

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEETS
As of September 30
(Dollars in Thousands)

Assets	2003	2002
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 2,833,723	\$ 2,539,304
Investments (Note 3)	10,819,257	11,213,447
Accounts receivable, advances, and other (Note 4)	168,722	299,428
Total Intragovernmental	13,821,702	14,052,179
Accounts receivable, advances, and other, net (Note 4)	63,411	113,295
Inventory and related property, net (Note 5)	581,766	605,695
Property, plant, and equipment, net (Note 6 & 9)	13,397,607	13,175,768
Total Assets	\$ 27,864,486	\$ 27,946,937
Liabilities		
Intragovernmental liabilities		
Accounts payable	\$ 9,324	\$ 36,182
Employee related, legal and other (Notes 8 & 9)	344,868	485,511
Total Intragovernmental Liabilities	354,192	521,693
Accounts payable	669,693	677,182
Environmental cleanup costs (Note 7 & 19)	621,953	574,676
Employee related, legal, and other (Notes 8 & 9)	859,124	1,176,106
Federal employee benefits (Note 10)	1,041,568	997,103
Total Liabilities	3,546,530	3,946,760
Commitments and contingencies (Notes 9 & 19)		
Net Position		
Unexpended appropriations	562,595	481,919
Cumulative results of operations	23,755,361	23,518,258
Total Net Position	24,317,956	24,000,177
Total Liabilities and Net Position	\$ 27,864,486	\$ 27,946,937

The accompanying notes are an integral part of these financial statements.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF NET COST
For the Years Ended September 30
(Dollars in Thousands)

Line of Business Programs (Note 12)	2003	2002
Air Traffic Services		
Expenses	\$ 7,718,928	\$ 7,313,772
Less Earned Revenues	(67,890)	(77,107)
Net Costs	7,651,038	7,236,665
Regulation & Certification		
Expenses	943,135	924,614
Less Earned Revenues	(1,126)	(1,121)
Net Costs	942,009	923,493
Research & Acquisitions		
Expenses	498,778	586,991
Less Earned Revenues	(55,856)	(72,129)
Net Costs	442,922	514,862
Airports		
Expenses	2,786,717	2,933,542
Less Earned Revenues	(224)	-
Net Costs	2,786,493	2,933,542
Commercial Space Transportation		
Expenses	11,725	11,361
Net Costs	11,725	11,361
Non Line of Business Programs		
Regional and Center Operations and Other Programs		
Expenses	346,843	425,832
Less Earned Revenues	(256,386)	(129,211)
Net Costs	90,457	296,621
Not Assigned to Programs		
Expenses	61,486	50,622
Less Earned Revenues	(34,794)	(56,411)
Net Costs	26,692	(5,789)
Net Cost of Continuing Operations	11,951,336	11,910,755
Transferred Operations - Civil Aviation Security (Note 15)		
Expenses	124,705	719,973
Less Earned Revenues	(77,455)	(186,809)
Net Costs	47,250	533,164
Net Cost of Operations		
Total Expenses	12,492,317	12,966,707
Less Total Earned Revenue	(493,731)	(522,788)
Total Net Cost	\$ 11,998,586	\$ 12,443,919

The accompanying notes are an integral part of these financial statements.

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION
 For the Years Ended September 30

(Dollars in Thousands)

	2003		2002	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	\$ 23,518,258	\$ 481,919	\$ 24,575,189	\$ 551,139
Budgetary Financing Sources				
Appropriations received	-	3,273,241	-	1,112,481
Appropriations transferred-in/out	-	250	-	112,858
Other adjustments	-	(42,269)	-	(3,325)
Appropriations used	3,150,546	(3,150,546)	1,291,234	(1,291,234)
Excise taxes and associated revenue (Note 13)	9,360,469	-	9,625,942	-
Transfers-in/out without reimbursement	(123,169)	-	(25,500)	-
Other Financing Sources				
Donations and forfeitures of property and other	32,218	-	11,901	-
Transfers-in/out without reimbursement (Note 15)	(680,078)	-	22,675	-
Imputed financing from costs absorbed by others (Note 14)	495,703	-	460,736	-
Total Financing Sources	12,235,689	80,676	11,386,988	(69,220)
Net Cost of Operations	11,998,586	-	12,443,919	-
Ending Balances	<u>\$ 23,755,361</u>	<u>\$ 562,595</u>	<u>\$ 23,518,258</u>	<u>\$ 481,919</u>

The accompanying notes are an integral part of these financial statements.

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 COMBINED STATEMENTS OF BUDGETARY RESOURCES
 For the Years Ended September 30

(Dollars in Thousands)

Budgetary Resources (Note 16)	2003	2002
Budget authority	\$ 15,846,546	\$ 14,446,568
Unobligated balance brought forward, transfers and other	9,682,455	11,425,240
Spending authority from offsetting collections	726,484	1,641,929
Recoveries of prior year obligations	249,157	310,925
Permanently not available	(3,229,132)	(2,362,392)
	<u> </u>	<u> </u>
Total Budgetary Resources	\$ 23,275,510	\$ 25,462,270
	<u> </u>	<u> </u>
Status of Budgetary Resources		
Obligations incurred	\$ 14,166,146	\$ 15,796,838
Unobligated balance	8,627,893	9,454,968
Unobligated balance not available	481,471	210,464
	<u> </u>	<u> </u>
Total Status of Budgetary Resources	\$ 23,275,510	\$ 25,462,270
	<u> </u>	<u> </u>
Relationship of Obligations to Outlays		
Obligated balance, net, beginning of period	\$ 7,998,136	\$ 7,249,535
Cancelled appropriations and other	15,702	-
Obligations incurred	14,166,146	15,796,838
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	(975,738)	(1,952,959)
Less: Obligated balance, net end of period	(8,644,480)	(7,998,136)
	<u> </u>	<u> </u>
Net Outlays	\$ 12,559,766	\$ 13,095,278
	<u> </u>	<u> </u>
Outlays		
Disbursements	\$ 17,322,760	\$ 20,264,114
Collections, net of offsetting receipts	(4,762,994)	(7,168,836)
	<u> </u>	<u> </u>
Net Outlays	\$ 12,559,766	\$ 13,095,278
	<u> </u>	<u> </u>

The accompanying notes are an integral part of these financial statements.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF FINANCING
For the Year Ended September 30
(Dollars in Thousands)

	2003	2002
Resources Used to Finance Activities		
Budgetary Resources Obligated		
Obligations incurred	\$ 14,166,146	\$ 15,796,838
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	975,738	1,952,959
Obligations net of offsetting collections	13,190,408	13,843,879
Other Resources		
Donations and forfeitures of property and other	32,218	11,901
Transfers in/(out) without reimbursement	(680,078)	22,675
Imputed financing from costs absorbed by others	495,703	460,736
Net other resources used to finance activities	(152,157)	495,312
Total resources used to finance activities	13,038,251	14,339,191
 Resources Used to Finance Items not Part of the Net Cost of Operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	464,695	882,286
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 17)	158,858	85,644
Resources that finance the acquisition of assets	1,534,555	2,041,577
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(71,408)	(115,237)
Total resources used to finance items not part of net cost of operations	2,086,700	2,894,270
 Total resources used to finance net cost of operations	10,951,551	11,444,921
 Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increases in annual leave liability, exchange revenue receivable from the public, and other unfunded liabilities (Note 17)	103,051	167,555
Components not Requiring or Generating Resources in Future Periods		
Depreciation and amortization	911,337	835,139
Revaluation of assets or liabilities	(18,320)	(20,579)
Cost of goods sold	34,987	23,897
Other	15,980	(7,014)
Total components of Net Cost of Operations that will not require or generate resources	943,984	831,443
Total components of Net Cost of Operations that will not require or generate resources in the current period	1,047,035	998,998
Net Cost of Operations	\$ 11,998,586	\$ 12,443,919

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The 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 a requirement of the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994, and the Office of Management and Budget's (OMB) Bulletin Number 01-02, *Audit Requirements for Federal Financial Statements*. 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 (FASAB), (2) the OMB Bulletin Number 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 different from financial management reports, which are also prepared by FAA pursuant to OMB directives that are used to monitor and control FAA's use of budgetary resources.

In accordance with OMB Bulletin Number 01-09, the financial statements and associated notes are presented on a comparative basis.

Unless specified otherwise, all dollar amounts are presented in thousands.

B. Reporting Entity

FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of United States 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. FAA reporting entity is comprised of the following primary types of funds:

- Trust Fund - Airport and Airway Trust Fund (Corpus), including (a) Grants-in-Aid for Airports, (b) Facilities and Equipment, and (c) Research, Engineering and Development
- Revolving Funds - Aviation Insurance, and Administrative Services Franchise Fund
- Special Fund - Aviation User Fees
- General Funds - Operations and Facilities, Engineering & Development
- Other - General Fund Miscellaneous Receipts

The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any non-entity assets.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit FAA to incur obligations for specified purposes. In FY 2003 and 2002, FAA was accountable for Trust Fund appropriations, Revolving Funds, a Special Fund, General Fund appropriations, and borrowing authority. FAA recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through the Department of Treasury General Fund warrants and Trust Fund transfers.

D. Basis of Accounting

Transactions are recorded on both 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. Budgetary accounting facilitates compliance with legal requirements on the use of Federal funds. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis in accordance with OMB Bulletin Number 01-09.

E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), war risk insurance premiums (see note 19), and through reimbursements for products and services provided to domestic and foreign governmental entities.

The Airport and Airway Trust Fund (Trust Fund) is sustained by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. Excise taxes collected are initially deposited to the general fund of the Treasury. IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific trust funds. Therefore, Treasury makes initial distributions to trust funds semi-monthly, based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. When actual amounts are available from the IRS, generally six months after each quarter-end, adjustments are made to the estimated amounts and the difference is accrued as an intragovernmental receivable or payable. FAA's September 30, 2003 financial statements reflect excise taxes certified through June 30, 2003, and excise taxes estimated by OTA for the quarter July 1 to September 30, 2003 as specified by Statement of Federal Financial Accounting Standards (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. FAA management does not believe that the estimated distribution made to the trust fund will be materially different from the September 30, 2003 certified amount.

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 associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. War-risk insurance premiums are recognized as revenue on a straight-line basis over the period of coverage. Overflight fees are recognized as revenue in the period in which the flights take place.

FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees paid on FAA's behalf by the Office of Personnel Management (OPM), as well as amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against FAA.

F. Taxes

FAA, as a Federal entity, is not subject to Federal, State, or local income taxes, and, accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

G. Fund Balance with the U.S. Treasury

The U.S. Treasury processes cash receipts and disbursements. Funds held at the Treasury are available to pay agency liabilities. FAA does not maintain cash in commercial bank accounts or foreign currency balances. Foreign currency payments are made either by Treasury or the Department of State and are reported by FAA in the U.S. dollar equivalent.

H. 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 FAA appropriation accounts. The Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are held and managed under the direction of FAA by the Treasury.

I. Accounts Receivable

Accounts receivable consists of amounts owed to FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for sovereign entities. An allowance for uncollectible accounts receivable from the public 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 considering the debtor's ability to pay, and payment history or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

J. Inventory

Under the Franchise Fund basis of operations, inventory is held for sale to FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies used to support the NAS that are located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the weighted moving average cost method.

FAA field locations trade non-operational repairable components with the Franchise Fund. These components are classified as "Held for Repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. Once repaired, these items are reclassified as "Held for Sale."

Inventory may be classified as excess, obsolete, and unserviceable if, for example, the quantity exceeds projected demand for the foreseeable future, or if the item has been technologically surpassed. An allowance is established for excess, obsolete, and unserviceable inventory based on the condition of various inventory categories as well as FAA's historical experience disposing such inventory.

K. Operating Materials and Supplies

In contrast to inventory, which is held for sale by the Franchise Fund, operating materials and supplies are used in the operations of the agency. Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the construction of National Airspace System (NAS) assets. They are valued based on the weighted moving average method or on the basis of actual prices paid. Operating materials and supplies are expensed or reclassified as equipment or work in process when consumed or issued.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis.

An allowance is established for "held for use" and excess, obsolete, and unserviceable operating materials and supplies based on the condition of various asset categories as well as FAA's historical experience disposing such assets.

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

FAA capitalizes acquisitions of PP&E when the cost equals or exceeds \$25 thousand and the useful life equals or exceeds two years. FAA records PP&E at original acquisition cost.

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

<u>Asset Classification - Real Property</u>	<u>Useful Life (years)</u>
Offices, buildings, warehouse buildings, residential properties, air traffic control towers, and enroute air traffic control centers	40
Mobile buildings	20
Roads, sidewalks, parking lots, and all other structures	15
Capital improvements, facility modifications, leasehold improvements	10*
 <u>Asset Classification - Personal Property</u>	
Aircraft, navigation, and surveillance equipment	20
Decision support systems, including computer operating systems, FAA developed hardware, mainframe and mini computers, high-end workstations, and displays	4-20
Communications-related equipment, including voice switches, air-ground radios, and microwave network	10-20
Weather-related equipment, including general purpose weather sensors, weather radars, radar transmitters, and radar receivers	15-20
Printing 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
Internal use 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. For leasehold improvements, the useful life is 10 years or the expiration of the lease, whichever comes first.

Buildings and equipment 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 FAA, the building is depreciated over a 40-year service life.

Construction in progress (CIP) is valued at actual (direct) costs, plus applied overhead and other indirect costs. FAA analyzes nationally funded capital expenditures annually and allocates these costs to the related CIP projects and/or in-use assets as appropriate.

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.

M. Prepaid and Deferred Charges

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

N. Liabilities

Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding. Intragovernmental liabilities are claims against FAA by other Federal entities.

O. Accounts Payable

Accounts payable are amounts FAA owes to other Federal agencies and the public. Accounts payable to Federal agencies generally consist of amounts due under inter-agency reimbursable agreements. Accounts payable to the public primarily consists of estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients and unpaid goods and services received by FAA in support of the NAS.

P. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For 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 nonvested, 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.

Q. Accrued Workers' Compensation

A liability is recorded for actual and estimated future payments to be made for workers' compensation pursuant to the Federal Employees' Compensation Act (FECA). The actual costs incurred are reflected as a liability because FAA will reimburse the Department of Labor (DOL) two years after the actual payment of expenses. Future appropriations will be used for the reimbursement to DOL. The liability consists of (1) the net present value of estimated future payments calculated by the DOL, and (2) the unreimbursed cost paid by DOL for compensation to recipients under the FECA.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of FAA's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, 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 FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, FAA also contributes the employer's matching share for Social Security.

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

S. Use of Estimates

Management has made certain estimates and assumptions when reporting assets, liabilities, revenue, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include (a) the allocation of trust fund receipts by the OTA, (b) legal, environmental, and contingent liabilities, (c) year-end accruals of accounts and grants payable, (d) accrued workers' compensation, (e) allowance for doubtful accounts receivable, and (f) allowances for repairable and obsolete inventory balances, and (g) allocations of common costs to construction in progress.

T. Environmental Liabilities

FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

Environmental cleanup and decommissioning is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset presently in service is shutdown. FAA estimates the environmental cleanup and decommissioning costs at the time an FAA-owned asset is placed in service. For assets placed in service through FY 1998, the annual increase or decrease in the estimated environmental cleanup liability is charged to expense. Although assets placed in service in FY 1999 and after generally do not have associated environmental liabilities, FAA's accounting policy is to charge any such environmental cleanup liability to expense over the life of the associated asset.

U. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. FAA recognizes contingent liabilities when it is both probable and can be reasonably estimated. FAA discloses contingent liabilities in the notes to the financial statements when the conditions for liability recognition are not met and when the outcome of future events is more than remote. In some cases, once losses are certain, payments may be from the Judgment Fund maintained by Treasury rather than from the amounts appropriated to FAA for agency operations. Payments for the Judgment Fund are recorded as an "Other Financing Source" when made.

V. Reclassifications

Certain FY 2002 balances have been reclassified, retitled, or combined with other financial statement line items for consistency with current year presentation.

NOTE 2. FUND BALANCE WITH TREASURY

Fund balance with Treasury account balances as of September 30, 2003 and 2002 were:

	<u>2003</u>	<u>2002</u>
Trust Fund	\$ 1,250,801	\$ 1,023,246
Operations General Fund	738,852	775,014
Franchise Fund	170,862	127,297
Revolving Fund	22,848	12,485
Corpus and Other Funds	<u>650,360</u>	<u>601,262</u>
Total	<u><u>\$ 2,833,723</u></u>	<u><u>\$ 2,539,304</u></u>

Status of Fund Balance with Treasury

Unobligated Balance		
Available	\$ 1,072,492	\$ 1,017,806
Restricted	700,605	665,933
Obligated Balance Not Yet Disbursed	<u>1,060,626</u>	<u>855,565</u>
Total	<u><u>\$ 2,833,723</u></u>	<u><u>\$ 2,539,304</u></u>

Restricted unobligated fund balances represent the amount of appropriations for which the period of availability for 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.

NOTE 3. INVESTMENTS

As of September 30, 2003 and 2002, respectively, FAA's investment balances were as follows:

	2003	2002
<u>Intragovernmental Securities</u>		
Nonmarketable, Par Value - Trust Fund	\$ 10,517,891	\$ 10,996,847
Nonmarketable, Market Based - Aviation Insurance Fund	196,187	91,733
Accrued Interest	105,179	124,867
Investments at Cost	<u>\$ 10,819,257</u>	<u>\$ 11,213,447</u>
 <u>Market Value Disclosure</u>		
Nonmarketable, Par Value - Trust Fund	\$ 10,517,891	\$ 10,996,847
Nonmarketable, Market Based - Aviation Insurance Fund	196,693	92,187
Unamortized Discount - Nonmarketable, Market Based	(506)	(454)
Nonmarketable, Market Based, net	<u>196,187</u>	<u>91,733</u>
 Market Value Disclosure	 <u>\$ 10,714,078</u>	 <u>\$ 11,088,580</u>

Nonmarketable par value Treasury Certificates of Indebtedness 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 Federal Investment Branch. The securities are held to maturity and 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 on behalf of FAA. As of September 30, 2003 and 2002, approximately \$10.5 billion and \$11.0 billion, respectively, were invested in U.S. Treasury Certificates of Indebtedness. FY 2003 amounts mature June 30, 2004, and FY 2002 amounts matured June 30, 2003. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate for certificates issued during FY 2003 and FY 2002 was 4.125% and 5.125%, respectively.

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.

As of September 30, 2003, these nonmarketable, market-based securities have maturity dates ranging from two to fourteen months and an effective market rate of approximately 1 percent.

NOTE 4. ACCOUNTS RECEIVABLE, ADVANCES AND OTHER ASSETS

Accounts receivable, advances, prepayments, and other assets as of September 30, 2003 and 2002 were comprised of the following:

	<u>2003</u>	<u>2002</u>
<u>Intragovernmental</u>		
Accounts Receivable	\$ 59,924	\$ 270,155
Advances, Prepayments and Other	108,798	29,273
Subtotal, Intragovernmental	<u>168,722</u>	<u>299,428</u>
<u>With the Public</u>		
Accounts Receivable, net	42,058	58,047
Advances and Prepayments	2,359	35,413
Deposits in Transit and Other	18,994	19,835
Subtotal, With the Public	<u>63,411</u>	<u>113,295</u>
Total Accounts Receivable, Advances, Prepayments and Other	<u>\$ 232,133</u>	<u>\$ 412,723</u>

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

Accounts receivable from the public are shown net of allowances for uncollectible amounts of \$15.0 million and \$5.6 million, as of September 30, 2003 and 2002, respectively.

NOTE 5. INVENTORY AND RELATED PROPERTY

As of September 30, 2003 and 2002, inventory and operating materials and supplies were:

<u>Operating Material and Supplies</u>	<u>2003</u>	<u>2002</u>
Held For Use, net	\$ 147,879	\$ 140,168
Excess, Obsolete, and Unserviceable, net	14,567	24,817
Subtotal, Operating Material and Supplies	<u>162,446</u>	<u>164,985</u>
 <u>Inventory</u>		
Held for Sale	\$ 61,457	\$ 65,164
Held for Repair, net	330,189	348,300
Raw Materials, Finished Goods, and Other	13,632	13,643
Excess, Obsolete, and Unserviceable, net	14,042	13,603
Subtotal, Inventory	<u>419,320</u>	<u>440,710</u>
 Total Inventory and Related Property, net	<u>\$ 581,766</u>	<u>\$ 605,695</u>

Inventory and related property are shown net of the following allowances:

<u>Operating Materials and Supplies</u>	<u>2003</u>	<u>2002</u>
Held For Use	\$ (12,167)	\$ (12,167)
Excess, Obsolete, and Unserviceable	(57,294)	(47,044)
Operating Materials and Supplies Allowances	<u>(69,461)</u>	<u>(59,211)</u>
 <u>Inventory</u>		
Held for Repair	(83,849)	(70,796)
Excess, Obsolete, and Unserviceable	(4,760)	(11,129)
Inventory Allowances	<u>(88,609)</u>	<u>(81,925)</u>
 Total Allowances	<u>\$ (158,070)</u>	<u>\$ (141,136)</u>

Inventory is considered held for repair based on condition levels, and the allowance for repairable inventory is based on the average historical cost of such repairs. During FY 2003 and FY 2002, FAA recognized increases of \$13.1 million and \$27.8 million, respectively, to its allowance for inventory held for repair.

FAA transfers excess items for disposal into the Government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the General Fund or to an FAA appropriation, depending upon the nature of the item and the disposal method.

NOTE 6. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment balances at September 30, 2003 and 2002 were:

Class of Fixed Asset	Deprec. Method	Service Life	2003		
			Acquisition Value	Accumulated Depreciation	Net Book Value
Real Property, Including Land	[1]	[2]	\$ 3,874,055	\$ (1,828,212)	\$ 2,045,843
Personal Property	SL	3-20	12,643,046	(5,881,286)	6,761,760
Assets Under Capital Lease (Note 9)	SL	Term-40	125,923	(63,328)	62,595
Construction in Progress	-	-	4,513,496		4,513,496
Property Not in Use	-	-	18,292	(4,379)	13,913
Total Property, Plant, and Equipment			\$ 21,174,812	\$ (7,777,205)	\$ 13,397,607

Class of Fixed Asset	Deprec. Method	Service Life	2002		
			Acquisition Value	Accumulated Depreciation	Net Book Value
Real Property, Including Land	[1]	[2]	\$ 3,536,010	\$ (1,675,322)	\$ 1,860,688
Personal Property	SL	3-20	12,041,260	(5,275,361)	6,765,899
Assets Under Capital Lease (Note 9)	SL	Term-40	126,142	(55,397)	70,745
Construction in Progress	-	-	4,477,425	-	4,477,425
Property Not in Use	-	-	2,283	(1,272)	1,011
Total Property, Plant, and Equipment			\$ 20,183,120	\$ (7,007,352)	\$ 13,175,768

[1] Land is not depreciated; other real property as defined in Note 1 is depreciated using the straight line method.

[2] The service life disclosed pertains to real property other than land and leasehold improvements. Leasehold improvements are depreciated over the lesser of the remaining life of the "parent" asset or 10 years.

FAA's Construction in Progress (CIP) primarily relates to national airspace system assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges.

Assets temporarily not in use, including decommissioned assets awaiting disposition, are reflected in FAA financial records as Property Not in Use. FAA reported disposition losses of \$10.4 million and \$82.8 million in FY 2003 and FY 2002, respectively.

NOTE 7. ENVIRONMENTAL CLEANUP COSTS

FAA's environmental liabilities as of September 30, 2003 and 2002 were:

	2003	2002
Environmental Remediation	\$ 372,125	\$ 311,914
Environmental Cleanup and Decommissioning	249,828	262,762
Total Environmental Liabilities	\$ 621,953	\$ 574,676

Additional information on environmental projects is disclosed in Note 19.

NOTE 8. EMPLOYEE RELATED, LEGAL, AND OTHER LIABILITIES

As of September 30, 2003 and 2002, FAA's employee related, legal and other liabilities were:

	2003		
	Non-Current Liabilities	Current Liabilities	Total
<u>Intragovernmental</u>			
Advances Received	\$ -	\$ 42,448	\$ 42,448
Accrued Payroll & Benefits Payable to Other Agencies	-	29,101	29,101
Other	-	72,384	72,384
Liabilities Covered by Budgetary Resources	-	143,933	143,933
Federal Employees Compensation Act	113,063	87,842	200,905
Debt	-	30	30
Liabilities Not Covered by Budgetary Resources	113,063	87,872	200,935
Subtotal, Intragovernmental	113,063	231,805	344,868
<u>With the Public</u>			
Advances Received and Other	-	9,089	9,089
Accrued Payroll & Benefits Payable to Employees	-	130,060	130,060
Liabilities Covered by Budgetary Resources	-	139,149	139,149
Accrued Unfunded Annual & Other Leave & Assoc. Benefits	451,199	-	451,199
Sick Leave Compensation Benefits for Air Traffic Controllers	57,006	6,194	63,200
Capital Leases (Note 9)	59,685	9,159	68,844
Legal Claims	53,900	25,000	78,900
Return Rights	4,400	3,150	7,550
Other Accrued Liabilities	50,282	-	50,282
Liabilities Not Covered by Budgetary Resources	676,472	43,503	719,975
Subtotal, With the Public	676,472	182,652	859,124
Total Employee Related, Legal, and Other Liabilities	\$ 789,535	\$ 414,457	\$ 1,203,992

	2002		
	Non-Current Liabilities	Current Liabilities	Total
<u>Intragovernmental</u>			
Advances Received	\$ -	\$ 30,995	\$ 30,995
Accrued Payroll & Benefits Payable to Other Agencies	-	71,654	71,654
Excise Taxes Payable to Treasury	-	105,188	105,188
Other	-	78,005	78,005
Liabilities Covered by Budgetary Resources	-	285,842	285,842
Federal Employees Compensation Act	113,274	86,365	199,639
Debt	30	-	30
Liabilities Not Covered by Budgetary Resources	113,304	86,365	199,669
Subtotal, Intragovernmental	113,304	372,207	485,511
<u>With the Public</u>			
Advances Received and Other	820	7,302	8,122
Accrued Payroll & Benefits Payable to Employees	-	299,194	299,194
Liabilities Covered by Budgetary Resources	820	306,496	307,316
Accrued Unfunded Annual & Other Leave & Assoc. Benefits	451,341	-	451,341
Sick Leave Compensation Benefits for Air Traffic Controllers	52,138	869	53,007
Capital Leases (Note 9)	64,398	13,698	78,096
Legal Claims	93,650	76,250	169,900
Return Rights	5,250	2,450	7,700
Other Accrued Liabilities	104,605	4,141	108,746
Liabilities Not Covered by Budgetary Resources	771,382	97,408	868,790
Subtotal, With the Public	772,202	403,904	1,176,106
Total Employee Related, Legal, and Other Liabilities	\$ 885,506	\$ 776,111	\$ 1,661,617

Accrued payroll and benefits to other agencies consists of FAA contributions payable to other Federal agencies for employee benefits. These include FAA's contributions payable toward life, health, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. FAA's liability accrued as of September 30, 2003 includes workers' compensation benefits paid by DOL during the periods July 1, 2001 through June 30, 2003 and accrued liabilities for the quarter July 1, 2003 through September 30, 2003. FAA's liability accrued as of September 30, 2002, included workers' compensation benefits paid by DOL during the period July 1, 2000 through June 30, 2002, and accrued liabilities for the quarter July 1, 2002 through September 30, 2002.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms the National Air Traffic Controllers Association agreement, Article 25, Section 13. This agreement gives air traffic controllers, who are covered under

FERS, the option to receive a lump sum payment for 40 percent of their accumulated sick leave as of their retirement effective date. Based on sick leave balances, this liability was \$63.2 million and \$53.0 million as of September 30, 2003 and 2002, respectively.

FAA estimated that 100 percent of its \$78.9 million and \$169.9 million legal claims liabilities as of September 30, 2003 and 2002, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

FAA's Return Rights Program pertains to employees who accepted transfers to overseas or certain domestic locations for a period of two to four years, and entitles them to a future return move at Government expense. As of September 30, 2003 and 2002, there were 151 and 154 employees, respectively, entitled to these return rights.

Other Accrued Liabilities with the Public is comprised primarily of accruals for utilities, leases and travel obligations. Total liabilities not covered by budgetary resources are presented in note 17.

NOTE 9. LEASES

FAA has both capital and operating leases.

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Land, Buildings, and Machinery	\$ 125,923	\$ 126,142
Accumulated Depreciation	(63,328)	(55,397)
Assets Under Capital Lease, net	<u>\$ 62,595</u>	<u>\$ 70,745</u>

As of September 30, 2003, FAA's future payments due on assets under capital lease were:

Future Payments Due by Fiscal Year (Liabilities Not Covered By Budgetary Resources)	
Year 1	\$ 13,698
Year 2	13,620
Year 3	11,603
Year 4	9,380
Year 5	8,973
After 5 Years	41,125
Less: Imputed Interest	(29,555)
Total Capital Lease Liability	<u>\$ 68,844</u>

FAA's capital lease payments are funded annually. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually.

Operating Leases

FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2003 were:

Fiscal Year	Land & Buildings	Other	Total
Year 1 (FY 2004)	\$ 50,051	\$ 829	\$ 50,880
Year 2 (FY 2005)	43,310	654	43,964
Year 3 (FY 2006)	36,596	374	36,970
Year 4 (FY 2007)	33,802	369	34,171
Year 5 (FY 2008)	32,313	366	32,679
After 5 Years	51,012	2,322	53,334
Total Future Operating Lease Payments	<u>\$ 247,084</u>	<u>\$ 4,914</u>	<u>\$ 251,998</u>

Operating lease expense incurred during the years ended September 30, 2003 and 2002 was \$53.3 million and \$60.0 million, respectively. The 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.

NOTE 10. FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE

As of September 30, 2003 and 2002, FECA actuarial liabilities were \$1,041.6 million and \$997.1 million respectively. The DOL calculates the FECA liability for DOT, and DOT allocates the liability amount to FAA based upon actual workers' compensation payments to FAA employees over the preceding four years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary resources and thus will require future appropriated funding.

NOTE 11. TOTAL COST AND EARNED REVENUE BY BUDGET FUNCTIONAL CLASSIFICATION

In FY 2003, all expenses, earned revenues, and intragovernmental transactions were related to Transportation Programs. In FY 2002, \$163 thousand of FAA's expenses related to Community and Regional Development Programs.

NOTE 12. NET COST BY PROGRAM AND OTHER STATEMENT OF NET COST DISCLOSURES

FAA's five lines of business represent the programs reported on the Statement of Net Cost. Cost centers assigned 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 divided by the total cost (excluding grant payments) for all lines of business.

Following is FAA's distribution of FY 2003 and FY 2002 net costs by intragovernmental-related versus with the public.

For the Year Ended September 30, 2003

Line of Business Programs	Intra- governmental	With the Public	Total
Air Traffic Services			
Expenses	\$ 1,082,494	\$ 6,636,434	\$ 7,718,928
Less: Earned revenues	(24,392)	(43,498)	(67,890)
Net Costs	1,058,102	6,592,936	7,651,038
Regulation & Certification			
Expenses	128,755	814,380	943,135
Less: Earned revenues	(250)	(876)	(1,126)
Net Costs	128,505	813,504	942,009
Research & Acquisitions			
Expenses	121,210	377,568	498,778
Less: Earned revenues	(12,394)	(43,462)	(55,856)
Net Costs	108,816	334,106	442,922
Airports			
Expenses	8,959	2,777,758	2,786,717
Less: Earned revenues	(50)	(174)	(224)
Net Costs	8,909	2,777,584	2,786,493
Commercial Space Transportation			
Expenses	-	11,725	11,725
Net Costs	-	11,725	11,725
Non Line of Business Programs			
Regional and Center Operations and Other Programs			
Expenses	162,154	184,689	346,843
Less: Earned revenues	(179,475)	(76,911)	(256,386)
Net Costs	(17,321)	107,778	90,457
Not Assigned to Programs			
Expenses	-	61,486	61,486
Less: Earned revenues	(7,720)	(27,074)	(34,794)
Net Costs	(7,720)	34,412	26,692
Net Cost of Continuing Operations	1,279,291	10,672,045	11,951,336
Transferred Operations - Civil Aviation Security			
Expenses	94,413	30,292	124,705
Less Earned Revenues	(17,186)	(60,269)	(77,455)
Net Costs	77,227	(29,977)	47,250
Net Cost of Operations			
Total Expenses	1,597,985	10,894,332	12,492,317
Less Total Earned Revenue	(241,467)	(252,264)	(493,731)
Total Net Cost	\$ 1,356,518	\$ 10,642,068	\$ 11,998,586

For the Year Ended September 30, 2002

Line of Business Programs	Intra- governmental	With the Public	Total
Air Traffic Services			
Expenses	\$ 993,362	\$ 6,320,410	\$ 7,313,772
Less: Earned revenues	(56,860)	(20,247)	(77,107)
Net Costs	936,502	6,300,163	7,236,665
Regulation & Certification			
Expenses	122,368	802,246	924,614
Less: Earned revenues	(568)	(553)	(1,121)
Net Costs	121,800	801,693	923,493
Research & Acquisitions			
Expenses	146,683	440,308	586,991
Less: Earned revenues	(36,549)	(35,580)	(72,129)
Net Costs	110,134	404,728	514,862
Airports			
Expenses	8,547	2,924,995	2,933,542
Net Costs	8,547	2,924,995	2,933,542
Commercial Space Transportation			
Expenses	-	11,361	11,361
Net Costs	-	11,361	11,361
Non Line of Business Programs			
Regional and Center Operations and Other Programs			
Expenses	115,207	310,625	425,832
Less: Earned revenues	(92,379)	(36,832)	(129,211)
Net Costs	22,828	273,793	296,621
Not Assigned to Programs			
Expenses	-	50,622	50,622
Less: Earned revenues	(28,585)	(27,826)	(56,411)
Net Costs	(28,585)	22,796	(5,789)
Net Cost of Continuing Operations	1,171,226	10,739,529	11,910,755
Transferred Operations - Civil Aviation Security			
Expenses	265,838	454,135	719,973
Less Earned Revenues	(108,141)	(78,668)	(186,809)
Net Costs	157,697	375,467	533,164
Net Cost of Operations			
Total Expenses	1,652,005	11,314,702	12,966,707
Less Total Earned Revenue	(323,082)	(199,706)	(522,788)
Total Net Costs	\$ 1,328,923	\$ 11,114,996	\$ 12,443,919

NOTE 13. EXCISE TAXES AND ASSOCIATED REVENUE

The IRS collects various excise taxes on behalf of FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by FAA appropriations. Twice a month, Treasury estimates the amount collected, and adjusts the estimates by actual collections quarterly. Accordingly, the total taxes recognized for the year ended September 30, 2003 and 2002 included OTA's estimate of \$2.9 billion and \$2.5 billion for the quarters ending September 30, 2003 and 2002, respectively. For the years ended September 30, 2003 and 2002, respectively, excise taxes and associated nonexchange revenue, which is reported on the Statement of Changes in Net Position, was as follows:

	2003	2002
Passenger Ticket Tax	\$ 6,065,763	\$ 6,300,562
International Departure Tax	1,517,807	1,410,234
Investment Income	570,873	777,693
Fuel Taxes	850,950	802,749
Waybill Tax	399,396	394,317
Tax Refunds and Credits	(44,320)	(59,613)
Total Excise Taxes and Associated Revenue	<u>\$ 9,360,469</u>	<u>\$ 9,625,942</u>

NOTE 14. IMPUTED FINANCING SOURCES

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, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2003 and 2002, respectively, imputed financing was as follows:

	2003	2002
Office of Personnel Management	\$ 465,868	\$ 394,826
Treasury Judgment Fund	29,835	65,910
Total Imputed Financing Sources	<u>\$ 495,703</u>	<u>\$ 460,736</u>

NOTE 15. TRANSFERRED OPERATIONS

The Aviation and Transportation Security Act (Public Law 107-71) established the Transportation Security Administration (TSA) and transferred FAA's civil aviation security functions to the TSA. The TSA assumed responsibility for these functions on February 13, 2002. Subsequently, the Homeland Security Act of 2002 (Public Law 107-296) established the Department of Homeland Security (DHS) and transferred TSA from the DOT to DHS effective March 1, 2003.

FASAB Technical Bulletin (TB) 2003-1, *Certain Questions and Answers related to the Homeland Security Act of 2002*, requires Federal agencies to segregate the net costs of continuing and transferred operations, and recognize a transfer-out for assets and liabilities transferred to the DHS. Although the guidance in TB 2003-1 applies to DHS, the guidance is relevant to the transfer of the civil aviation security function to the TSA. Accordingly, on the Statement of Net Cost, the FAA has segregated and reported as "transferred operations," the net costs incurred related to civil aviation security functions that transferred to TSA. Net costs of internal security functions, which remained with FAA, are

reported under Region and Center Operations and Other Programs.

In addition, the Statement of Changes in Net Position includes \$680.1 million in Other Financing Sources - net transfers out without reimbursement. Of this amount, \$623.6 million pertains to civil aviation security-related PP&E that the FAA transferred to the TSA during FY 2003.

NOTE 16. STATEMENT OF BUDGETARY RESOURCES DISCLOSURES

The amounts reported in the Statement of Budgetary Resources are in agreement with the summary totals presented in the Budget of the United States Government. Amounts reported for the Operations appropriation were adjusted to eliminate the effect of transfers between the Trust Fund and the General Fund components of this account because they overstated budgetary resources and obligations. The Required Supplementary Information section of this report includes a schedule of budgetary resources by each of FAA's major fund types.

Differences exist between the FY 2003 Statement of Budgetary Resources and the Report on Budget Execution and Budgetary Resources (SF-133) due to corrections of prior year errors. Consistent with Statement of Federal Financial Accounting Standards No. 21, *Reporting Corrections of Errors and Changes in Accounting Principles*, because the errors were considered immaterial, the effects of the corrections are reflected as FY 2003 activity in the Statement of Budgetary Resources. However, for purposes of reporting the SF-133 to Treasury, certain beginning of year balances were restated based upon Treasury guidance. The net effect of all beginning balance adjustments to the SF-133 is less than \$1 million.

OMB Bulletin Number 01-09 requires the following additional Statement of Budgetary Resources disclosures:

- FAA does not have any significant differences between the information reported on the Statement of Budgetary Resources and the amounts described as FY 2003 "actual" in the Budget of the United States Government for FY 2005.
- 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 obligations classified as "exempt from apportionment." However, during FY 2003 and FY 2002, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, Instructions on Budget Execution, were as follows:

2003			
Obligations Incurred			
	Category A	Category B	Total
Direct	\$ 10,376,768	\$ 3,524,631	\$ 13,901,399
Reimbursable	264,743	4	264,747
Total	\$ 10,641,511	\$ 3,524,635	\$ 14,166,146

2002			
Obligations Incurred			
	Category A	Category B	Total
Direct	\$ 14,446,516	\$ 299,149	\$ 14,745,665
Reimbursable	1,051,173	-	1,051,173
Total	\$ 15,497,689	\$ 299,149	\$ 15,796,838

Total available contract authority at the end of FY 2003 and FY 2002 was \$4.2 billion and \$4.0 billion, respectively.

Public Laws 106-181 and 108-7 authorized FAA \$3.4 billion and \$3.1 billion in contract and liquidating authority, respectively, which are derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid programs. The unobligated balance at the end of FY 2003 and FY 2002 was \$9.0 million and \$.9 million respectively.

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. At the end of FY 2002 \$1.6 million of obligated balances, were in appropriations cancelled at year-end, pursuant to 31 USC 1552, and thus have not been brought forward to FY 2003.

The net obligated balance, end of period, is comprised of the following components as of September 30, 2003 and 2002:

2003	
Obligated balance, net, end of period	Amount
Accounts receivable	\$ (62,775)
Unfilled customer orders from Federal sources	(113,350)
Undelivered orders	7,926,575
Accounts payable	894,030
Total obligated balance, net end of period	\$ 8,644,480

2002	
Obligated balance, net, end of period	Amount
Accounts receivable	\$ (345,878)
Unfilled customer orders from Federal sources	(92,074)
Undelivered orders	7,445,017
Accounts payable	991,071
Total obligated balance, net end of period	\$ 7,998,136

NOTE 17. FINANCING SOURCES YET TO BE PROVIDED

The following table shows liabilities not covered by budgetary resources as of September 30, 2003 and 2002, as well as the relationship between liabilities not covered by budgetary resources on the balance sheet and the change in components of net cost of operations that will require or generate resources in future periods.

	2003	2002	Change
Environmental Liabilities (Notes 7 and 19)	\$ 621,953	\$ 574,676	\$ 47,277
FECA - Intragovernmental (Actual) (Note 8)	200,905	199,639	1,266
Sick Leave Compensation Benefits and Return Rights (Note 8)	70,750	60,707	10,043
Debt - Intragovernmental (Note 8)	30	30	-
FECA (Actuarial) (Note 10)	1,041,568	997,103	44,465
Increases - Components of Net Cost of Operations Requiring or Generating Resources in Future Periods			103,051
Unfunded Annual & Other Leave & Assoc. Benefits (Note 8)	451,199	451,341	(142)
Legal Claims (Note 8)	78,900	169,900	(91,000)
Capital Leases (Notes 8 & 9)	68,844	78,096	(9,252)
Other Accrued Liabilities (Note 8)	50,282	108,746	(58,464)
Decreases - Resources that Fund Expenses Recognized in Prior Periods			(158,858)
Liabilities Not Covered by Budgetary Resources	\$ 2,584,431	\$ 2,640,238	\$ (55,807)

NOTE 18. CUSTODIAL ACTIVITY

FAA collects certain non-exchange (custodial) revenue on behalf of the General Fund of the Treasury. During FY 2003 and FY 2002, FAA's Statement of Changes in Net Position included custodial revenue totaling \$21.8 million and \$29.2 million, respectively. The primary source of custodial activity is revenue from the Metropolitan Washington Airport Authority for its leases of Ronald Reagan National Airport and Washington Dulles International Airport. Custodial activity also includes the collection of miscellaneous fines and penalties.

NOTE 19. COMMITMENTS, CONTINGENCIES, AND OTHER DISCLOSURES

Contract Options. As of September 30, 2003 and 2002, FAA had contract options of \$32.8 billion and \$19.9 billion, respectively. These contract options 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.

Contract Negotiations. As of September 30, 2003 and 2002, FAA had a total of \$21.6 million and \$42.1 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.

Letters of Intent. FAA has authority under Title 49 U.S.C. 47110(e) to issue letters of intent (LOIs) to enter into AIP grant agreements. Through September 30, 2003, FAA issued LOIs covering FY 1988 through FY 2014 totaling \$4.5 billion. As of September 30, 2003, FAA had obligated \$3.0 billion of this total amount, leaving \$1.5 billion unobligated.

As of September 30, 2002, LOIs covering FY 1988 through FY 2014 totaled \$4.3 billion. Of this amount, FAA had obligated \$2.7 billion, leaving \$1.6 billion unobligated as of September 30, 2002.

AIP Grants. FY 2003 AIP grant authority totaled \$3.3 billion, including \$2.1 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed \$1.8 billion, and \$336 million remains available from unused or newly enacted contract authority to those sponsors through FY 2005, or in the case of non-hub primary airport locations, through FY 2006.

In FY 2002, AIP grant authority was \$3.5 billion, including \$1.7 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors had claimed \$1.4 billion, and \$355 million remained available from unused or newly enacted contract authority to those sponsors through FY 2004, or in the case of non-hub primary airport locations, through FY 2005.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which 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 38 air carriers having approximately 975 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act (Public Law 107-42) to include all scheduled domestic air carriers. Under this program, FAA has provided temporary war-risk insurance, for typically 60-day periods, to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. Insured air carrier per occurrence limits, for combined hull and liability coverage, range from \$100 million to \$4 billion. Total insurance in force for hull coverage as of September 30, 2003 was \$172.7 billion. Public Law 108-11 mandated FAA to extend policies in effect on June 19, 2002, until August 31, 2004. The period of coverage in effect as of September 30, 2003 was from August 13 to October 11, 2003. There are 76 FAA war-risk policies.

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 FAA and are assessed per departure. During FY 2003 and FY 2002, FAA recognized insurance premium revenue of \$124.0 million and \$74.6 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

In the past, 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, 2003 or 2002. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating back to 1951) only four claims, all involving minor dollar amounts, 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. FAA issued an interim final rule (IFR), effective on August 1, 2000, followed by a Final Rule, effective on August 20, 2001, that required certain aircraft operators to pay fees for air traffic control and related services provided by FAA 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, as amended. Several airlines and an air carrier association challenged the IFR in the U.S. Court of Appeals. FAA issued the Final Rule while the IFR litigation was still pending. The same group of plaintiffs then brought suit against the Final Rule, and the Court combined the two cases.

FAA had recognized \$79.7 million in revenue, including \$19.8 million and \$27.6 million in FY 2003 and FY 2002, respectively, before it ceased billing in light of an adverse decision in the U.S. Court of Appeals on April 8, 2003. The period for appealing that decision to the Supreme Court expired on October 31, 2003. Congress has since enacted, in the FAA Reauthorization Act signed by the President on December 12, 2003, a provision on overflight fees that affects past and future fee collections. FAA's ability to retain these fees in light of the new legislation is under review.

Environmental. FAA is a party to two major environmental remediation projects in which the extent of liability is unknown. A study is in process to determine the magnitude and scope of the remediation required at the two sites. Of the total environmental liability reported as of September 30, 2003 and 2002, the amount related to these two sites is \$61.6 million and \$67.7 million, respectively. This liability includes FAA's share of the known remediation cost and the cost to complete the study.

Legal Claims. As of September 30, 2003 and 2002, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$325.5 million and \$499.8 million, respectively. FAA does not have material amounts of known unasserted claims.

REQUIRED SUPPLEMENTARY

STEWARDSHIP INFORMATION

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

State/Territory	2003	2002	2001	2000	1999
Alabama	\$ 59,760	\$ 58,506	\$ 27,421	\$ 19,653	\$ 18,134
Alaska	158,950	121,640	83,563	51,788	70,802
Arizona	75,247	54,737	51,783	58,381	53,135
Arkansas	35,530	32,937	32,412	17,534	21,694
California	216,981	243,720	179,447	87,617	106,161
Colorado	57,872	91,495	26,340	29,860	43,452
Connecticut	7,011	10,420	3,480	1,788	4,971
Delaware	2,577	5,838	4,704	2,515	197
District of Columbia	447	71	61	83	54
Florida	166,066	157,878	110,428	64,694	71,746
Georgia	48,147	67,957	33,652	43,911	43,556
Hawaii	24,767	15,846	34,569	6,567	12,131
Idaho	30,721	19,925	25,477	13,106	15,578
Illinois	74,202	165,518	85,566	66,003	63,596
Indiana	47,288	43,099	30,544	24,141	27,467
Iowa	37,521	30,765	35,159	16,169	30,450
Kansas	22,694	15,655	7,587	7,378	7,451
Kentucky	67,031	48,192	46,166	26,205	32,741
Louisiana	45,394	47,915	32,841	29,200	24,442
Maine	18,143	14,456	7,496	3,828	4,943
Maryland	22,933	26,370	18,953	14,900	18,136
Massachusetts	65,930	30,348	20,709	14,560	15,259
Michigan	84,030	85,851	99,278	27,363	50,995
Minnesota	58,826	85,675	49,143	30,561	27,902
Mississippi	30,289	25,929	28,203	9,281	14,393
Missouri	59,642	71,910	62,701	35,137	30,089
Montana	34,273	24,506	19,254	13,157	16,727
Nebraska	19,423	25,181	22,983	8,534	14,240
Nevada	57,506	45,204	57,332	32,106	22,981
New Hampshire	35,082	40,351	16,173	8,582	8,789
New Jersey	29,402	26,391	18,047	10,012	25,906
New Mexico	17,336	13,106	10,882	7,671	10,149

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

State/Territory	2003	2002	2001	2000	1999
New York	\$ 122,675	\$ 109,798	\$ 118,792	\$ 57,671	\$ 86,754
North Carolina	75,317	73,493	60,908	26,084	50,572
North Dakota	15,458	16,562	25,221	11,490	8,263
Ohio	68,717	112,015	51,601	45,691	46,374
Oklahoma	34,351	39,238	19,780	8,678	14,949
Oregon	34,687	46,605	31,655	9,847	16,138
Pennsylvania	112,761	109,388	62,343	34,011	57,544
Rhode Island	13,736	12,409	9,547	11,705	10,813
South Carolina	22,531	39,194	18,895	11,792	22,926
South Dakota	16,841	15,440	10,466	12,301	8,893
Tennessee	62,412	46,373	58,638	39,237	36,477
Texas	159,929	192,738	127,046	111,585	103,308
Utah	24,804	21,396	39,235	14,328	8,808
Vermont	2,310	2,767	5,487	1,157	4,141
Virginia	45,240	76,647	75,555	41,109	31,069
Washington	53,351	62,798	34,023	35,498	44,454
West Virginia	24,373	18,562	18,564	7,400	12,592
Wisconsin	48,264	39,971	27,541	26,278	25,512
Wyoming	21,158	25,679	16,446	14,972	7,871
American Samoa	18,903	17,845	5,374	241	676
Guam	5,937	368	3,653	3,399	10,341
Northern Mariana Island	10,227	13,017	5,455	1,610	4,027
Puerto Rico	7,419	9,022	6,399	9,179	7,163
Trust Territory of Pacific	-	-	-	138	27
Virgin Islands	8,959	20,094	5,056	2,411	9,231
Administration	65,336	64,731	58,542	55,196	75,680
Totals	\$ 2,786,717	\$ 2,933,542	\$ 2,178,576	\$ 1,375,293	\$ 1,612,870

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

Expenditures	<u>2003</u>	<u>2002</u>	<u>2001</u>	<u>2000</u>	<u>1999</u>
Applied Research	\$ 29,406	\$ 59,150	\$ 120,395	\$ 99,777	\$ 118,834
Development	251	603	3,419	7,175	18,358
R&D Plant	2,903	3,020	10,130	12,800	14,290
Administration	<u>31,669</u>	<u>44,480</u>	<u>46,988</u>	<u>46,219</u>	<u>36,466</u>
Total	<u><u>\$ 64,229</u></u>	<u><u>\$ 107,253</u></u>	<u><u>\$ 180,932</u></u>	<u><u>\$ 165,971</u></u>	<u><u>\$ 187,948</u></u>

FAA conducts research and provides the essential air traffic control infrastructure to meet increasing demands for higher levels of system safety, security, 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. They differ from the numbers reported in FY 1999 financial statements, which were based on estimates.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Deferred Maintenance
 For the Fiscal Years Ended September 30

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition				
			FY2003	FY 2002	FY 2001	FY 2000	FY 1999
Buildings	Condition Assessment Survey	4&5	\$50,534	\$73,741	\$50,568	\$30,971	\$17,539
Other Structures and Facilities	Condition Assessment Survey	4&5	29,785	13,843	22,928	59,290	37,442
Total			<u>\$80,319</u>	<u>\$87,584</u>	<u>\$73,496</u>	<u>\$90,261</u>	<u>\$54,981</u>

*Condition Rating Scale: 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 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 to 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. FAA reports deferred maintenance only on assets with condition ratings of 4 and 5 in compliance with the Statement of Federal Financial Accounting Standard (SFFAS) Number 6, "Accounting for Property, Plant and Equipment".

U.S. Department Of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Balances
 As of September 30, 2003

Intragovernmental Assets

Agency	Accounts Receivable, Advances, Prepayments, and Other	Fund Balance with Treasury	Investments
Department of the Treasury	\$ 313	\$ 2,833,723	\$ 10,819,257
General Accounting Office	1		
Department of Agriculture	46		
Department of Commerce	580		
Department of the Interior	3,947		
Department of Justice	14		
Department of State	46		
Department of Labor	4		
Department of the Army	6,228		
Department of the Navy	4,747		
General Services Administration	330		
Department of the Air Force	25,133		
National Aeronautics & Space Admin.	4,125		
Social Security Administration	23		
Federal Emergency Management Agency	20		
Social Security Administration	1		
Department of Homeland Security	12,490		
Department of Health and Human Services	2		
Department of Defense	2,606		
Department of Transportation	84,098		
Department of Energy	16		
Independent Agencies	2		
Other Agencies	23,950		
Total	\$ 168,722	\$ 2,833,723	\$ 10,819,257

U.S. Department Of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Balances
 As of September 30, 2003

Intragovernmental Liabilities

Agency	Employee Related and Other	Accounts Payable
Department of the Treasury	\$ 20,868	\$ -
Department of Agriculture	3,170	9
Department of Commerce	3,053	-
Department of the Interior	89	-
Department of State	120	-
Department of Labor	200,905	-
Department of the Army	4	3
Department of the Navy	116	84
United States Postal Service	-	-
General Services Administration	7,142	-
Department of Justice	68	-
Department of the Air Force	1,690	41
National Aeronautics & Space Admin.	453	-
Social Security Administration	4,835	-
Office of Personnel Management	21,127	-
Federal Emergency Management Agency	49	-
National Science Foundation	9	-
Department of Homeland Security	8,961	-
Department of Health and Human Services	20	-
Department of Defense	3,362	6
Department of Transportation	11,840	9,179
Department of Energy	-	2
Department of Education	60	-
Environmental Protection Agency	100	-
Other Agencies	56,827	-
Total	\$ 344,868	\$ 9,324

U.S. Department Of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Transactions
 For the Fiscal Year Ended September 30, 2003

Intragovernmental Expenses and Revenues

Agency	Expenses	Revenues
Department of the Treasury*	\$ 33,334	\$ 3,115
Department of Agriculture	2	2
Department of Commerce	1,978	1,978
Department of Energy	58	58
Department of Education	5	5
Department of the Interior	777	777
Department of Justice	43	43
Department of Labor	9	9
Department of Labor - FECA*	87,631	-
Department of the Navy	3,178	3,178
Department of State	39	39
Office of Personnel Management*	1,247,460	-
Social Security Administration	100	100
Department of the Army	5,729	5,729
General Services Administration	119	119
Department of the Air Force	14,511	14,511
Fed. Emergency Mgmt. Agency	2,381	2,381
Department of Homeland Security	53,027	53,027
Department of Health and Human Services	62	62
National Aeronautics & Space Admin.	12,545	12,545
Department of Defense	7,929	7,929
Independent Agencies	154	154
Department of Transportation	117,561	117,561
Tennessee Valley Authority	4	4
Other Agencies	9,349	18,141
Total Expenses	\$ 1,597,985	\$ 241,467

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

Intragovernmental Non-Exchange Revenue

	Transfers-Out	Transfers-In
General Services Administration	\$ 14,991	\$ 15,082
Office of Personnel Management	5	5
Department of Army	81	-
Department of Homeland Security	643,621	-
Department of Agriculture	6	-
National Aeronautics & Space Admin.	43,904	-
Department of Transportation	103,168	-
Department of Commerce	15	-
Other Agencies	14,625	2,082
Total Revenues	\$ 820,416	\$ 17,169

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Balances
 As of September 30, 2002

Intragovernmental Assets

Agency	Accounts Receivable, Advances, Prepayments, and Other	Fund Balance with Treasury	Investments
Department of the Treasury	\$ 27	\$ 2,539,304	\$ 11,213,447
Department of Agriculture	141	-	-
Department of Commerce	258	-	-
Department of the Interior	5,498	-	-
Department of Justice	65	-	-
Department of State	4,750	-	-
Department of the Army	5,574	-	-
Department of the Navy	6,075	-	-
General Services Administration	334	-	-
Department of the Air Force	12,098	-	-
National Aeronautics & Space Admin.	1,585	-	-
Department of Energy	20	-	-
Department of Defense	3,634	-	-
Department of Transportation	228,028	-	-
US Secret Service	170	-	-
Other Agencies	31,171	-	-
Total	\$ 299,428	\$ 2,539,304	\$ 11,213,447

Intragovernmental Liabilities

Agency	Employee Related and Other	Accounts Payable
Department of the Treasury	\$ 105,428	\$ -
Department of Agriculture	7,225	-
Department of Commerce	931	-
Department of the Interior	99	23
Department of Justice	99	-
Department of Labor	199,639	-
Department of State	126	-
Department of the Navy	347	60
General Services Administration	816	3,109
Department of the Air Force	3,441	40
National Aeronautics & Space Admin.	807	-
National Science Foundation	9	-
Office of Personnel Management	52,033	32
Department of Energy	42	-
Department of Education	42	-
Department of Health and Human Services	15	15
Department of Defense	205	1,076
Department of Transportation	22,752	3,387
Federal Emergency Management Agency	220	-
Social Security Administration	12,462	-
US Secret Service	-	214
Other Agencies	78,773	28,226
Total	\$ 485,511	\$ 36,182

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Transactions
 For the Fiscal Year Ended September 30, 2002

Intragovernmental Expenses and Revenues

Agency	Expenses	Revenues
Department of the Treasury*	\$ 68,427	\$ 2,518
Department of Agriculture	98	98
Department of Commerce	8,024	8,024
Department of Energy	18	18
Department of Education	22	22
Department of the Interior	1,066	1,066
Department of Justice	1,303	1,303
Department of Labor - FECA*	89,022	-
Department of the Navy	10,883	10,883
Department of State	62	62
Office of Personnel Management*	1,174,790	798
Department of the Army	5,321	5,321
General Services Administration	508	508
Department of the Air Force	17,436	17,436
Environmental Protection Agency	1,422	1,422
Federal Emergency Management Agency	3,166	3,166
Department of Health and Human Services	91	91
National Aeronautics and Space Administration	5,044	5,044
Department of Defense	40,277	40,277
Department of Transportation	224,019	224,019
U.S. Secret Service	400	400
Other Agencies	606	606
Total	\$ 1,652,005	\$ 323,082

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

Intragovernmental Non-Exchange Revenue

	Transfers-Out	Transfers-In
Executive Office of the President	\$ -	\$ 87,500
General Services Administration	26,970	-
Department of Transportation	67,482	(16,123)
Other Agencies	-	20,250
Total	\$ 94,452	\$ 91,627

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Schedule of Budgetary Resources by Major Fund Type
As of September 30, 2003

	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving Fund	Franchise Fund	Operations	Other Funds	Combined Total
Budgetary Resources									
Budget Authority	\$ (797,917)	\$ 6,500,000	\$ 2,931,899	\$ 141,444	\$ -	\$ -	\$ 7,071,120	\$ -	\$ 15,846,546
Unobligated Balance brought forward and transfers	8,749,608	894	541,486	21,187	102,361	56,581	152,833	57,505	9,682,455
Spending Authority From Offsetting Collections	-	686	104,312	(2,644)	129,426	353,862	140,810	32	726,484
Recoveries of prior year obligations	-	121,908	45,179	21,422	-	-	60,647	1	249,157
Permanently not available	-	(3,122,100)	(39,376)	(964)	-	-	(66,692)	-	(3,229,132)
Total Budgetary Resources	\$ 7,951,691	\$ 3,501,388	\$ 3,583,500	\$ 180,445	\$ 231,787	\$ 410,443	\$ 7,358,718	\$ 57,538	\$ 23,275,510
Status of Budgetary Resources									
Obligations Incurred	\$ 3	\$ 3,491,899	\$ 2,908,322	\$ 160,006	\$ 13,933	\$ 331,454	\$ 7,261,223	\$ (694)	14,166,146
Unobligated Balances-Available	7,951,688	8,635	612,302	17,321	6,314	-	31,633	-	8,627,893
Unobligated Balances-Not Available	-	854	62,876	3,118	211,540	78,989	65,862	58,232	481,471
Total Status of Budgetary Resources	\$ 7,951,691	\$ 3,501,388	\$ 3,583,500	\$ 180,445	\$ 231,787	\$ 410,443	\$ 7,358,718	\$ 57,538	\$ 23,275,510
Relationship of Obligations to Outlays									
Obligated Balance, net beginning of period	\$ -	\$ 4,992,702	\$ 1,988,809	\$ 205,948	\$ 5,144	\$ 70,802	\$ 762,286	\$(27,555)	\$ 7,998,136
Cancelled appropriations and other	-	-	9	-	-	-	15,693	-	15,702
Obligations Incurred	3	3,491,899	2,908,322	160,006	13,933	331,455	7,261,222	(694)	14,166,146
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	(97)	(122,594)	(149,491)	(18,778)	(129,426)	(353,862)	(201,457)	(33)	(975,738)
Less: Obligated balance, net end of period	-	(5,681,104)	(1,952,717)	(198,907)	(5,201)	(91,873)	(694,909)	(19,769)	(8,644,480)
Net Outlays	\$ (94)	\$ 2,680,903	\$ 2,794,932	\$ 148,269	\$ (115,550)	\$ (43,478)	\$ 7,142,835	\$(48,051)	\$ 12,559,766
Outlays									
Disbursements	\$ 3	\$ 2,681,540	\$ 2,884,966	\$ 151,652	\$ 13,876	\$ 312,235	\$ 11,326,505	\$(48,017)	\$ 17,322,760
Collections, net of offsetting receipts	(97)	(637)	(90,034)	(3,383)	(129,426)	(355,713)	(4,183,670)	(34)	(4,762,994)
Net Outlays	\$ (94)	\$ 2,680,903	\$ 2,794,932	\$ 148,269	\$ (115,550)	\$ (43,478)	\$ 7,142,835	\$(48,051)	\$ 12,559,766

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Schedule of Budgetary Resources by Major Fund Type
 As of September 30, 2002

Budgetary Resources	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budget Authority	\$ (1,378,427)	\$ 5,425,000	\$ 3,026,595	\$ 245,000	\$ -	\$ -	\$ 7,128,400	\$ -	\$ 14,446,568
Unobligated Balance brought forward and transfers	10,111,046	302,331	553,845	19,400	88,241	28,620	291,897	29,860	11,425,240
Spending Authority From Offsetting Collections	-	-	170,915	3,969	75,566	318,068	1,045,815	27,596	1,641,929
Recoveries of prior year obligations	-	84,936	148,600	8,374	2	-	68,961	52	310,925
Permanently not available	-	(2,251,720)	(44,317)	(161)	-	-	(66,194)	-	(2,362,392)
Total Budgetary Resources	\$ 8,732,619	\$ 3,560,547	\$ 3,855,638	\$ 276,582	\$ 163,809	\$ 346,688	\$ 8,468,879	\$ 57,508	\$ 25,462,270
Status of Budgetary Resources									
Obligations Incurred	\$ 36	\$ 3,559,653	\$ 3,314,151	\$ 255,395	\$ 61,448	\$ 290,106	\$ 8,316,046	\$ 3	\$ 15,796,838
Unobligated Balances-Available	8,732,583	277	489,095	16,039	59,389	56,582	100,921	82	9,454,968
Unobligated Balances-Not Available	-	617	52,392	5,148	42,972	-	51,912	57,423	210,464
Total Status of Budgetary Resources	\$ 8,732,619	\$ 3,560,547	\$ 3,855,638	\$ 276,582	\$ 163,809	\$ 346,688	\$ 8,468,879	\$ 57,508	\$ 25,462,270
Relationship of Obligations to Outlays									
Obligated Balance, net beginning of period	\$ -	\$ 4,378,147	\$ 1,730,817	\$ 163,192	\$ 127	\$ 45,993	\$ 930,987	\$ 272	\$ 7,249,535
Obligations Incurred	36	3,559,653	3,314,151	255,395	61,448	290,106	8,316,046	3	15,796,838
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	(105)	(84,936)	(319,515)	(12,343)	(75,568)	(318,068)	(1,114,776)	(27,648)	(1,952,959)
Less: Obligated balance, net end of period	-	(4,992,702)	(1,988,809)	(205,948)	(5,144)	(70,802)	(762,286)	27,555	(7,998,136)
Net Outlays	\$ (69)	\$ 2,860,162	\$ 2,736,644	\$ 200,296	\$ (19,137)	\$ (52,771)	\$ 7,369,971	\$ 182	\$ 13,095,278
Outlays									
Disbursements	\$ 36	\$ 2,860,162	\$ 2,900,203	\$ 204,339	\$ 56,429	\$ 263,472	\$ 13,951,695	\$ 27,778	\$ 20,264,114
Collections, net of offsetting receipts	(105)	-	(163,559)	(4,043)	(75,566)	(316,243)	(6,581,724)	(27,596)	(7,168,836)
Net Outlays	\$ (69)	\$ 2,860,162	\$ 2,736,644	\$ 200,296	\$ (19,137)	\$ (52,771)	\$ 7,369,971	\$ 182	\$ 13,095,278

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

Public Law 104-205, "Department of Transportation and Related Agencies Appropriation Act, 1997", authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The franchise fund is designed to create competition within the public sector in the performance of a wide variety of support services. It 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.

Objective

The objective of the Franchise Fund is to enhance the support provided to the core programmatic mission functions within FAA. Benefits of the franchise fund are derived 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. Efforts in the franchise are directed toward identifying the most efficient and cost effective methods to provide support services, and this is consistent with the current Presidents' Management Agenda initiative relating to competitive sourcing.

Services

The Franchise Fund offers a wide variety of services. These include accounting, payroll, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance and international and management training. The Franchise Fund's major customers are FAA Line of Business Programs as shown on the consolidated Statement of Net Cost. Other customers include DOT entities, non-DOT government agencies, and other countries.

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

As of September 30

	2003	2002
Assets		
Intragovernmental		
Fund Balance with Treasury	\$ 170,862	\$ 127,297
Accounts Receivable, Net	1,165	2,676
Other	13	-
Total Intragovernmental Assets	172,040	129,973
Accounts Receivable, Net	2,896	1,914
Inventory and Related Property, Net	386,886	402,336
General Property, Plant, and Equipment, Net	1,080	4,011
Other Assets	5	4
Total Assets	\$ 562,907	\$ 538,238
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	\$ -	\$ 5
Other Intragovernmental Liabilities	97,780	67,088
Total Intragovernmental Liabilities	97,780	67,093
Accounts Payable	7,410	10,380
Other Liabilities	15,104	16,366
Total Liabilities	120,294	93,839
Net Position Balances:		
Cumulative Results of Operations	442,613	444,399
Total Net Position	442,613	444,399
Total Liabilities and Net Position	\$ 562,907	\$ 538,238

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

	For the Years Ended September 30	
	<u>2003</u>	<u>2002</u>
Programs		
Earned Revenues	\$ 320,846	\$ 284,220
Intragovernmental Costs	<u>(321,159)</u>	<u>(306,827)</u>
Profit (Loss)	<u>\$ (313)</u>	<u>\$ (22,607)</u>

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 FRANCHISE FUND
 STATEMENT OF CHANGES IN NET POSITION

	Cumulative Results of Operations	
	2003	2002
Beginning Balance	\$ 444,399	\$ 465,401
Other Financing Sources		
Transfers-in/out without reimbursement	(8,448)	(4,328)
Imputed financing from costs absorbed by others	6,251	5,387
Other	724	6
Total Financing Sources	(1,473)	1,065
Profit (Loss)	(313)	(22,067)
Ending Balance	\$ 442,613	\$ 444,399

OTHER ACCOMPANYING INFORMATION

NET COST BY STRATEGIC GOAL AREA

In an effort to better link actual costs to performance goals, in FY 2002 FAA began presenting a supplemental schedule of net cost, in which costs by program are allocated to agency strategic goals. In FY 2004, FAA plans to link costs to projects, and projects to goals, to improve understanding of the cost associated with FAA mission and programs.

Following are net costs for the year ended September 30, 2003 and 2002, allocated to agency strategic goals.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED SCHEDULE OF NET COST BY STRATEGIC GOAL AREA
For the Year-Ended September 30, 2003

Line of Business Programs	Strategic Goal Areas					Total
	Safety	Capacity	Organizational Excellence	Homeland Security	Other	
Air Traffic Services	\$ 6,560,007	\$ 565,613	\$ 450,299	\$ 75,119	\$ -	\$ 7,651,038
Regulation & Certification	882,868	2,849	56,292	-	-	942,009
Research & Acquisitions	178,936	235,374	22,174	6,438	-	442,922
Airports	766,369	1,533,507	26,124	460,493	-	2,786,493
Commercial Space Transportation	11,250	-	475	-	-	11,725
Non Line of Business Programs						
Region and Center Operations and Other	-	-	-	-	90,457	90,457
Not Assigned To Programs	-	-	-	-	26,692	26,692
Net Cost of Continuing Operations	<u>\$ 8,399,430</u>	<u>\$ 2,337,343</u>	<u>\$ 555,364</u>	<u>\$ 542,050</u>	<u>\$ 117,149</u>	<u>\$ 11,951,336</u>
Transferred Operations-Civil Aviation Security	14,553	1	-	32,696	-	47,250
Net Cost of Operations	<u>\$ 8,413,983</u>	<u>\$ 2,337,344</u>	<u>\$ 555,364</u>	<u>\$ 574,746</u>	<u>\$ 117,149</u>	<u>\$ 11,998,586</u>

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 CONSOLIDATED SCHEDULE OF NET COST BY STRATEGIC GOAL AREA
 For the Year-Ended September 30, 2002

Line of Business Programs	Strategic Goal Areas					Total
	Safety	Capacity	Organizational Excellence	Homeland Security	Other	
Air Traffic Services	\$ 6,566,283	\$ 552,982	\$ 110,411	\$ 6,989	\$ -	\$ 7,236,665
Regulation & Certification	923,493	-	-	-	-	923,493
Research & Acquisitions	128,306	318,073	-	68,483	-	514,862
Airports	809,005	1,725,897	-	398,640	-	2,933,542
Commercial Space Transportation	11,361	-	-	-	-	11,361
Non Line of Business Programs						
Region and Center Operations and Other	10,932	-	-	69,814	215,875	296,621
Not Assigned To Programs	-	-	-	-	(5,789)	(5,789)
Net Cost of Continuing Operations	\$ 8,449,380	\$2,596,952	\$ 110,411	\$ 543,926	\$ 210,086	\$ 11,910,755
Transferred Operations-Civil Aviation Security	72,186	-	-	460,978	-	533,164
Net Cost of Operations	\$ 8,521,566	\$2,596,952	\$ 110,411	\$ 1,004,904	\$ 210,086	\$ 12,443,919