The total assets, valued at \$109 million under capital lease for FY 2000, is \$45 million less than the \$154 million reported in FY 1999. FAA's FY2000 Capital Lease liability of \$87.8 million was only \$1.3 million less than the amount reported in FY1999.
- (3) Amounts due within the current fiscal year corresponding to the principal portion of the lease payments are recorded as current year obligations. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually. Interest amounts imputed to subsequent years (aggregating \$67 million) are not recorded as unfunded liabilities in the Departmental Accounting and Financial Information System (DAFIS).

Operating Leases:

(Thousands of Dollars)

Fiscal Year	Future Payments Due			
	<u>Land & Buildings</u>	<u>Mach & Equipment</u>	<u>Other</u>	<u>Total</u>
Year 1 (FY 2001)	\$ 45,685	\$ 2,809	\$ 264	\$ 48,757
Year 2 (FY 2002)	41,143	2,721	245	44,109
Year 3 (FY 2003)	37,818	2,732	227	40,777
Year 4 (FY 2004)	33,655	2,444	208	36,307
Year 5 (FY 2005)	30,887	1,881	199	32,967
After 5 Years (FY 2006 to Contract End)	<u>71,848</u>	<u>3,370</u>	<u>142</u>	<u>75,360</u>
Total Future Operating Lease Payments	<u>\$ 261,035</u>	<u>\$ 15,957</u>	<u>\$ 1,285</u>	<u>\$ 278,277</u>

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

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

FAA as Lessor:

Operating Leases

(Thousands of Dollars)

Fiscal Year	Future Payments Due			
	<u>Land & Buildings</u>	<u>Mach & Equipment</u>	<u>Other</u>	<u>Total</u>
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	0	35	6,236
After 5 Years (FY 2006 to Contract End)	<u>146,222</u>	<u>0</u>	<u>34</u>	<u>146,257</u>
Total Future Operating Lease Payments	<u>\$ 172,155</u>	<u>\$ 358</u>	<u>\$ 270</u>	<u>\$ 172,783</u>

FAA leases Ronald Reagan Washington National Airport and Washington Dulles International Airport to the Metropolitan Washington Airports Authority, the airports' sponsor. The lease took effect in March 1987 at \$3 million per year for a 50-year term. Subsequent annual rental payments are adjusted by applying the Implicit Price Deflator for the Gross National Product published by the Department of Commerce. Additionally, the parties may renegotiate the level of lease payments attributable to inflation costs every 10 years. Upon lease expiration, the airports and facilities, originally valued at \$244 million, together with any improvements thereto, will revert to the Federal Government. In addition, FAA leases equipment to foreign governments and leases parcels of Government-owned land, generally for agriculture.

Note 14. Federal Employee and Veterans Benefits Payable

(Dollars in Thousands)

Other Post-Employment Benefits	
Federal Employees Compensation Act:	
Actuarial Liabilities	<u>\$ 944,533</u>
Total	<u><u>\$ 944,533</u></u>

Note 15. Unexpended Appropriations

(Dollars in Thousands)

	<u>Operations General Fund</u>	<u>Other Funds</u>	<u>Total</u>
(1) Unobligated			
(a) Available	\$ 3,359	\$ 54	\$ 3,413
(b) Unavailable	62,707	1	62,708
(2) Undelivered Orders	<u>95,081</u>	<u>173</u>	<u>95,254</u>
Sub-total	\$ 161,147	\$ 228	\$ 161,375
Other Differences	<u>(37,104)</u>	<u>946</u>	<u>(36,158)</u>
Total Unexpended Appropriations	<u><u>\$ 124,043</u></u>	<u><u>\$ 1,174</u></u>	<u><u>\$ 125,217</u></u>

Differences include a cash balance recorded by Treasury in an erroneous Treasury symbol (6901301) for \$3.2 million, a rescission for \$11.8 million in Treasury Symbol 6971301, and possible discrepancies in recording cumulative amounts totaling \$21.5 million, which were transferred from the reimbursable to the direct apportionment. The remaining differences include FSM adjustments.

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

A. Gross Cost and Earned Revenue by Budget Functional Classification Code

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

B. Intragovernmental Gross Cost and Earned Revenue by Budget Functional Classification

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

Note 17. Net Cost by Programs

FAA's six lines of business represent the programs reported on the Statement of Net Cost. Assigned cost centers to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated by applying ratios representing the cost for each line of business cost compared to total expenses, excluding grants. Subsequent to closing FY 2000, FAA completed an analysis of its 1999 Research and Acquisition (ARA) costs. Specifically, \$773 million of contract expenditures included in the \$1.3 billion of costs presented on the FY1999 Consolidated Statement of Net Cost were reviewed. After analyzing the nature of the project charges, (capital vs. expense) FAA concluded that \$397 million of capital charges were included in the \$773 million.

Note 18. Taxes and Other Nonexchange Revenue

	(Dollars in Thousands)
Passenger Ticket Tax	\$ 7,158,909
Waybill Tax	522,969
International Departure Tax	1,384,659
Fuel Taxes	909,144
Tax Refunds and Credits	(45,761)
Investment Income	817,933
Other Nonexchange Revenue	-
 Total Taxes and Other Nonexchange Revenue	 <u>\$ 10,747,853</u>

Taxes are collected by the Department of the Treasury (Treasury) Internal Revenue Service for FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by various FAA appropriations. The amounts reflected above are taxes reported to FAA by Treasury. Treasury estimates taxes to be collected each quarter and adjusts the estimates by actual collections.

Note 19. Imputed Financing:

(Dollars in Thousands)

Office of Personnel Management	\$	330,870	(1)
Dept. of Justice Judgment Fund		<u>83,340</u>	(2)
Total Imputed Financing	\$	<u><u>414,210</u></u>	

(1) In FY 2000, FAA recognized as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, OPM.

(2) In FY 2000, amounts paid by the Judgment Fund in settlement of claims or court assessments against the FAA were recognized as imputed financing.

Note 20. Prior Period Adjustments

(Dollars in Thousands)

Airport Improvement Program - Correct Grant Current Year Expenses	\$	139,138
Correction of ARA Labor Production Applied Overhead		(64,893)
Correction of Explosive Detection System to Property System		(60,967)
Corrections to Unexpended Appropriations		57,817
Reconciliation of General Ledger to Property Systems		64,812
Reconciliation of Property Not in Use General Ledger Acct		43,630
Other Adjustments Relating to Property		24,235
Other		<u>22,987</u>
Total Prior Period Adjustment	\$	<u><u>226,759</u></u>

Note 21. Statement of Budgetary Resources Disclosures

The statement accurately represents the agency's status of budgetary resources for FY 2000 and was largely prepared from the budgetary accounts in the DAFIS trial balance. Because DAFIS is not standard general ledger compliant, some line items required on the statement were derived from the equivalent DAFIS proprietary accounts rather than the specified budgetary accounts or from the SF-132, Apportionment and Reapportionment Schedule, and the SF-133, Report on Budget Execution. In the Budgetary Resources section, Budget Authority and Unobligated Balances - Beginning of Period are derived from budgetary financial documents. In the Status of Budgetary Resource section, Unobligated Balances Available and Not Available are also derived from budgetary financial documents. Spending authority from offsetting collections are derived from budgetary accounts and the SF-132. In the Outlays section, Obligations Incurred and Obligated Balances are derived from budgetary and proprietary accounts. The budgetary resource documents used to support the line items, e.g., the SF-132 are certified by FAA and approved by OMB. The outlays and other budgetary balances are reconciled with Treasury and OMB monthly, quarterly, and annually.

The net amount of budgetary resources obligated for undelivered orders at the end of FY 2000 was \$5 billion.

The Aircraft Purchase Guarantee Program is funded under the authority to borrow from the U.S. Treasury granted by Congress in the DOT and Related Agencies Appropriation Act, 1983. Borrowing authority is implemented through a blanket promissory, which provides FAA with a line of credit for the full amount of borrowing authority granted by Congress. Because authorization for issuing new loan guarantees expired in 1988, FAA has not issued any new guaranteed loans.

Under Congressional legislation in FY 2000, FAA was authorized \$ 1.95 billion in contract authority and liquidating authority for \$ 1.75 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 2000 was \$65 thousand.

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

FAA does not have any material differences between the information reported on the statement and the amounts described as FY 2000 "actual" in the Budget of the United States Government for FY 2002. As of the date of the financial statement, the budget has not been passed into law and is still draft. However, no change to the FY 2000 actual amount is anticipated.

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 adjustments to their budgetary resources in FY 2000. The Facilities & Equipment Fund was reduced by \$40.5 million and Grants-in-Aid for Airports was reduced by \$54 million.

The Statement of Budgetary Resources- is a combining statement and, as such, intra-entity transactions have not been eliminated.

Note 22. Financing Sources Yet to be Provided

(Dollars in Thousands)

Decreases:

Other Accrued Liabilities	\$ 21,332
Federal Employee Compensation Act (FECA Actuarial)	21,136
Contingent Liabilities Sick Leave/Return Rights	7,219
Capital Leases	<u>1,339</u>
Financing Sources That Fund Costs of Prior Periods	<u>\$ 51,026</u>

Increases

Accrued Other Liabilities	\$ 56,763
Environmental Liability	499,776
Federal Employee Compensation Act (FECA Actual)	4,152
Contingent Liabilities for Legal Claims	<u>67,013</u>
Total Financing Sources Yet to be provided.	<u>\$ 627,704</u>

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

Note 23. Custodial Activity

(Dollars in Thousands)

Revenue Activity:	
Sources of Cash Collections:	
Tax Revenues	\$ -
Miscellaneous	<u>21,942</u>
Total Cash Collections	<u>21,942</u>
Accrual Adjustments (+/-)	1,811
Total Custodial Revenue	<u>\$ 23,753</u>
Disposition of Collections:	
Transferred to Treasury General Fund	\$ 21,942
Increase (Decrease in Amounts Yet to be Transferred)	1,811
Refunds and Other Payments	-
Retained by the Reporting Entity	<u>0</u>
Net Custodial Revenue Activity	<u>\$ -</u>

Note 24. Other Disclosures

Contract Negotiations. FAA had a total of \$88.9 million 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 FY 2000.

Contract Options. As of September 30, 2000, FAA had \$13.1 billion 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.

Letter of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letter of intent (LOI) to enter into AIP grant obligations; but LOIs do not create obligations. FAA has issued LOIs covering FY 1988 through FY 2010 in the aggregate amount of \$3.2 billion. FAA had obligated \$2 billion of this total amount from FY 1988 through FY 2000, leaving \$1.2 billion unobligated as of September 30, 2000. FAA anticipates obligating \$191 million of this total amount in FY 2001.

AIP Grants. The FY 2000 AIP grant authority totaled \$1.85 billion, including over \$965 million in entitlements to specific locations. Of this amount the sponsors have claimed \$868 million in entitlements. This amount will be available from unused or newly enacted contract authority to those sponsors through FY2001 or 2002 in the case of non hub primary airport locations.

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 where the operation to be insured is necessary to carry out the U. S. Government's foreign policy. No claims for losses were pending as of September 30, 2000.

FAA may issue (1) premium insurance, for which a risk-based premium is charged to the air carrier, and (2) non-premium insurance. 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. No coverage was extended during 2000.

FAA normally insures only a small number of air carrier operations at any time and establishes a maximum liability for losing one aircraft. In many cases, that maximum liability for both hull loss and liability is \$1.75 billion; but it is usually less, and because FAA can use its regulatory authority to stop flights to

high-risk areas, and/or terminate insurance coverage, the range of possible liability to FAA in any year is assumed to be between zero and \$3.5 billion. Since the inception of the 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.

Other Legal Claims. FAA normally processes their legal claims through traditional judicial and administrative forums; however there are certain claims, e.g., EEO cases and contract disputes, that are under the alternative dispute resolution program, which are resolved using consensual dispute resolution techniques such as mediation and neutral evaluation. In FY 2000, FAA had identified \$5.4 million for these cases.

FY 2000 FAA ANNUAL REPORT

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

<u>State/Territory</u>	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY2000</u>
Alabama	\$ 15,556	\$ 18,134	\$ 19,653
Alaska	77,949	70,802	51,788
Arizona	47,243	53,135	58,381
Arkansas	19,291	21,694	17,534
California	101,897	106,161	87,617
Colorado	44,768	43,452	29,860
Connecticut	1,348	4,971	1,788
Delaware	284	197	2,515
District of Columbia	206	54	83
Florida	60,752	71,746	64,694
Georgia	41,604	43,556	43,911
Hawaii	7,142	12,131	6,567
Idaho	12,532	15,578	13,106
Illinois	74,514	63,596	66,003
Indiana	21,213	27,467	24,141
Iowa	16,983	30,450	16,169
Kansas	11,250	7,451	7,378
Kentucky	43,116	32,741	26,205
Louisiana	20,338	24,442	29,200
Maine	5,505	4,943	3,828
Maryland	9,765	18,136	14,900
Massachusetts	22,615	15,259	14,560
Michigan	47,890	50,995	27,363
Minnesota	23,430	27,902	30,561
Mississippi	9,788	14,393	9,281
Missouri	35,996	30,089	35,137
Montana	13,367	16,727	13,157
Nebraska	13,015	14,240	8,534
Nevada	30,420	22,981	32,106
New Hampshire	11,743	8,789	8,582
New Jersey	9,918	25,906	10,012
New Mexico	5,327	10,149	7,671
New York	67,664	86,754	57,671
North Carolina	31,226	50,572	26,084
North Dakota	10,980	8,263	11,490
Ohio	33,843	46,374	45,691
Oklahoma	5,240	14,949	8,678
Oregon	17,682	16,138	9,847
Pennsylvania	63,025	57,544	34,011

FY 2000 FAA ANNUAL REPORT

**U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Non Federal Physical Property
Airport Improvement Program
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

State/Territory	FY 1998	FY 1999	FY2000
Rhode Island	2,692	10,813	11,705
South Carolina	15,419	22,926	11,792
South Dakota	10,112	8,893	12,301
Tennessee	34,885	36,477	39,237
Texas	98,154	103,308	111,585
Utah	12,910	8,808	14,328
Vermont	5,219	4,141	1,157
Virginia	21,733	31,069	41,109
Washington	18,405	44,454	35,498
West Virginia	19,564	12,592	7,400
Wisconsin	30,406	25,512	26,278
Wyoming	9,337	7,871	14,972
American Samoa	1,329	676	241
Guam	1,260	10,341	3,399
Northern Mariana Island	3,272	4,027	1,610
Puerto Rico	10,482	7,163	9,179
Trust Territory of Pacific	479	27	138
Virgin Islands	2,384	9,231	2,411
Administration	52,075	75,680	55,196
Grand Total.....	\$ 1,436,541	\$ 1,612,867	\$ 1,375,293

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 Year Ended September 30, 2000

(Dollars in Thousands)

Expenditures		<u>1998</u>		<u>1999</u>		<u>2000</u>
Applied Research	\$	103,274	\$	118,834	\$	99,777
Development		48,237		18,358		7,175
R&D Plant		11,254		14,290		12,800
Administration		54,179		36,466		46,219
		<u> </u>		<u> </u>		<u> </u>
Total	\$	<u>216,944</u>	\$	<u>187,948</u>	\$	<u>165,971</u>

Stewardship Investment

Research and Development.

Research. 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 includes 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 numbers in FY 99 as reported above are based on the actual numbers, they differ from the numbers reported in FY 1999, which were based on estimates.

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

(Dollars in Thousands)

Intra-Governmental Assets

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

Intra-Governmental Liabilities

<u>Agency</u>	<u>Accounts Payables</u>	<u>Debt Borrowings from Other Agencies</u>	<u>Environmental</u>	<u>Other</u>
Other Agencies	\$ 130,245	\$	\$ 453,936	\$ 115,904
Department of the Treasury		26		
Department of Labor				192,015
Office of Personnel Management				36,645
Total	<u>\$ 130,245</u>	<u>\$ 26</u>	<u>\$ 453,936</u>	<u>\$ 344,564</u>

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

(Dollars in Thousands)

Intragovernmental Expenses and Revenues

Agency	<u>Expenses</u>	<u>Revenues</u>
Department of the Treasury	\$ 7,449	\$ 7,449
Department of Agriculture	112	112
Department of Commerce	516	516
Department of the Interior	139	139
Department of Justice	84,110	771
Department of Labor	20	20
Department of Labor - FECA **	84,364	
Department of 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. Agcy.	601	601
Health & Human Services	112	112
National Aeronautics & Space Adm	3,470	3,470
Department of Defense	437	437
Department of Transportation	16,350	16,350
Other Agencies	172,430	
		<u>28,149</u>
Total Expenses	<u>\$ 1,334,622</u>	<u>\$ 84,811</u>

** *Unfunded Expenses not associated with revenue*

Intragovernmental Non-Exchange Revenue

	<u>Transfers-In</u>	<u>Transfers-Out</u>
Department of Commerce	\$ 39	\$ 15
Department of the Treasury	136	20
Department of Health and Human Services	343	
Office of the Secretary of Defense - Defense Agencies	51	5,221
Department of Interior		31
Department of Navy		41
Department of 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
	<u>\$ 1,194</u>	<u>\$ 25,648</u>

FY 2000 FAA ANNUAL REPORT

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

(Dollars in Thousands)

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition			
			FY 1998	FY 1999	FY 2000	
Land			-	-	-	(1)
Buildings	Condition Assessment Survey	4&5	\$ 18,214	\$ 17,539	\$ 30,971	
Other Structures and Facilities	Condition Assessment Survey	4&5	1,231	37,442	59,290	
Aircraft and Aircraft Engines		-	-	-		(2)
National Airspace System (NAS) Equipment		-	-	-		(3)
General Purpose Equipment		-	-	-		(4)
Assets Under Capital Lease		-	-	-		
Total			<u>\$ 19,445</u>	<u>\$ 54,981</u>	<u>\$ 90,261</u>	

* Condition Rating Scale:

- 1: Excellent 2: Good
- 3: Fair 4: Poor
- 5: Very Poor

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

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

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

- (1) No material maintenance was deferred on land.
- (2) 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.
- (3) The FAA did not defer maintenance on NAS equipment. The maintenance of the Airway Facilities (AF) systems, subsystems, and equipment in the NAS is guided by the general principle of ensuring availability and reliability of air traffic control, navigation, and communication services. In order to minimize the quantity and duration of service interruption and outages, both planned and unplanned, AF does not generally defer the maintenance of the electronic equipment. Various reasons may cause a maintenance cycle to be skipped, but the maintenance is performed during the next cycle. FAA Order 6000.30 states the minimum standards for reliability and availability of NAS equipment. AF's following initiatives ensure the highest possible levels of performance of NAS equipment:

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

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

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
AS OF SEPTEMBER 30, 2000
(Dollars in Thousands)**

	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development
BUDGETARY RESOURCES				
Budget Authority	\$ (2,070,700)	\$ 2,799,474	\$ 2,075,000	\$ 156,495
Unobligated Balances - Beginning of Period	12,516,610	-	454,575	14,542
Spending Authority From Offsetting Collections Adjustments	-	(840,553)	64,283 (9,716)	3,252 9,283
Total Budgetary Resources	\$ 10,445,910	\$ 1,958,921	\$ 2,584,142	\$ 183,572
STATUS OF BUDGETARY RESOURCES				
Obligations Incurred	\$ 37	\$ 1,958,856	2,301,292	\$ 167,706
Unobligated Balances-Available	10,445,873	65	239,801	13,412
Unobligated Balances-Not Available	-	-	43,049	2,454
Total Status of Budgetary Resources	\$ 10,445,910	\$ 1,958,921	\$ 2,584,142	\$ 183,572
OUTLAYS				
Obligations Incurred	\$ 37	\$ 1,958,856	\$ 2,301,292	\$ 167,706
Less: Spending Authority From Offsetting Collections and Adjustments	-	(63,282)	(136,132)	(12,536)
Obligated Balance, Net Beginning of Period	-	2,882,220	1,531,327	154,355
Obligated Balance Transferred, Net	-	-	-	-
Less: Obligated Balance, Net - End of Period	-	(3,199,772)	(1,619,747)	(143,554)
Total Outlays	\$ 37	\$ 1,578,022	\$ 2,076,740	\$ 165,971

FY 2000 FAA ANNUAL REPORT

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 SUPPLEMENTARY STATEMENT OF BUDGETARY RESOURCES
 AS OF SEPTEMBER 30, 2000
 (Dollars in Thousands)

Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combining Total
\$ -	\$ -	\$ 5,975,000	\$ -	\$ 8,935,269
75,429	985	93,403	54	13,155,599
4,008	31,426	82,952	-	185,921
22	71	(22,281)	2	(863,173)
<u>\$ 79,459</u>	<u>\$ 32,482</u>	<u>\$ 6,129,074</u>	<u>\$ 56</u>	<u>\$ 21,413,616</u>
\$ 249	\$ 29,684	\$ 6,019,967	\$ -	\$ 10,477,792
78,190	2,727	46,076	54	10,826,198
1,020	71	63,031	2	109,627
<u>\$ 79,459</u>	<u>\$ 32,482</u>	<u>\$ 6,129,074</u>	<u>\$ 56</u>	<u>\$ 21,413,616</u>
\$ 249	\$ 29,684	\$ 6,019,967	\$ -	\$ 10,477,792
(4,030)	(31,496)	(108,433)	(2)	(355,911)
141	5,214	644,124	118	5,217,499
-	-	-	-	-
<u>(149)</u>	<u>(4,943)</u>	<u>(824,022)</u>	<u>(111)</u>	<u>(5,792,299)</u>
<u>\$ (3,789)</u>	<u>\$ (1,541)</u>	<u>\$ 5,731,636</u>	<u>\$ 5</u>	<u>\$ 9,547,081</u>

FY 2000 FAA ANNUAL REPORT

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
BALANCE SHEET
As of September 30, 2000
(Dollars in Thousands)**

Assets	
Intragovernmental	
Fund Balance with Treasury	\$ 8,967
Accounts Receivable, Net	447
Other (Note 5)	10
Total Intragovernmental Assets	<u>\$ 9,424</u>
Accounts Receivable, Net	\$ 1
General Property, Plant, and Equipment, Net	2,014
Total Assets	<u><u>\$ 11,439</u></u>
Liabilities	
Intragovernmental Liabilities:	
Accounts Payable	\$ (238)
Other Intragovernmental Liabilities	1,542
Total Intragovernmental Liabilities	<u>\$ 1,304</u>
Accounts Payable	\$ 3,859
Other Liabilities	1,812
Total Liabilities	<u><u>\$ 6,975</u></u>
Net Position Balances:	
Cumulative Results of Operations	\$ 4,464
Total Net Position	<u>\$ 4,464</u>
Total Liabilities and Net Position	<u><u>\$ 11,439</u></u>

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF NET COST
For the Fiscal Year Ended September 30, 2000**

(Dollars in Thousands)

Costs:

Programs

Intragovernmental	\$	32,209
Less Eamed Revenues		<u>(31,231)</u>
Net Program Costs	\$	<u>978</u>

Net Cost Of Operations \$ 978

**U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the Fiscal Year Ended September 30, 2000
 (Dollars in Thousands)**

Net Cost of Operations	\$	(978)
 Financing Sources		
Imputed Financing		599
Transfers-In		219
Total Financing Sources	\$	<u>818</u>
 Net Results of Operations	 \$	 (160)
 Prior Period Adjustments		 <u>31</u>
 Net Change in Cumulative Results of Operations		 (129)
 Change in Net Position		 (129)
 Net Position Beginning of Period		 <u>4,594</u>
 Net Position End of Period	 \$	 <u>4,464</u>

FY 2000 FAA ANNUAL REPORT

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
BALANCE SHEET
As of September 30, 2000
(Dollars in Thousands)

Assets		
Intragovernmental		
Fund Balance with Treasury	\$	140
Investments		75,932
Total Intragovernmental Assets	\$	<u>76,072</u>
Total Assets	\$	<u><u>76,072</u></u>
Liabilities		
Other Intragovernmental Liabilities		5
Total Intragovernmental Liabilities	\$	<u>5</u>
Accounts Payable	\$	4
Other Liabilities		21
Total Liabilities	\$	<u>30</u>
Net Position Balances:		
Cumulative Results of Operations		76,042
Total Net Position	\$	<u>76,042</u>
Total Liabilities and Net Position	\$	<u><u>76,072</u></u>

**U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
AVIATION INSURANCE REVOLVING FUND
STATEMENT OF NET COST
For the year ended September 30, 2000**

(Dollars in Thousands)

Costs:

Programs

Public	\$	219
Less Eamed Revenues		<u>(4,009)</u>
Net Program Costs	\$	<u>(3,790)</u>

Net Cost of Operations	\$	<u><u>(3,790)</u></u>
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**U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 AVIATION INSURANCE REVOLVING FUND
 STATEMENT OF CHANGES IN NET POSITION
 For the year ended September 30, 2000
 (Dollars in Thousands)**

Net Cost of Operations	\$	3,790
Financing Sources		
Imputed Financing		10
Net Results of Operations		<u>3,800</u>
Prior Period Adjustments		<u>(9)</u>
Net Change in Cumulative Results of Operations		3,791
Change in Net Position		3,791
Net Position Beginning of Period		<u>72,251</u>
Net Position End of Period	\$	<u><u>76,042</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background/Fund Establishment

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

The Government Management Reform Act (GMRA) of 1994, Public Law 103-356, provided for the establishment of six franchise fund pilot programs. The six pilots were authorized by the President's Chief Financial Officers (CFO) Council prior to submission of the FAA Franchise Fund proposal. However, the CFO Council's Franchise Fund Working Group strongly endorsed the FAA proposal, and recommended submission to Congress as a franchise-like operation. This endorsement resulted in Congressional approval, and the Administrative Services Franchise Fund was established in FY 1997.

Services

The Administrative Services Fund offers a wide variety of services. These include international training, accounting, payroll, travel, duplicating, multi-media, information technology, and management training.

The customer base for Franchise fund services includes DOT and non-DOT Government agencies.

Benefits/Accomplishments

The objective of the franchise program is to enhance the support provided to the core programmatic mission of FAA. Benefits from the franchise environment occur incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. Activities within the Administrative Services Franchise Fund have identified a number of advantages, benefits, and results from participation in the fund. The franchise has been the catalyst for

management initiatives relating to improved business practices that have resulted in the following general impacts/benefits:

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

Specific accomplishments include:

- Centralized/consolidated the international training activities at the FAA Academy at no additional cost.
- Increased FAA influence on global aviation system and improvement of overall safety through advancement of the international training program.
- Increased the number of international training students by 27 percent in FY 2000, and increased the number of international resident training courses by 30 percent.
- Established an international training carryover reserve to supplement operating income during periods of variable cash flow.
- Used the international training revolving fund carryover provision to: create an Air Traffic simulation lab for international students, establish a generic computer training interface to allow development of country-specific or generic airspace, develop two new Air Traffic courses and one Aviation Security course, and renovate a dedicated classroom for international courses.
- Shortened turnaround time for routine printing jobs from 10 to 4 days
- Purchased equipment upgrades in printing and

multi-media to improve technology, increase capability, and replace worn-out units through use of the retained earnings provisions of the revolving fund. This resulted in improved service delivery and would not have been possible using the annual appropriation cycle alone.

- Achieved a cost avoidance of approximately \$700,000 in FY 2000 from lower in-house impression costs in the print shop.
- Maintained an 8 percent reduction in printing impression costs implemented in FY 1999 resulting from efficiencies gained through new technology and economies of scale associated with new customers and increased product output.

- Centralized permanent change of station (PCS) processing for all of FAA resulting in a cost avoidance of approximately \$100,000, increased customer satisfaction, improved travel voucher processing time, and reduced overall staffing large as a result of providing travel services to multiple DOT customers.
- Reduced payroll account cost by streamlined processing procedures allowing consolidation of a larger number of accounts per pay technician.

Enhanced the FAA's clean financial statement posture through support actions relating to expansion of the franchise to include the FAA Logistics Center.