

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

Assets	2004	2003
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 2,840,663	\$ 2,833,723
Investments (Note 3)	10,318,029	10,819,257
Accounts receivable, advances, and other (Note 4)	215,989	168,722
Total intragovernmental	13,374,681	13,821,702
Accounts receivable, advances, and other, net (Note 4)	173,283	63,411
Inventory and related property, net (Note 5)	585,709	581,766
Property, plant, and equipment, net (Notes 6 & 9)	14,469,731	13,397,607
Total assets	\$ 28,603,404	\$ 27,864,486
 Liabilities		
Intragovernmental liabilities		
Accounts payable	\$ 61,041	\$ 9,324
Employee related, legal and other (Notes 8 & 9)	287,026	344,868
Total intragovernmental liabilities	348,067	354,192
Accounts payable	649,005	669,693
Environmental cleanup costs (Note 7 & 19)	606,261	621,953
Employee related, legal, and other (Notes 8 & 9)	959,527	859,124
Federal employee benefits (Note 10)	954,463	1,041,568
Total liabilities	3,517,323	3,546,530
Commitments and contingencies (Notes 9 & 19)		
 Net position		
Unexpended appropriations	999,146	562,595
Cumulative results of operations	24,086,935	23,755,361
Total net position	25,086,081	24,317,956
 Total liabilities and net position	\$ 28,603,404	\$ 27,864,486

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



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

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)	2004	2003
Air Traffic Organization		
Expenses	\$ 8,214,526	\$ 8,222,442
Less earned revenues	(135,515)	(123,746)
Net costs	8,079,011	8,098,696
Regulation & Certification		
Expenses	942,377	943,135
Less earned revenues	(2,649)	(1,126)
Net costs	939,728	942,009
Airports		
Expenses	2,977,300	2,786,717
Less earned revenues	(232)	(224)
Net costs	2,977,068	2,786,493
Commercial Space Transportation		
Expenses	12,527	11,725
Net costs	12,527	11,725
Non line of business programs		
Regional and center operations and other programs		
Expenses	389,954	342,107
Less earned revenues	(240,866)	(256,386)
Net costs	149,088	85,721
Not assigned to programs		
Expenses	36,572	61,486
Less earned revenues	-	(34,794)
Net costs	36,572	26,692
Net cost of continuing operations	12,193,994	11,951,336
Transferred operations - Civil Aviation Security (Note 15)		
Expenses	-	124,705
Less earned revenues	-	(77,455)
Net costs	-	47,250
Net cost of operations		
Total expenses	12,573,256	12,492,317
Less earned revenues	(379,262)	(493,731)
Total net cost	\$ 12,193,994	\$ 11,998,586

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)

	2004		2003	
	Cumulative results of operations	Unexpended appropriations	Cumulative results of operations	Unexpended appropriations
Beginning balances	\$ 23,755,361	\$ 562,595	\$ 23,518,258	\$ 481,919
Budgetary financing sources				
Appropriations received (Note 16)	-	3,032,925	-	3,273,241
Appropriations transferred-in/out	-	-	-	250
Rescissions, cancellations and other	-	(64,644)	-	(42,269)
Appropriations used	2,531,730	(2,531,730)	3,150,546	(3,150,546)
Excise taxes and associated revenue (Note 13)	9,674,509	-	9,360,469	-
Transfers-in/out without reimbursement	(101,662)	-	(123,169)	-
Other financing sources				
Donations and forfeitures of property and other	-	-	32,218	-
Transfers-in/out without reimbursement	(72,508)	-	(36,457)	-
Transferred operations (Note 15)	-	-	(643,621)	-
Imputed financing from costs absorbed by others (Note 14)	493,499	-	495,703	-
Total financing sources	12,525,568	436,551	12,235,689	80,676
Net cost of operations	12,193,994	-	11,998,586	-
Ending balances	<u>\$ 24,086,935</u>	<u>\$ 999,146</u>	<u>\$ 23,755,361</u>	<u>\$ 562,595</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)

	2004	2003 AS RESTATED
Budgetary resources (Note 16)		
Budget authority	\$ 17,615,716	\$ 16,644,463
Unobligated balance brought forward, transfers and other	1,107,702	932,850
Spending authority from offsetting collections	675,454	726,484
Recoveries of prior year obligations	190,918	249,157
Temporarily not available pursuant to public law	(78,874)	-
Permanently not available	<u>(3,451,054)</u>	<u>(3,229,132)</u>
Total budgetary resources	<u><u>\$ 16,059,862</u></u>	<u><u>\$ 15,323,822</u></u>
Status of budgetary resources		
Obligations incurred	\$ 14,230,011	\$ 14,166,146
Unobligated balance available	1,113,378	676,205
Unobligated balance not available	<u>716,473</u>	<u>481,471</u>
Total status of budgetary resources	<u><u>\$ 16,059,862</u></u>	<u><u>\$ 15,323,822</u></u>
Relationship of obligations to outlays		
Obligated balance, net, beginning of period	\$ 8,644,480	\$ 7,998,136
Cancelled appropriations and other	(9)	15,702
Obligations incurred	14,230,011	14,166,146
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	(866,372)	(975,738)
Less: Obligated balance, net, end of period	<u>(9,173,060)</u>	<u>(8,644,480)</u>
Net outlays	<u><u>\$ 12,835,050</u></u>	<u><u>\$ 12,559,766</u></u>
Outlays		
Disbursements	\$ 17,756,831	\$ 17,322,760
Collections, net of offsetting receipts	<u>(4,921,781)</u>	<u>(4,762,994)</u>
Net outlays	<u><u>\$ 12,835,050</u></u>	<u><u>\$ 12,559,766</u></u>

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



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

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

	2004	2003
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	\$ 14,230,011	\$ 14,166,146
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	866,372	975,738
Obligations net of offsetting collections	13,363,639	13,190,408
Other resources		
Donations and forfeitures of property and other	-	32,218
Transfers in/(out) without reimbursement	(72,508)	(680,078)
Imputed financing from costs absorbed by others	493,499	495,703
Net other resources used to finance activities	420,991	(152,157)
Total resources used to finance activities	13,784,630	13,038,251
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 received	385,476	464,695
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 17)	171,597	158,858
Resources that finance the acquisition of assets	1,985,245	1,534,555
Other resources or adjustments to net obligated resources that do not affect net cost of operations	18,863	(71,408)
Total resources used to finance items not part of net cost of operations	2,561,181	2,086,700
Total resources used to finance net cost of operations	11,223,449	10,951,551
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 and other unfunded liabilities (Note 17)	108,993	103,051
Increase in exchange revenue receivable from the public	(82,812)	-
Components not requiring or generating resources in future periods		
Depreciation and amortization	952,969	911,337
Revaluation of assets or liabilities	-	(18,320)
Cost of goods sold	47,589	34,987
Other	(56,194)	15,980
Total components of net cost of operations that will not require or generate resources	944,364	943,984
Total components of net cost of operations that will not require or generate resources in the current period	970,545	1,047,035
Net cost of operations	\$ 12,193,994	\$ 11,998,586

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



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 FAA. The statements are a requirement of the Chief Financial Officers Act of 1990, Government Management Reform Act of 1994, and the OMB's Bulletin Number 01-02, *Audit Requirements for Federal Financial Statements*. They have been prepared from, and are fully supported by, the books and records of FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America 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) 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 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 and New Line of Business

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. Our 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 Trust Funds, Revolving Funds, Special Funds, General Funds, and General Fund Miscellaneous Receipts.

- Trust Funds are credited with receipts that are generated by the terms of a trust agreement or statute. At the point of collection, our receipts are unavailable until appropriated by the U.S. Congress. The Trust Funds included in our consolidated financial statements include the Airport and Airway Trust Fund (AATF), which is managed by the U.S. Treasury's Bureau of Public Debt, and funds the (a) Grants-in-Aid for Airports (b) Facilities and Equipment and (c) Research, Engineering and Development.
- Revolving Funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. FAA's revolving funds include the Aviation Insurance Fund and the Administrative Services Franchise Fund.
- Special Funds are accounts established for receipts earmarked by law for a specific purpose, but are not generated by a cycle of operations for which there is continuing authority to reuse such receipts. Our consolidated financial statements include Aviation User Fees, which are Special Fund receipts.
- General Funds are accounts used to record financial transactions arising under congressional appropriations or other authorizations to spend general revenues. We manage Operations and Facilities, Engineering & Development General Fund accounts.



- General Fund Miscellaneous Receipts are accounts established for receipts of non-recurring activity, such as fines, penalties, fees and other miscellaneous receipts for services and benefits.

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

On February 8, 2004, FAA established the ATO. The ATO combined the FAA's Research and Acquisitions, Air Traffic Services, and Free Flight Offices into one performance based organization. The primary service of the ATO is to move air traffic safely and efficiently. The customers of the ATO are commercial and private aviation and the military.

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit FAA to incur obligations for specified purposes. In FYs 2004 and 2003, we were accountable for AATF appropriations, Revolving Funds, a Special Fund, and General Fund appropriations. We recognize budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through the Department of Treasury General Fund warrants and transfers from the AATF.

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 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 AATF 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 U.S. Treasury. The 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, the U.S. Treasury makes initial semi-monthly distributions to trust funds 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, 2004 financial statements reflect excise taxes certified through March 31, 2004, and excise taxes estimated by OTA for the period April 1 to September 30, 2004 as specified by Statement of Federal Financial Accounting Standards (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. Actual tax collections data for the two quarters ended June 30, 2004 and September 30, 2004 will not be available from the IRS until December 2004 and March 2005, respectively. FAA management does not believe that the actual tax collections for the quarters ended June 30, 2004 and September 30, 2004 will be materially different than the OTA estimate.



The AATF also earns interest from investments in U.S. Government securities. Interest income is recognized as revenue on the accrual basis of such collections for those quarters.

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 deferred and 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 took place.

We recognize as an imputed financing source the amount of accrued pension and post-retirement benefit expenses for current employees paid on our behalf by the Office of Personnel Management (OPM), as well as amounts paid from the U.S. 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 AATF and Aviation Insurance Revolving Fund are invested in U.S. Government securities at cost. A portion of the AATF 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 U.S. 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 foreign governments. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a 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, 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

Within the FAA's Franchise Fund, 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 national airspace system (NAS), and is predominately 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. The cost of repair is capitalized and 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 our 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 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 using the consumption method of accounting.

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

Operating Materials and Supplies 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 "held for use" and excess, obsolete, and unserviceable operating materials and supplies based on the condition of various asset categories as well as our historical experience disposing such assets.

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

FAA capitalizes acquisitions of PP&E when the cost equals or exceeds \$25,000 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:

Real Property	Useful Life (years)
Buildings, air traffic control towers, and enroute air traffic control centers	40
Mobile buildings	20
Roads, sidewalks, parking lots, and all other structures	15
Capital and leasehold improvements	Up to 10
Personal Property	
Aircraft, navigation, and surveillance equipment	20
Decision support systems, communications- and weather-related equipment	4-20
Office furniture, printing, projection, and office equipment, vehicles	5-13
Internal use software	3



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 and allocates these costs to the related in-use assets.

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 AATF.

M. Advances and Prepaid Charges

Advance payments are generally prohibited by law. There are some exceptions, such as reimbursable agreements, 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 or other 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 agencies.

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. 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.

We 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. We 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 AATF 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, (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 increase or decrease in the estimated environmental cleanup liability is charged to expense over the life of the associated asset. Assets placed in service in FY 1999 and after do not have associated environmental liabilities.

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. We recognize contingent liabilities, in the accompanying balance sheet and statement of net cost, 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 or when a loss from the outcome of future



events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

V. Restatement

As discussed in note 16, FAA has restated its FY 2003 Combined Statement of Budgetary Resources to reduce the unobligated balance of budgetary resources by \$7,951.7 million, which represents the amount of AATF excise tax receipts that were not available for obligation upon collection by the IRS.

W. Reclassifications

Certain FY 2003 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, 2004 and 2003 were:

	2004	2003
Trust funds	\$ 1,117,810	\$ 1,250,801
Operations general fund	1,042,208	738,852
Franchise fund	208,776	170,862
Revolving funds	49,649	22,848
AATF and other funds	422,220	650,360
Total	\$ 2,840,663	\$ 2,833,723

Status of fund balance with Treasury

Unobligated balance		
Available	\$ 1,113,378	\$ 1,072,492
Restricted	716,473	700,605
Obligated balance not yet disbursed	1,010,812	1,060,626
Total	\$ 2,840,663	\$ 2,833,723

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, 2004 and 2003, respectively, FAA's investment balances were as follows:

	2004	2003
<u>Intragovernmental securities</u>		
Nonmarketable, par value - AATF	\$ 9,891,592	\$ 10,517,891
Nonmarketable, market based - Aviation Insurance Fund	351,146	196,187
Accrued interest	75,291	105,179
Investments at cost	<u>\$ 10,318,029</u>	<u>\$ 10,819,257</u>
 <u>Market value disclosure</u>		
Nonmarketable, par value - AATF	\$ 9,891,592	\$ 10,517,891
Nonmarketable, market based - Aviation Insurance Fund	351,488	196,693
Unamortized discount - nonmarketable, market based	(342)	(506)
Nonmarketable, market based, net	<u>351,146</u>	<u>196,187</u>
Market value disclosure	<u>\$ 10,242,738</u>	<u>\$ 10,714,078</u>

The Secretary of the Treasury makes AATF investments on behalf of FAA. FAA investments are considered investment authority and available for unrestricted use to offset the cost of operations. As of September 30, 2004 and 2003, approximately \$9.9 billion and \$10.5 billion, respectively, were invested in U.S. Treasury Certificates of Indebtedness. 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 the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2004 mature on various dates through June 30, 2005, and investments as of September 30, 2003 matured on various dates through June 30, 2004. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2004 and FY 2003 was 3.6% and 4.125%, 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, 2004, these nonmarketable, market-based securities had an initial term of six months, have an effective market rate of approximately 1%, and mature within 98 days.



NOTE 4. ACCOUNTS RECEIVABLE, ADVANCES AND OTHER ASSETS

Accounts receivable, advances, prepayments, and other assets as of September 30, 2004 and 2003 were comprised of the following:

	<u>2004</u>	<u>2003</u>
<u>Intragovernmental</u>		
Accounts receivable	\$ 67,146	\$ 59,924
Advances, prepayments and other	148,843	108,798
Subtotal, intragovernmental	<u>215,989</u>	<u>168,722</u>
<u>With the public</u>		
Accounts receivable, net	124,757	42,058
Advances and prepayments	20,869	2,359
Deposits in transit and other	27,657	18,994
Subtotal, with the public	<u>173,283</u>	<u>63,411</u>
Total accounts receivable, advances, Prepayments and other	<u><u>\$ 389,272</u></u>	<u><u>\$ 232,133</u></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 \$57.0 million and \$15.0 million, as of September 30, 2004 and 2003, respectively.



NOTE 5. INVENTORY AND RELATED PROPERTY

As of September 30, 2004 and 2003, operating materials and supplies and inventory were:

<u>Operating material and supplies</u>	2004	2003
Held for use, net	\$ 166,628	\$ 147,879
Excess, obsolete, and unserviceable, net	11,619	14,567
Subtotal, operating material and supplies	178,247	162,446
 <u>Inventory</u>		
Held for sale	59,357	61,457
Held for repair, net	321,511	330,189
Raw materials, finished goods, and other	13,632	13,632
Excess, obsolete, and unserviceable, net	12,962	14,042
Subtotal, inventory	407,462	419,320
 Total inventory and related property, net	 \$ 585,709	 \$ 581,766

Operating materials and supplies and inventory are shown net of the following allowances:

<u>Operating materials and supplies</u>	2004	2003
Held for use	\$ (16,873)	\$ (12,167)
Excess, obsolete, and unserviceable	(60,242)	(57,294)
Subtotal, operating materials and supplies allowances	(77,115)	(69,461)
 <u>Inventory</u>		
Held for repair	(83,660)	(83,849)
Excess, obsolete, and unserviceable	(5,839)	(4,760)
Subtotal, inventory allowances	(89,499)	(88,609)
 Total allowances	 \$ (166,614)	 \$ (158,070)

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs.

FAA transfers excess items for disposal into the Government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's 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, 2004 and 2003 were:

Class of fixed asset	Deprec. method	Service life	2004		
			Acquisition value	Accumulated depreciation	Net book value
Real property, including land	[1]	[2]	\$ 4,086,616	\$ (1,966,495)	\$ 2,120,121
Personal property	SL	3-20	13,894,962	(6,622,389)	7,272,573
Assets under capital lease (Note 9)	SL	Term-40	125,923	(71,807)	54,116
Construction in progress	-	-	5,011,586	-	5,011,586
Property not in use	-	-	19,202	(7,867)	11,335
Total property, plant, and equipment			\$ 23,138,289	\$ (8,668,558)	\$ 14,469,731

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

[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.

Our Construction in Progress (CIP) primarily relates to NAS 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 disposal, are reflected in FAA financial records as Property Not in Use. We reported disposal losses of \$11.0 million and \$10.4 million in FY 2004 and FY 2003, respectively.



NOTE 7. ENVIRONMENTAL CLEANUP COSTS

FAA's environmental liabilities as of September 30, 2004 and 2003 were:

	2004	2003
Environmental remediation	\$ 366,762	\$ 372,125
Environmental cleanup and decommissioning	239,499	249,828
Total environmental liabilities	\$ 606,261	\$ 621,953

Additional information on environmental projects is disclosed in Note 19.

NOTE 8. EMPLOYEE RELATED, LEGAL, AND OTHER LIABILITIES

As of September 30, 2004 and 2003, FAA's employee related, legal and other liabilities were:

	2004		
	Non-current liabilities	Current liabilities	Total
<u>Intragovernmental</u>			
Advances received	\$ -	\$ 52,427	\$ 52,427
Accrued payroll & benefits payable to other agencies	-	33,754	33,754
Liabilities covered by budgetary or other resources	-	86,181	86,181
Federal Employees' Compensation Act (FECA) payable	111,987	88,320	200,307
Other	-	538	538
Liabilities not covered by budgetary or other resources	111,987	88,858	200,845
Subtotal, intragovernmental	111,987	175,039	287,026
<u>With the public</u>			
Advances received and other	-	24,388	24,388
Accrued payroll & benefits payable to employees	-	174,881	174,881
Liabilities covered by budgetary or other resources	-	199,269	199,269
Accrued unfunded annual & other leave & assoc. benefits	470,995	-	470,995
Sick leave compensation benefits for air traffic controllers	68,009	1,354	69,363
Capital leases (Note 9)	46,909	13,663	60,572
Legal claims	-	19,000	19,000
Return rights	4,481	3,290	7,771
Other accrued liabilities	132,557	-	132,557
Liabilities not covered by budgetary or other resources	722,951	37,307	760,258
Subtotal, with the public	722,951	236,576	959,527
Total employee related, legal, and other liabilities	\$ 834,938	\$ 411,615	\$ 1,246,563



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	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 or other resources	-	143,933	143,933
Federal Employees' Compensation Act (FECA) payable	113,063	87,842	200,905
Debt	-	30	30
Liabilities not covered by budgetary or other 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 or other 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	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 or other 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

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, 2004 includes workers' compensation benefits paid by DOL during the periods July 1, 2002 through June 30, 2004 and accrued liabilities for the quarter July 1, 2004 through September 30, 2004. FAA's liability accrued as of September 30, 2003 included workers' compensation benefits paid by DOL during the period July 1, 2001 through June 30, 2003, and accrued liabilities for the quarter July 1, 2003 through September 30, 2003.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms of certain collective bargaining agreements, including the National Air Traffic Controllers Association (NATCA) agreement, Article 25, Section 13. For example, the NATCA 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



effective retirement date. Based on sick leave balances, this liability was \$69.4 million and \$63.2 million as of September 30, 2004 and 2003, respectively.

FAA estimated that 100 percent of its \$19.0 million and \$78.9 million legal claims liabilities as of September 30, 2004 and 2003, 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, 2004 and 2003, there were 137 and 151 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, 2004 and 2003:

	<u>2004</u>	<u>2003</u>
Land, buildings, and machinery	\$ 125,923	\$ 125,923
Accumulated depreciation	(71,807)	(63,328)
Assets under capital lease, net	<u>\$ 54,116</u>	<u>\$ 62,595</u>

As of September 30, 2004, FAA's future payments due on assets under capital lease were:

Future payments due by fiscal year	
(Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2005)	\$ 13,663
Year 2 (FY 2006)	11,408
Year 3 (FY 2007)	11,335
Year 4 (FY 2008)	9,661
Year 5 (FY 2009)	9,468
After 5 Years	34,250
Less: Imputed interest	(29,213)
Total capital lease liability	<u>\$ 60,572</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, 2004 were:

Fiscal year	2004
Year 1 (FY 2005)	\$ 55,330
Year 2 (FY 2006)	36,817
Year 3 (FY 2007)	28,899
Year 4 (FY 2008)	21,204
Year 5 (FY 2009)	13,815
After 5 Years	77,033
Total future operating lease payments	\$ 233,098

Operating lease expense incurred during the years ended September 30, 2004 and 2003 was \$55.3 million and \$53.3 million, respectively. The operating lease amounts due after five years do 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, 2004 and 2003, FECA actuarial liabilities were \$954.5 million and \$1,041.6 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 or other and thus will require future appropriated funding.

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

In FY 2004 and FY 2003, all expenses, earned revenues, and intragovernmental transactions were related to Transportation Programs.

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

During FY 2004, the FAA formed the ATO. The ATO is largely comprised of two former lines of business, Air Traffic Services and Research & Acquisitions, as well as one other business program, Free Flight, which was previously reported under Regional and Center Operations and Other Programs. The FY 2003 net costs of these former organizations have been reclassified and reported under ATO for consistency with the current year presentation.

FAA's four 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.



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The following are net costs for the years ended September 30, 2004 and 2003 by strategic goal.

For the Year Ended September 30, 2004

Line of business programs	Strategic Goal Areas				
	Safety	Capacity	Organizational Excellence	International Leadership	Total
Air Traffic Organization	\$ 6,113,865	\$ 1,513,989	\$ 450,909	\$ 248	\$ 8,079,011
Regulation & Certification	859,372	218	71,423	8,715	939,728
Airports	1,729,468	1,213,208	33,992	400	2,977,068
Commercial Space Transportation	10,900	1,627	-	-	12,527
Non line of business programs					
Region and center operations and other	101,738	4,085	43,012	253	149,088
Not assigned to programs	20,963	2,249	13,360	-	36,572
Net cost	\$ 8,836,306	\$ 2,735,376	\$ 612,696	\$ 9,616	\$ 12,193,994

For the Year Ended September 30, 2003

Line of business programs	Strategic Goal Areas					
	Safety	Capacity	Organizational Excellence	Homeland Security	Other	Total
Air Traffic Organization	\$ 6,738,943	\$ 800,987	\$ 472,473	\$ 81,557	\$ 4,736	\$ 8,098,696
Regulation & Certification	882,868	2,849	56,292	-	-	942,009
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	-	-	-	-	85,721	85,721
Not assigned to programs	-	-	-	-	26,692	26,692
Net cost of continuing operations	8,399,430	2,337,343	555,364	542,050	117,149	11,951,336
Transferred Operations-Civil Aviation Security	14,553	1	-	32,696	-	47,250
Net cost of operations	\$ 8,413,983	\$ 2,337,344	\$ 555,364	\$ 574,746	\$ 117,149	\$ 11,998,586

The following is our distribution of FY 2004 and FY 2003 net costs by intragovernmental-related activity versus with the public.

Line of business programs	For the Year Ended September 30, 2004		
	Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	\$ 2,016,981	\$ 6,197,545	\$ 8,214,526
Less earned revenues	(65,889)	(69,626)	(135,515)
Net costs	1,951,092	6,127,919	8,079,011
Regulation & Certification			
Expenses	230,547	711,830	942,377
Less earned revenues	(432)	(2,217)	(2,649)
Net costs	230,115	709,613	939,728
Airports			
Expenses	18,336	2,958,964	2,977,300
Less earned revenues	(87)	(145)	(232)
Net costs	18,249	2,958,819	2,977,068
Commercial Space Transportation			
Expenses	336	12,191	12,527
Net costs	336	12,191	12,527
Non line of business programs			
Regional and center operations and other programs			
Expenses	180,195	209,759	389,954
Less earned revenues	(84,152)	(156,714)	(240,866)
Net costs	96,043	53,045	149,088
Not assigned to programs			
Expenses	-	36,572	36,572
Net costs	-	36,572	36,572
Net cost of operations			
Total expenses	2,446,395	10,126,861	12,573,256
Less earned revenues	(150,560)	(228,702)	(379,262)
Net costs	\$ 2,295,835	\$ 9,898,159	\$ 12,193,994



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Line of business programs	For the Year Ended September 30, 2003		
	Intra-governmental	With the Public	Total
Air Traffic Organization			
Expenses	\$ 1,203,704	\$ 7,018,738	\$ 8,222,442
Less earned revenues	(36,786)	(86,960)	(123,746)
Net costs	1,166,918	6,931,778	8,098,696
Regulation & Certification			
Expenses	128,755	814,380	943,135
Less: Earned revenues	(250)	(876)	(1,126)
Net Costs	128,505	813,504	942,009
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	179,953	342,107
Less earned revenues	(179,475)	(76,911)	(256,386)
Net costs	(17,321)	103,042	85,721
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



NOTE 13. AIRPORT AND AIRWAY TRUST FUND DEDICATED COLLECTIONS

FAA's consolidated financial statements include the results of operations and financial position of the Airport and Airway Trust Fund (AATF). The AATF was created by the Airport and Airway Revenue Act of 1970 to provide a dedicated source of funding to the nation's aviation system through several aviation-related excise taxes. The IRS collects these excise taxes on behalf of FAA's AATF. These taxes can be withdrawn only as authorized by the U.S. Congress. Twice a month, Treasury estimates the amount collected, and adjusts the estimates by actual collections quarterly. Accordingly, the total taxes recognized in FY 2004 included OTA's estimate of \$4.7 billion for the six months ended September 30, 2004.

The IRS has informed us that the estimated excise tax collections and the amount credited to the AATF for the benefit of the FAA, for the quarter ended June 30, 2004, may be understated by as much as \$275 million. We have not recognized the potential understatement of \$275 million since it is not legally enforceable until certified by the IRS. Therefore, this represents a potential gain contingency at September 30, 2004. The estimated taxes and deposits to AATF will be adjusted to equal actual tax collections in December 2004. Total taxes recognized in FY 2003 included OTA's estimate of \$2.9 billion for the quarter ending September 30, 2003. Fiscal data of the AATF as of, and for the years ended, September 30, 2004 and 2003 is summarized below. Intra-agency transactions have not been eliminated in the amounts presented.

	2004	2003
Assets		
Fund balance with Treasury	\$ 642,007	\$ 614,503
Investments, net (Note 3)	9,891,592	10,517,891
Accounts receivable, net	129,487	105,179
Total assets	\$ 10,663,086	\$ 11,237,573
Liabilities and net position		
AATF amounts due to FAA	\$ 3,704,148	\$ 3,115,669
Cumulative results of operations	6,958,938	8,121,904
Total liabilities and net position	\$ 10,663,086	\$ 11,237,573
Revenue		
Passenger ticket tax	\$ 6,554,599	\$ 6,065,763
International departure tax	1,455,529	1,517,807
Investment income	446,956	570,873
Fuel taxes	774,150	850,950
Waybill tax	498,871	399,396
Tax refunds and credits	(55,596)	(44,320)
Total revenue	\$ 9,674,509	\$ 9,360,469
Expenses		
Nonexpenditure transfer out and other	\$ 10,838,828	\$ 9,707,949
Total expenses	\$ 10,838,828	\$ 9,707,949



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 U.S. Treasury's Judgment Fund in settlement of claims or court assessments against FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2004 and 2003, respectively, imputed financing was as follows:

	2004	2003
Office of Personnel Management	\$ 482,253	\$ 465,868
Treasury Judgment Fund	11,246	29,835
Total imputed financing sources	<u>\$ 493,499</u>	<u>\$ 495,703</u>

NOTE 15. TRANSFERRED OPERATIONS

The Aviation and Transportation Security Act (Public Law 107-71) established the 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 FY 2003 the Statement of Net Cost, 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, of the \$643.6 million transferred operations reported on the Statement of Changes in Net Position for the year ended September 30, 2003, \$623.6 million pertains to security-related PP&E that FAA transferred to the TSA. There were no transfers to TSA in FY 2004.



NOTE 16. STATEMENT OF BUDGETARY RESOURCES RESTATEMENT AND DISCLOSURES

The AATF is managed by the U.S. Department of Treasury's Bureau of Public Debt (BPD). In FY 2003 and years prior, FAA reported the AATF as having unobligated budget authority, causing an overstatement of budgetary resources presented on the Combined Statement of Budgetary Resources. In accordance with the U.S. Department of Treasury's Trust Fund Accounting Guide (updated in 2001), BPD, and consequently FAA, no longer present AATF as having budget authority. This change in classification results in a correction of an error in presentation and a restatement of the FY 2003 Budget authority and Unobligated balance brought forward, transfers and other of \$.8 billion and \$8.8 billion, respectively, and an offsetting reduction in Unobligated balances available of \$8.0 billion. The effect of this restatement on the Combined Statement of Budgetary Resources is as follows:

	2003 Originally stated	Effect of restatement	2003 As restated
Budgetary resources			
Budget authority	\$ 15,846,546	\$ 797,917	\$ 16,644,463
Unobligated balance brought forward, transfers and other	\$ 9,682,455	\$ (8,749,605)	\$ 932,850
Status of budgetary resources			
Unobligated balance available	\$ 8,627,893	\$ (7,951,688)	\$ 676,205

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 AATF 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.

Budget authority as reported in the Combined Statements of Budgetary Resources includes amounts made available to FAA from general, trust and special funds. In contrast, appropriations received as reported in the Consolidated Statements of Changes in Net Position pertains only to amounts made available to FAA from general funds. The following is a reconciliation of these amounts:

	2004	2003
Combined Statement of Budgetary Resources - budget authority	\$ 17,615,716	\$ 16,644,463
Less amounts made available to FAA from AATF dedicated collections	(14,582,668)	(13,371,222)
Less special fund aviation user fees	(123)	-
Consolidated Statement of Changes in Net Position - appropriations received	<u>\$ 3,032,925</u>	<u>\$ 3,273,241</u>



In FY 2004, FAA had rescissions of budgetary resources to Grants-in-Aid to Airports of \$20.1 million; Operations of \$20.8 million; and the AATF of \$65.0 million. In FY 2003, a rescission of budgetary resources was made to the Facilities and Equipment fund in the amount of \$39.5 million, and to contract authority of the Grants-in-Aid to Airports fund in the amount of \$22.1 million.

OMB Bulletin 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 2004 “actual” in the Budget of the United States Government for FY 2006.
- 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 2004 and FY 2003, 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:

	2004		2003	
	Direct	Reimbursable	Direct	Reimbursable
Category A	\$ 5,487,783	\$ 509,509	\$ 10,376,768	\$ 264,743
Category B	8,230,998	1,721	3,524,631	4
Total	\$ 13,718,781	\$ 511,230	\$ 13,901,399	\$ 264,747

Total available contract authority at the end of FY 2004 and FY 2003 was \$3.7 billion and \$4.2 billion, respectively.

Public Law 108-199 authorized FAA \$3.4 billion in liquidating authority, derived from the AATF, for the Grants-in-Aid program. In addition, Public Laws 108-176 and 106-181 authorized FAA with \$3.7 billion of contract authority.

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 2003, \$17.6 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552, and thus have not been brought forward to FY 2004. Additionally, transfers in FY 2004 to DOT for Essential Air Services also reduced balances available for obligation.

The net obligated balance, end of period, is comprised of the following components as of September 30, 2004 and 2003:

	2004	2003
Obligated balance, net, end of period		
Accounts receivable and advances	\$ (178,862)	\$ (62,775)
Unfilled customer orders from Federal sources	(219,936)	(113,350)
Undelivered orders	8,660,222	7,926,575
Accounts payable and other liabilities	911,636	894,030
Total obligated balance, net, end of period	\$ 9,173,060	\$ 8,644,480

NOTE 17. FINANCING SOURCES YET TO BE PROVIDED

The following table shows liabilities not covered by budgetary or other resources as of September 30, 2004 and 2003, as well as the relationship between liabilities not covered by budgetary or other resources on the balance sheet and the change in components of net cost of operations that will require or generate resources in future periods.

	2004	2003	Change
Unfunded annual & other leave & assoc. benefits (Note 8)	\$ 470,995	\$ 451,199	\$ 19,796
Sick leave compensation benefits and return rights (Note 8)	77,134	70,750	6,384
Other accrued liabilities (Note 8)	133,095	50,282	82,813
Increases - components of net cost of operations Requiring or generating resources in future periods			<u>108,993</u>
Environmental liabilities (Notes 7 and 19)	\$ 606,261	\$ 621,953	\$ (15,692)
Legal claims (Note 8)	19,000	78,900	(59,900)
Capital leases (Notes 8 & 9)	60,572	68,844	(8,272)
Debt - intragovernmental (Note 8)	-	30	(30)
FECA payable (Note 8)	200,307	200,905	(598)
FECA actuarial liability (Note 10)	954,463	1,041,568	(87,105)
Decreases - resources that fund expenses Recognized in prior periods			<u>(171,597)</u>
Liabilities not covered by budgetary or other resources	<u>\$ 2,521,827</u>	<u>\$ 2,584,431</u>	<u>\$ (62,604)</u>

NOTE 18. CUSTODIAL ACTIVITY

FAA collects certain non-exchange (custodial) revenue on behalf of the General Fund of the Treasury. During FY 2004 and FY 2003, FAA's Statement of Changes in Net Position included custodial revenue totaling \$19.0 million and \$21.8 million, respectively. The primary source of custodial activity is revenue from the Metropolitan Washington Airport Authority for its leases of the Ronald Reagan National Airport and the 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, 2004 and 2003, we had contract options of \$10.9 billion and \$32.8 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.

Letters of Intent. FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent (LOIs) to enter into Airport Improvement Program grant agreements. Through September 30, 2004, FAA issued LOIs covering FY 1988 through FY 2014 totaling \$4.7 billion. As of September 30, 2004, FAA had obligated \$3.3 billion of this total amount, leaving \$1.4 billion unobligated.

As of September 30, 2003, LOIs covering FY 1988 through FY 2014 totaled \$4.5 billion. Of this amount, FAA had obligated \$3.0 billion, leaving \$1.5 billion unobligated as of September 30, 2003.



Airport Improvement Program Grants. FY 2004, Airport Improvement Program grant authority totaled \$3.4 billion, including \$2.0 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors have claimed \$1.6 billion, and \$416.0 million remains available from unused or newly enacted contract authority to those sponsors through FY 2006, or in the case of non-hub primary airport locations, through FY 2007.

In FY 2003, Airport Improvement Program grant authority was \$3.3 billion, including \$2.1 billion in entitlements to specific locations. Of entitlements to specific locations, sponsors had claimed \$1.8 billion, and \$336.0 million remained 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.

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. We may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

FAA maintains standby non-premium war-risk insurance policies for 39 air carriers having approximately 1,228 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the Air Transportation Safety and System Stabilization Act (Public Law 107-42) expanded premium insurance program authority to permit insurance of domestic operations. Under this program, we initially provided third party liability war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks of September 11, 2001. Public Law 108-11 (and subsequent amendments) required us to extend policies in effect on July 19, 2002, until August 31, 2004 and gave the Secretary of Transportation discretion to further extend coverage through December 31, 2004. It also mandated provision of hull loss and passenger and third party war risk liability insurance for those policies. There are 77 FAA premium war-risk policies. Insured air carrier per occurrence limits for combined hull and liability coverage range from \$100 million to \$4 billion. The period of coverage in effect as of September 30, 2004 was from September 1, 2004 through December 31, 2004.

Current war risk coverage is intended as a temporary measure to provide insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by FAA and are based on the value of policy coverage limits and aircraft activity. However, airlines' total charge for coverage is subject to a cap mandated by Congress. During FY 2004 and FY 2003, we recognized insurance premium revenue of \$145.6 million and \$124.0 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."

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, 2004 or 2003. In the past, FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Since the inception of the Aviation 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 \$19.8 million in FY 2003, before it ceased billing in light of an adverse decision in the U.S. Court of Appeals on April 8, 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. In July 2004, the FAA Administrator issued an Administrative Order determining the disposition of all fees collected under both rules. Concurrently, a settlement was reached with the plaintiff that will allow FAA to resume collection of fees in FY 2005.

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, 2004 and 2003, the amount related to these two sites is \$49.3 million and \$61.6 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, 2004 and 2003, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at \$76.7 million and \$325.5 million, respectively. FAA does not have material amounts of known unasserted claims.



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Required Supplementary Stewardship Information



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

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

State/Territory	2004	2003	2002	2001	2000
Alabama	\$ 55,527	\$ 59,760	\$ 58,506	\$ 27,421	\$ 19,653
Alaska	153,237	158,950	121,640	83,563	51,788
Arizona	52,286	75,247	54,737	51,783	58,381
Arkansas	23,198	35,530	32,937	32,412	17,534
California	236,031	216,981	243,720	179,447	87,617
Colorado	101,792	57,872	91,495	26,340	29,860
Connecticut	8,511	7,011	10,420	3,480	1,788
Delaware	2,813	2,577	5,838	4,704	2,515
District of Columbia	555	447	71	61	83
Florida	145,690	166,066	157,878	110,428	64,694
Georgia	96,081	48,147	67,957	33,652	43,911
Hawaii	21,020	24,767	15,846	34,569	6,567
Idaho	22,677	30,721	19,925	25,477	13,106
Illinois	106,145	74,202	165,518	85,566	66,003
Indiana	49,219	47,288	43,099	30,544	24,141
Iowa	24,282	37,521	30,765	35,159	16,169
Kansas	24,118	22,694	15,655	7,587	7,378
Kentucky	51,904	67,031	48,192	46,166	26,205
Louisiana	59,438	45,394	47,915	32,841	29,200
Maine	45,987	18,143	14,456	7,496	3,828
Maryland	39,450	22,933	26,370	18,953	14,900
Massachusetts	23,495	65,930	30,348	20,709	14,560
Michigan	125,928	84,030	85,851	99,278	27,363
Minnesota	50,472	58,826	85,675	49,143	30,561
Mississippi	39,061	30,289	25,929	28,203	9,281
Missouri	89,848	59,642	71,910	62,701	35,137
Montana	36,754	34,273	24,506	19,254	13,157
Nebraska	25,280	19,423	25,181	22,983	8,534
Nevada	58,418	57,506	45,204	57,332	32,106
New Hampshire	7,996	35,082	40,351	16,173	8,582
New Jersey	55,174	29,402	26,391	18,047	10,012
New Mexico	12,756	17,336	13,106	10,882	7,671

(continued)



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

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

State/Territory	2004	2003	2002	2001	2000
New York	\$ 86,382	\$ 122,675	\$ 109,798	\$ 118,792	\$ 57,671
North Carolina	44,668	75,317	73,493	60,908	26,084
North Dakota	29,007	15,458	16,562	25,221	11,490
Ohio	118,138	68,717	112,015	51,601	45,691
Oklahoma	31,272	34,351	39,238	19,780	8,678
Oregon	33,793	34,687	46,605	31,655	9,847
Pennsylvania	105,293	112,761	109,388	62,343	34,011
Rhode Island	10,861	13,736	12,409	9,547	11,705
South Carolina	23,772	22,531	39,194	18,895	11,792
South Dakota	20,915	16,841	15,440	10,466	12,301
Tennessee	47,298	62,412	46,373	58,638	39,237
Texas	174,336	159,929	192,738	127,046	111,585
Utah	26,008	24,804	21,396	39,235	14,328
Vermont	6,657	2,310	2,767	5,487	1,157
Virginia	70,688	45,240	76,647	75,555	41,109
Washington	73,153	53,351	62,798	34,023	35,498
West Virginia	20,637	24,373	18,562	18,564	7,400
Wisconsin	60,615	48,264	39,971	27,541	26,278
Wyoming	33,544	21,158	25,679	16,446	14,972
American Samoa	6,328	18,903	17,845	5,374	241
Guam	2,244	5,937	368	3,653	3,399
Northern Mariana Island	8,014	10,227	13,017	5,455	1,610
Puerto Rico	9,323	7,419	9,022	6,399	9,179
Trust Territory of Pacific	-	-	-	-	138
Virgin Islands	2,726	8,959	20,094	5,056	2,411
Administration	86,485	65,336	64,731	58,542	55,196
Totals	\$ 2,977,300	\$ 2,786,717	\$ 2,933,542	\$ 2,178,576	\$ 1,375,293

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



U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
Stewardship Investment
Research and Development
For the Fiscal Years Ended September 30
(Dollars in Thousands)

Expenditures	2004	2003	2002	2001	2000
Applied research	\$ 91,743	\$ 29,406	\$ 59,150	\$ 120,395	\$ 99,777
Development	478	251	603	3,419	7,175
R&D Plant	4,230	2,903	3,020	10,130	12,800
Administration	28,643	31,669	44,480	46,988	46,219
Total	\$ 125,094	\$ 64,229	\$ 107,253	\$ 180,932	\$ 165,971

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

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. In FY 2004, our research and development program made significant contributions to achieving the agency's mission and goals, including the following achievements.

Center of Excellence for Airliner Cabin Environment Research: FAA recently established the Air Transportation Center of Excellence for Airliner Cabin Environment Research. This center, managed for FAA by the Civil Aeromedical Institute and led by Auburn University, includes Purdue University, Harvard University, Boise State University, Kansas State University, the University of California at Berkeley, and the University of Medicine and Dentistry of New Jersey. The consortium will research cabin air quality and conduct an assessment of chemical and biological threats.

Aviation Digital Data Service (ADDS) Enhancements: Accurate, timely, and user-friendly forecasts of icing, turbulence, thunderstorms, and clouds are required to support safe and efficient flight operations. The availability of weather data on the Internet has made current weather information from sophisticated numerical models readily available to users. Researchers developed several enhancements to ADDS in FY 2004. These include faster access to critical weather information, the capability to customize weather information (saving preferences), and the ability to print an entire screen display. By providing current and forecast information on key weather hazards to support the needs of users, ADDS enhances aviation safety and helps reduce delays. Access via the Internet has ensured that enhancements are available to users quickly and cost-effectively.

Aviation Environmental Design Tool: In 2004, FAA, in collaboration with the National Aeronautics and Space Administration, initiated a long-term strategic effort to develop analytical tools to address the relationship between noise and emissions and between different types of emissions. Current analytical tools focus on noise or emissions; however, noise and emissions are interdependent phenomena.



Required Supplementary Information



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

Category	Method	Asset condition*	Costs to return to acceptable condition				
			2004	2003	2002	2001	2000
Buildings	Condition assessment survey	4 & 5	\$ 53,359	\$ 50,534	\$ 73,741	\$ 50,568	\$ 30,971
Other structures and facilities	Condition assessment	4 & 5	\$ 16,543	\$ 29,785	\$ 13,843	\$ 22,928	\$ 59,290

* 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

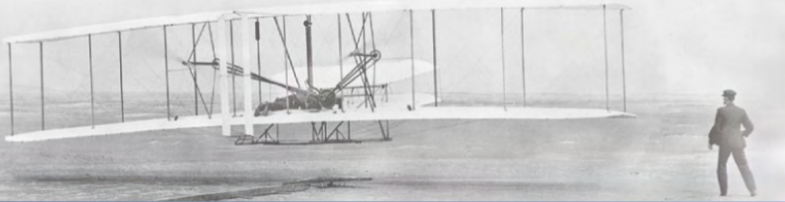
There have not been material changes to the standards in recent years. FAA recognizes maintenance expense as incurred. However, maintenance was insufficient during the past several years and resulted in deferred maintenance on Buildings and Other Structures and Facilities. FAA reports deferred maintenance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



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Balances
 As of September 30
 (Dollars in Thousands)

Agency	2004		2003	
	Accounts receivable, advances, prepayments, and other	Fund balance with Treasury	Accounts receivable, advances, prepayments, and other	Fund balance with Treasury
Department of the Treasury	\$ 54,045	\$ 2,840,663	\$ 313	\$ 2,833,723
Department of the Air Force	12,417	-	25,133	-
Department of Agriculture	51	-	46	-
Department of the Army	6,647	-	6,228	-
Department of Commerce	78	-	580	-
Department of Defense	2,097	-	2,606	-
Department of Energy	88	-	16	-
Federal Emergency Management Agency	715	-	20	-
Federal Trade Commission	94	-	-	-
Government Accountability Office	-	-	1	-
General Services Administration	1,542	-	330	-
Independent Agencies	8	-	2	-
Department of Homeland Security	-	-	12,490	-
Department of Health and Human Services	-	-	2	-
Department of the Interior	-	-	3,947	-
Department of Justice	456	-	14	-
Department of Labor	-	-	4	-
National Aeronautics & Space Admin.	2,015	-	4,125	-
Office of Personnel Management	4,406	-	4,747	-
Department of the Navy	6	-	24	-
Social Security Administration	-	-	46	-
Department of State	4,201	-	84,098	-
Department of Transportation	127,103	-	23,950	-
Other Agencies	20	-	-	-
Total	\$ 215,989	\$ 2,840,663	\$ 168,722	\$ 2,833,723
				\$ 10,819,257



U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Balances
 As of September 30
 (Dollars in Thousands)

Agency	2004		2003	
	Employee related and other	Accounts payable	Employee related and other	Accounts payable
Department of the Treasury	\$ 7,098	\$ -	\$ 20,868	\$ -
Defense Agencies	2,413	21,833	3,362	6
Department of Agriculture	-	29	3,170	9
Department of the Air Force	700	1,228	1,690	41
Department of the Army	258	140	4	3
Department of Commerce	1,652	-	3,053	-
Corps of Engineers	-	19	-	-
Department of Education	60	-	60	-
Department of Energy	4	1	-	2
Environmental Protection Agency	300	-	100	-
Federal Emergency Management Agency	47	-	49	-
Federal Trade Commission	93	-	-	-
General Services Administration	-	6,889	7,142	-
Government Printing Office	-	83	-	-
Department of Health and Human Services	33	-	20	-
Department of Homeland Security	7,081	-	8,961	-
Department of the Interior	85	13	89	-
Department of Justice	68	54	68	-
Department of Labor	200,307	-	200,905	-
National Aeronautics & Space Administration	1,429	2,063	453	-
Department of the Navy	-	212	116	84
Office of Personnel Management	29,527	512	21,127	-
Smithsonian Institution	-	7	9	-
Department of State	115	547	120	-
Department of Transportation	11,029	26,718	11,840	9,179
United States Postal Service	-	693	-	-
Independent Agencies	5	-	4,835	-
Other Agencies	24,722	-	56,827	-
Total	\$ 287,026	\$ 61,041	\$ 344,868	\$ 9,324



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Transactions
 For the Fiscal Years Ended September 30
 (Dollars in Thousands)

Agency	2004		2003	
	Expenses	Revenues	Expenses	Revenues
Department of the Treasury*	\$ 515,544	\$ 405	\$ 33,334	\$ 3,115
Department of Agriculture	6,757	58	2	2
Department of the Air Force	54,492	18,781	14,511	14,511
Department of the Army	5,042	8,548	5,729	5,729
Department of Commerce	32,306	1,876	1,978	1,978
Corps of Engineers	253	-	-	-
Defense Agencies	110,084	16,602	7,929	7,929
Department of Education	-	10	5	5
Department of Energy	5,403	37	58	58
Environmental Protection Agency	40	-	-	-
Federal Emergency Management Agency	-	2,030	2,381	2,381
Department of Health and Human Services	682	19	62	62
Department of Homeland Security	145,591	50,911	53,027	53,027
Department of the Interior	2,232	903	777	777
Department of Justice	11,523	2,691	43	43
Federal Trade Commission	-	151	9	9
Department of Labor - FECA*	86,809	13	87,631	-
General Services Administration	132,991	129	119	119
Government Printing Office	8,114	-	-	-
National Aeronautics & Space Admin.	7,668	6,244	12,545	12,545
National Archives and Records Administration	84	-	-	-
National Science Foundation	49	-	-	-
Department of the Navy	-	10,386	3,178	3,178
Office of Personnel Management*	1,093,184	6	1,247,460	-
Securities and Exchange Commission	15,183	-	-	-
Social Security Administration	-	323	100	100
Smithsonian Institution	192	-	-	-
Department of State	796	274	39	39
Tennessee Valley Authority	-	-	4	4
Department of Transportation	208,819	28,964	117,561	117,561
United States Postal Service	2,382	-	-	-
Department of Veterans Affairs	5	-	-	-
Independent Agencies	-	185	-	-
Other Agencies	170	1,014	9,349	18,141
Total expenses	\$ 2,446,395	\$ 150,560	\$ 1,597,985	\$ 241,467

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



U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
 Supplementary Information
 Intragovernmental Transactions
 For the Fiscal Years Ended September 30
 (Dollars in Thousands)

	2004		2003	
	Transfers-out	Transfers-in	Transfers-out	Transfers-in
Intragovernmental non-exchange revenue				
Department of Agriculture	-	-	6	-
Department of Army	-	-	81	-
Department of Commerce	-	-	15	-
General Services Administration	-	-	14,991	15,082
Department of Homeland Security	-	-	643,621	-
National Aeronautics & Space Administration	-	-	43,904	-
Office of Personnel Management	-	-	5	5
Department of Transportation	165,755	-	103,168	-
Other Agencies	361,881	353,466	14,625	2,082
Total non-exchange revenue	\$ 527,636	\$ 353,466	\$ 820,416	\$ 17,169



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
 Schedule of Budgetary Resources by Major Fund Type
 As of September 30, 2004
 (Dollars in Thousands)

	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
Budgetary Resources								
Budget Authority	\$ 7,069,128	\$ 2,895,677	\$ 119,863	\$ -	\$ -	\$ 7,530,925	\$ 123	\$ 17,615,716
Unobligated balance brought forward and transfers	9,489	675,178	20,439	217,854	78,989	97,495	8,258	1,107,702
Spending authority from offsetting collections	578	168,413	(2,176)	1,446	362,231	144,962	-	675,454
Recoveries of prior year obligations	127,112	26,792	4,257	-	-	12,989	19,768	190,918
Temporarily not available	-	(47,169)	(706)	-	-	(30,999)	-	(78,874)
Permanently not available	(3,420,072)	-	-	-	-	(30,843)	(139)	(3,451,054)
Total Budgetary Resources	\$ 3,786,235	\$ 3,718,891	\$ 141,677	\$ 219,300	\$ 441,220	\$ 7,724,529	\$ 28,010	\$ 16,059,862
Status of Budgetary Resources								
Obligations incurred	\$ 3,501,188	\$ 2,654,246	\$ 117,963	\$ 739	\$ 367,982	\$ 7,561,202	\$ 26,691	\$ 14,230,011
Unobligated balances-available	7,884	968,754	17,956	460	73,238	43,767	1,319	1,113,378
Unobligated Balances-not available	277,163	95,891	5,758	218,101	-	119,560	-	716,473
Total Status of Budgetary Resources	\$ 3,786,235	\$ 3,718,891	\$ 141,677	\$ 219,300	\$ 441,220	\$ 7,724,529	\$ 28,010	\$ 16,059,862
Relationship of Obligations to Outlays								
Obligated balance, net, beginning of period	\$ 5,681,104	\$ 1,952,717	\$ 198,907	\$ 5,201	\$ 91,873	\$ 694,909	\$ 19,769	\$ 8,644,480
Cancelled appropriations and other Obligations incurred	-	(9)	-	-	-	-	-	(9)
Less: Spending authority from offsetting collections and recoveries of prior year obligations	3,501,188	2,654,246	117,963	739	367,982	7,561,202	26,691	14,230,011
Less: Obligated balance, net, end of period	(127,690)	(195,205)	(2,081)	(1,446)	(362,231)	(157,951)	(19,768)	(866,372)
	(6,093,262)	(1,672,086)	(173,610)	(186,254)	(135,538)	(912,310)	-	(9,173,060)
Net Outlays	\$ 2,961,340	\$ 2,739,663	\$ 141,179	\$ (181,760)	\$ (37,914)	\$ 7,185,850	\$ 26,692	\$ 12,835,050
Outlays								
Disbursements	\$ 2,961,911	\$ 2,773,790	\$ 141,541	\$ (180,314)	\$ 322,323	\$ 11,710,859	\$ 26,721	\$ 17,756,831
Collections, net of offsetting receipts	(571)	(34,127)	(362)	(1,446)	(360,237)	(4,525,009)	(29)	(4,921,781)
Net Outlays	\$ 2,961,340	\$ 2,739,663	\$ 141,179	\$ (181,760)	\$ (37,914)	\$ 7,185,850	\$ 26,692	\$ 12,835,050



FEDERAL AVIATION ADMINISTRATION PERFORMANCE AND ACCOUNTABILITY REPORT 2004

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

	Airport & Airway Trust Fund Corpus AS RESTATED	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 AS RESTATED
Budgetary Resources									
Budget authority	\$ -	\$ 6,500,000	\$ 2,931,899	\$ 141,444	\$ -	\$ -	\$ 7,071,120	\$ -	\$ 16,644,463
Unobligated balance brought forward and transfers	3	894	541,486	21,187	102,361	56,581	152,833	57,505	932,850
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	3	\$ 3,501,388	\$ 3,583,500	\$ 180,445	\$ 231,787	\$ 410,443	\$ 7,358,718	\$ 57,538	\$ 15,323,822
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	-	8,635	612,302	17,321	6,314	-	31,633	-	676,205
Unobligated balances not available	-	854	62,876	3,118	211,540	78,989	65,862	58,232	481,471
Total Status of Budgetary Resources	3	\$ 3,501,388	\$ 3,583,500	\$ 180,445	\$ 231,787	\$ 410,443	\$ 7,358,718	\$ 57,538	\$ 15,323,822
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 obligations incurred	-	-	9	-	-	-	15,693	-	15,702
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	3	3,491,899	2,908,322	160,006	13,933	331,455	7,261,222	(694)	14,166,146
Net Outlays	(97)	\$ 2,680,903	\$ 2,794,932	\$ 148,269	\$ (115,580)	\$ (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	\$ (115,580)	\$ (43,478)	\$ 7,142,835	\$ (48,051)	\$ 12,559,766



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 Fund are directed toward identifying the most efficient and cost effective methods to provide support services, and this is consistent with the current President's 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 the airport authorities and militaries of other countries.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
BALANCE SHEETS
(Dollars in Thousands)

	As of September 30	
	2004	2003
Assets		
Intragovernmental		
Fund balance with Treasury	\$ 208,776	\$ 170,862
Accounts receivable, net	1,608	1,165
Other	1,111	13
Total intragovernmental assets	<u>211,495</u>	<u>172,040</u>
Accounts receivable, net	3,343	2,896
Inventory and related property, net	375,027	386,886
General property, plant, and equipment, net	2,130	1,080
Other assets	10	5
Total assets	<u><u>\$ 592,005</u></u>	<u><u>\$ 562,907</u></u>
Liabilities		
Intragovernmental liabilities:		
Accounts payable	\$ 549	\$ -
Other intragovernmental liabilities	137,326	97,780
Total intragovernmental liabilities	<u>137,875</u>	<u>97,780</u>
Accounts payable	15,323	7,410
Other liabilities	-	15,104
Total liabilities	<u>153,198</u>	<u>120,294</u>
Net position balances:		
Cumulative results of operations	438,807	442,613
Total net position	<u>438,807</u>	<u>442,613</u>
Total liabilities and net position	<u><u>\$ 592,005</u></u>	<u><u>\$ 562,907</u></u>



U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENTS OF NET COST
(Dollars in Thousands)

	For the years ended September 30	
	<u>2004</u>	<u>2003</u>
Programs		
Earned revenues	\$ 340,077	\$ 320,846
Intragovernmental costs	<u>(339,934)</u>	<u>(321,159)</u>
Profit (loss)	<u>\$ 143</u>	<u>\$ (313)</u>

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENTS OF CHANGES IN NET POSITION
(Dollars in Thousands)

	Cumulative results of operations	
	2004	2003
Beginning balance	\$ 442,613	\$ 444,399
Other financing sources		
Transfers-in/out without reimbursement	(10,906)	(8,448)
Imputed financing from costs absorbed by others	6,954	6,251
Other	3	724
Total financing sources	(3,949)	(1,473)
Profit (loss)	143	(313)
Ending balance	\$ 438,807	\$ 442,613