LIMITATIONS OF THE FINANCIAL STATEMENTS

FAA has prepared its financial statements to report its financial position and results of operations, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

While the FAA statements have been prepared from its books and records in accordance with the formats prescribed by the Office of Management and Budget, the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

These statements should be read with the understanding that they are for a component of the United States Government, a sovereign entity. Liabilities not covered by budgetary resources cannot be liquidated without the enactment of an appropriation by Congress, and payment of all liabilities, other than for contracts, can be abrogated by the Federal Government.

FINANCIAL STATEMENTS

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

	2002	2001 As Restated
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 2,539,304	$ 1,998,297
Investments (Note 3)	11,213,447	13,866,780
Accounts receivable, advances, and other (Note 4)	299,428	173,522
Total Intragovernmental	14,052,179	16,038,599
Accounts receivable, advances, and other, net (Note 4)	113,295	163,149
Inventory and related property, net (Notes 5 & 15)	605,695	1,086,986
Property, plant, and equipment, net (Note 6)	13,175,768	11,726,534
Total Assets	$ 27,946,937	$ 29,015,268
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 36,182	$ 49,930
Employee related and other (Notes 8 & 9)	485,511	367,420
Total Intragovernmental Liabilities	521,693	417,350
Accounts payable	677,182	602,482
Environmental cleanup costs (Notes 7 & 15)	574,676	587,781
Employee related, legal, and other (Notes 8 & 9)	1,176,106	1,084,331
Federal employee and veterans benefits (Note 10)	997,103	1,044,259
Total Liabilities	3,946,760	3,736,203
Commitments and contingencies (Notes 9 & 19)		
Net Position		
Unexpended appropriations	481,919	551,139
Cumulative results of operations (Note 15)	23,518,258	24,727,926
Total Net Position	24,000,177	25,279,065
Total Liabilities and Net Position	$ 27,946,937	$ 29,015,268

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

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

	2002	2001 As Restated
Line of Business Programs (Note 12)		
Air Traffic Services		
Expenses	$ 7,313,772	$ 6,988,124
Less Earned Revenues	(77,107)	(81,157)
Net Air Traffic Services Costs	7,236,665	6,906,967
Regulation & Certification		
Expenses	924,614	799,964
Less Earned Revenues	(1,121)	(1,276)
Net Regulations & Certification Costs	923,493	798,688
Research & Acquisitions		
Expenses	586,991	525,261
Less Earned Revenues	(72,129)	(38,966)
Net Research & Acquisitions Costs	514,862	486,295
Airports		
Expenses	2,933,542	2,178,576
Net Airports Costs	2,933,542	2,178,576
Civil Aviation Security		
Expenses	804,822	161,434
Less Earned Revenues	(190,912)	(1,031)
Net Civil Aviation Security Costs	613,910	160,403
Commercial Space Transportation		
Expenses	11,361	9,580
Net Commercial Space Transportation Costs	11,361	9,580
Non Line of Business Programs		
Regional and Center Operations and Other Programs		
Expenses	340,983	162,723
Less Earned Revenues	(125,108)	(43,940)
Net Other Program Costs	215,875	118,783
Not Assigned to Programs	50,622	56,508
Less Earned Revenues	(56,411)	(42,485)
Net Costs Not Assigned to Programs	(5,789)	14,023
Net Cost of Operations		
Total Expenses	12,966,707	10,882,170
Less Total Earned Revenue	(522,788)	(208,855)
Net Cost of Operations	**$ 12,443,919**	**$ 10,673,315**

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2002

(Dollars in Thousands)

	Cumulative Results of Operations	Unexpended Appropriations	Total
Beginning Balances	$ 23,105,205	$ 551,139	$ 23,656,344
Prior period adjustments (Notes 1 & 15)	1,622,721	-	1,622,721
Beginning balance after restatement	24,727,926	551,139	25,279,065
Cumulative effect of change in accounting principle (Notes 1 & 5)	(152,737)	-	(152,737)
Budgetary Financing Sources			
Appropriations received	-	1,112,481	1,112,481
Appropriations transferred-in/out	-	112,858	112,858
Other adjustments	-	(3,325)	(3,325)
Appropriations used	1,291,234	(1,291,234)	-
Taxes and non-exchange revenue (Note 13)	9,625,942	-	9,625,942
Transfers-in/out without reimbursement	(25,500)	-	(25,500)
Other Financing Sources			
Donations and forfeitures of property and other	11,901	-	11,901
Transfers-in/out without reimbursement	22,675	-	22,675
Imputed financing from costs absorbed by others (Note 14)	460,736	-	460,736
Total Financing Sources	11,386,988	(69,220)	11,317,768
Net Cost of Operations	12,443,919	-	12,443,919
Ending Balances	$ 23,518,258	$ 481,919	$ 24,000,177

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2002

(Dollars in Thousands)

Budgetary Resources		
Budget authority	$	14,446,568
Unobligated balance brought forward and transfers (Note 16)		11,425,240
Spending authority from offsetting collections		1,641,929
Recoveries of prior year obligations		310,925
Permanently not available		(2,362,392)
Total Budgetary Resources	$	25,462,270
Status of Budgetary Resources		
Obligations incurred	$	15,796,838
Unobligated balance		9,454,968
Unobligated balance not available		210,464
Total Status of Budgetary Resources	$	25,462,270
Relationship of Obligations to Outlays		
Obligated balance, net, beginning of period (Note 16)	$	7,249,535
Obligations incurred		15,796,838
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations		(1,952,959)
Obligated balance, net end of period		(7,998,136)
Net Outlays	$	13,095,278
Outlays		
Disbursements	$	20,264,114
Collections net of offsetting receipts		(7,168,836)
Net Outlays	$	13,095,278

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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2002
(Dollars in Thousands)

Resources Used to Finance Activities	
Budgetary Resources Obligated	
Obligations incurred	$ 15,796,838
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	1,952,959
Obligations net of offsetting collections	13,843,879
Other Resources	
Donations and forfeitures of property and other	11,901
Transfers in/out without reimbursement	22,675
Imputed financing from costs absorbed by others	460,736
Net other resources used to finance activities	495,312
Total resources used to finance activities	14,339,191
Resources Used to Finance Items not Part of the Net Cost of Operations	
Change in budgetary resources obligated for goods, services and benefits ordered but not yet provided	882,286
Resources that fund expenses recognized in prior periods (decreases in other unfunded liabilities)	85,644
Resources that finance the acquisition of assets	2,041,577
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(115,237)
Total resources used to finance items not part of net cost of operations	2,894,270
Total resources used to finance net cost of operations	**11,444,921**
Components of Net Cost of Operations that will not Require or Generate Resources in the Current Period:	
Components Requiring or Generating Resources in Future Periods	
Increases in annual leave liability, exchange revenue receivable from the public, and other unfunded liabilities	167,555
Components not Requiring or Generating Resources in Future Periods	
Depreciation and amortization	835,139
Revaluation of assets or liabilities	(20,579)
Cost of goods sold	23,897
Other	(7,014)
Total components of Net Cost of Operations that will not require or generate resources	831,443
Total components of Net Cost of Operations that will not require or generate resources in the current period	**998,998**
Net Cost of Operations	**$ 12,443,919**

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

These consolidated financial statements have been prepared to report the financial position, net cost of operations, changes in net position, status and availability of budgetary resources, and the reconciliation between proprietary and budgetary accounts of the Federal Aviation Administration (FAA). The statements are required by the Chief Financial Officers Act of 1990 and Government Management Reform Act of 1994. They have been prepared from the books and records of FAA in accordance with (1) the hierarchy of accounting principles and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) the Office of Management and Budget's (OMB) Bulletin Number 01-09, *Form and Content of Agency Financial Statements*, and (3) Department of Transportation (DOT) and FAA accounting policies which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared by the FAA pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources.

In accordance with OMB Bulletin Number 01-09, the Consolidated Balance Sheet and Consolidated Statement of Net Cost and associated notes are presented on a comparative basis with the prior year as restated.

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

B. Reporting Entity

FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and the promotion of United States aerospace safety. As the leading authority in the international aerospace community, FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns. FAA reporting entity is comprised of the following primary types of funds:

Trust Fund - Airport and Airway Trust Fund, including (a) Grants-in-Aid for Airports, (b) Facilities and Equipment, and (c) Research, Engineering and Development

Revolving Funds – Aviation Insurance, and Administrative Services Franchise Fund

Special Fund – Aviation User Fees

General Funds – Operations and Facilities, Engineering & Development

Other – General Fund Miscellaneous Receipts

C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit FAA to incur obligations for specified purposes. In FY 2002 and 2001, FAA was accountable for Trust Fund appropriations, Revolving Funds, a Special Fund, General Fund appropriations, and borrowing authority. FAA recognizes budgetary resources as assets when cash (funds held by Treasury) is made available through the Department of Treasury General Fund warrants and Trust Fund transfers.

D. Basis of Accounting

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

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

E. Revenues and Other Financing Sources

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

The Airport and Airway Trust Fund (Trust Fund) is sustained by excise taxes collected by the Internal Revenue Service (IRS) from airway system users. Excise taxes collected by the IRS are initially deposited to the general fund of the Treasury. IRS does not receive sufficient information at the time the taxes are collected to determine how these payments should be distributed to specific trust funds. Therefore, Treasury makes initial distributions to trust funds based on semi-monthly 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 certified 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. The FAA's September 30, 2002 financial statements reflect excise taxes certified through June 30, 2002, and excise taxes estimated by OTA for the quarter July 1 to September 30, 2002 as specified by Statement of Federal Financial Accounting Standards (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources.* FAA management does not believe that the estimated distribution made to the trust fund will be materially different from the September 30, 2002 certified amount.

The Trust Fund also earns interest from investments in Treasury securities. Interest income is recognized as revenue on the accrual basis.

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

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

The U.S. Treasury processes cash receipts and disbursements. Funds 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 the Treasury or the Department of State and are reported by FAA in the U.S. dollar equivalent.

H. Investment in U.S. Government Securities

Unexpended funds in the Trust Fund and Aviation Insurance Revolving Fund are invested in U.S. Government securities. A portion of the Trust Fund investments is liquidated semi-monthly in amounts needed to provide cash for FAA appropriation accounts. The Revolving Fund investments are usually held to maturity. Investments, redemptions, and reinvestments are held and managed under the direction of FAA by the Treasury.

I. Accounts Receivable

Accounts receivable consist of amounts owed to FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for sovereign entities. An allowance for uncollectible accounts receivable from the public is established when either (1) based upon a monthly review of outstanding accounts and the failure of all collection efforts, management determines that collection is unlikely to occur considering the debtor's ability to pay, and payment history or (2) an account for which no allowance has been established is submitted to the Department of the Treasury for collection, which takes place when it becomes 180 days delinquent.

J. Operating Materials and Supplies

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

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Items "held in reserve" are additional stocks that FAA determined must be on hand to ensure that operations will continue unabated because, for example, these items may not be readily available on the open market.

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

K. Inventory

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

FAA field locations exchange with the Franchise Fund inventory in need of repair, which is classified as "Held for Repair." An allowance is established for repairable inventory based on the average historical cost of such repairs. Once repaired, these items are reclassified as "Held for Sale."

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

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

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

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

Asset Classification – Real Property	Useful Life (years)
Offices, buildings, warehouse buildings, residential properties, air traffic control towers, and enroute air traffic control centers	40
Mobile buildings	20
Roads, sidewalks, parking lots, and all other structures	15
Capital improvements, facility modifications, leasehold improvements	10*
Asset Classification - Personal Property	
Aircraft, navigation, and surveillance equipment	20
Decision support systems, including computer operating systems, FAA developed hardware, mainframe and mini computers, high-end workstations, and displays	4-20
Communications-related equipment, including voice switches, air-ground radios, and microwave network	10-20
Weather-related equipment, including general purpose weather sensors, weather radars, radar transmitters, and radar receivers	15-20
Printing and projection equipment	13
Portable and installed communications equipment excluding air navigation and air traffic control facilities, and avionics equipment	10
Office furniture and equipment	7
Vehicles and automatic data processing equipment	5
Internal use software	3

*Depreciated over the remaining life of the "parent" asset; if the parent asset is fully depreciated, then the useful life of improvement or modification is considered to be 10 years. For leasehold improvements, the useful life is 10 years or the expiration of the lease, whichever comes first.

Buildings and equipment acquired under capital leases are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to FAA, the building is depreciated over a 40-year service life.

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

FAA occupies certain real property, which is leased by the Department of Transportation from the General Services Administration. Payments for these leases are from an appropriation of the Office of the Secretary of Transportation; FAA's portion is derived from the Trust Fund.

M. Prepaid and Deferred Charges

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

N. Liabilities

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

O. 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.

P. 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.

Q. 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 the FAA's matching contribution, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987, pursuant to Public Law 99-335. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security, or to remain in CSRS. FERS offers a savings plan to which FAA automatically contributes 1 percent of pay and matches any employee contribution up to an additional 4 percent of pay. For FERS participants, FAA also contributes the employer's matching share for Social Security.

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

R. Use of Estimates

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

S. Environmental Liabilities

The FAA recognizes two types of environmental liabilities: environmental remediation and cleanup and decommissioning. The liability for environmental remediation is an estimate of all costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual 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 waste when an asset presently in service is shutdown. The FAA estimates the environmental cleanup and decommissioning costs at the time an FAA-owned asset is placed in service. For assets placed in service through FY 1998, the annual increase or decrease in the estimated environmental cleanup liability is charged to expense. Although assets placed in service in FY 1999 and after generally do not have associated environmental liabilities, FAA's accounting policy is to charge any such environmental cleanup liability to expense over the life of the associated asset.

T. Contingencies

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

U. Changes in Accounting Principle, Prior Period Adjustments, and Restatements

In FY 2002, the FAA changed its method of accounting for its exchange and repair spare parts (see note 5). In connection with this change, exchange and repair spare parts were reclassified from operating materials and supplies to PP&E, and FAA recognized accumulated depreciation equal to $152.7 million on these spare parts through October 1, 2001 as a cumulative effect adjustment in the 2002 Consolidated Statement of Changes in Net Position.

Effective October 1, 2001, the FAA adopted the provisions of SFFAS number 21, *Reporting Corrections of Errors and Changes in Accounting Principles*. As discussed in notes 5 and 15, the FAA has restated operating materials and supplies as of September 30, 2001, by reclassifying slow-moving items from "held for use" to "excess, obsolete, and unserviceable" and establishing an allowance for these items to reflect net realizable value in accordance with SFFAS number 3, *Accounting for Inventory and Related Property*. In addition, parts and components used to service FAA's fleet of aircraft were reclassified from "held for reserve" to "held for use."

As discussed in notes 7 and 15, FAA has restated and reduced its environmental liabilities as of September 30, 2001 by $1,168.2 million to account for a correction in the application of relevant accounting standards.

As discussed in notes 8, 12, and 15, FAA has restated its legal claims liability as of September 30, 2001 to correct an overstatement of those claims considered probable of loss in accordance with SFFAS Number 5, *Accounting for Liabilities of the Federal Government*.

The FY 2001 Consolidated Statement of Net Cost has been restated to reflect an improved method of allocating certain costs among FAA lines of business, and for a component of the restatement of legal claims liability (see notes 8, 12, and 15).

As disclosed in note 16, instances in which ending balances on the FY 2001 Statement of Budgetary Resources differ from reported FY 2002 beginning balances include (a) unobligated balances in the Grants-in-Aid program, and (b) a correction of beginning net obligated balances resulting from overstated unfilled customer orders from Federal sources as of September 30, 2001.

As disclosed in notes 2 and 15, FAA has restated the unobligated balance available and obligated balance not yet disbursed, of its FY 2001 fund balance with the U.S. Treasury. This restatement among the status classifications did not affect the total reported fund balance with the U.S. Treasury as of September 30, 2001.

V. Reclassifications

Certain FY 2001 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 balances with Treasury as of September 30, 2002 and 2001, respectively, were:

	2002	2001
Trust Fund	$ 1,023,246	$ 698,763
Operations General Fund	775,014	1,036,548
Franchise Fund	127,297	74,525
Revolving Fund	12,485	85,081
Corpus and Other Funds	601,262	103,380
Total	$ 2,539,304	$ 1,998,297

Status of Fund Balance with Treasury

Unobligated Balance		
Available (2001 restated)	$ 1,017,806	$ 1,168,136
Restricted	665,933	96,998
Obligated Balance Not Yet Disbursed (2001 restated)	855,565	733,163
Total	$ 2,539,304	$ 1,998,297

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.

The September 30, 2001 unobligated balance available and obligated balance not yet disbursed have been revised to correct a previously reported error. This restatement does not affect the total reported fund balance with Treasury as of September 30, 2001.

NOTE 3. INVESTMENTS

As of September 30, 2002 and 2001, FAA's investment balances were:

	2002	2001
Intragovernmental Securities		
Nonmarketable, Par Value - Trust Fund	$ 10,996,847	$ 13,659,804
Nonmarketable, Market Based - Aviation Insurance Fund	91,733	-
Accrued Interest	124,867	206,976
Investments at Cost	$ 11,213,447	$ 13,866,780
Market Value Disclosure		
Nonmarketable, Par Value - Trust Fund	$ 10,996,847	$ 13,659,804
Nonmarketable, Market Based - Aviation Insurance Fund	91,733	-
Unamortized Premium - Nonmarketable, Market Based	454	-
Nonmarketable, Market Based, net	92,187	-
Market Value Disclosure	$ 11,089,034	$ 13,659,804

Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of the Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through Treasury's Federal Investment Branch. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. The Fund's trustee, the Secretary of the Treasury, makes Trust Fund investments on behalf of FAA. As of September 30, 2002 and 2001, approximately $11.1 billion and $13.7 billion, respectively, were invested in U.S. Treasury Certificates of Indebtedness. FY 2002 amounts mature June 30, 2003, and FY 2001 amounts matured June 30, 2002. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate for certificates issued during FY 2002 and FY 2001 was 5.125 percent and 6.375 percent, 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. Following the terrorist attacks of September 11, 2001, all market-based Treasury securities were redeemed so they would be available for use in various initiatives related to the Aviation Insurance Program (see note 19). Thus, FAA reported no nonmarketable, market-based securities as of September 30, 2001. During FY 2002, FAA again began investing in nonmarketable, market-based Treasury securities.

As of September 30, 2002 the following amounts were invested in market-based Treasury securities:

Maturity Date	Effective Interest Rate	Net Investments
12/19/02	1.73%	$ 28,175
01/16/03	1.71%	40,687
02/13/03	1.61%	23,325
		$ 92,187

NOTE 4. ACCOUNTS RECEIVABLE, ADVANCES, AND OTHER ASSETS

Accounts receivable, advances, prepayments, and other assets as of September 30, 2002 and 2001 were comprised of the following:

	2002	2001
Intragovernmental		
Accounts Receivable	$ 270,155	$ 127,429
Advances and Prepayments	28,524	40,442
Other	749	5,651
Subtotal, Intragovernmental	299,428	173,522
With the Public		
Accounts Receivable, net	58,047	51,280
Advances and Prepayments	35,413	67,204
Deposits in Transit and Other	19,835	44,665
Subtotal, With the Public	113,295	163,149
Total Accounts Receivable, Advances, Prepayments and Other	$ 412,723	$ 336,671

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 $5.6 million and $5.4 million, as of September 30, 2002 and 2001, respectively.

NOTE 5. INVENTORY AND RELATED PROPERTY

Effective October 1, 2001, FAA changed its method of accounting for exchange and repair (E&R) spare parts kept at field locations. This reclassification of the E&R spare parts to equipment is a change to a preferable method of accounting because it enables FAA to associate the cost of these items more properly with the periods benefited (via depreciation). In connection with this change, $416.4 million in gross value of operating materials and supplies (items held for use) as of September 30, 2001 was reclassified to personal property – equipment on October 1, 2001. The accumulated depreciation on these spare parts through September 30, 2001, had they been originally classified as personal property – equipment, was $152.7 million. This amount is reported on the Consolidated Statement of Changes in Net Position as the cumulative effect of the change in accounting method. The remaining operating materials and supplies consist primarily of unissued materials and supplies that will be utilized in the construction of NAS assets.

As of September 30, 2002 and 2001, inventory and operating materials and supplies were:

Operating Material and Supplies	2002	2001
Held For Use (Restated, Note 15)	$ 152,335	$ 604,699
Excess, Obsolete, and Unserviceable, net (Restated, Note 15)	24,817	21,482
Subtotal, Operating Material and Supplies	177,152	626,181
Inventory		
Held for Sale	$ 65,164	$ 63,154
Held for Repair, net	336,133	362,770
Raw Materials, Finished Goods, and Other	13,643	14,297
Excess, Obsolete, and Unserviceable, net	13,603	20,584
Subtotal, Inventory	428,543	460,805
Total Inventory and Related Property, net	$ 605,695	$ 1,086,986

Excess, obsolete, and unserviceable, and inventory held for repair are shown net of the following allowances:

Operating Materials and Supplies	2002	2001
Excess, Obsolete, and Unserviceable (Restated, Note 15)	$ (47,044)	$ (40,797)
Inventory		
Held for Repair	(82,963)	(55,167)
Excess, Obsolete, and Unserviceable	(11,129)	(15,528)
Total Allowances	$(141,136)	$ (111,492)

As discussed in note 15, FAA has restated operating materials and supplies as of September 30, 2001 by reclassifying $48.4 million of slow-moving items from “held for use” to “excess, obsolete, and unserviceable” and establishing an allowance of $34.7 million for these items to reflect net realizable value in accordance with SFFAS number 3, *Accounting for Inventory and Related Property*. In addition, $96.2 million of parts and components used to service FAA’s fleet of aircraft were reclassified from “held for reserve” to “held for use.”

Inventory is considered held for repair based on condition levels, and the allowance for repairable inventory is based on the average historical cost of such repairs. During FY 2002 and FY 2001, FAA recognized increases of $27.8 million and $55.2 million, respectively, to its allowance for inventory held for repair.

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

NOTE 6. PROPERTY, PLANT, AND EQUIPMENT, NET

Property, plant, and equipment balances at September 30, 2002 and 2001, respectively, were:

2002

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

2001

Class of Fixed Asset	Deprec. Method	Service Life	Acquisition Value	Accumulated Depreciation	Net Book Value
Real Property, Including Land	[1]	[2]	$ 3,300,694	$ (1,552,988)	$ 1,747,706
Personal Property	SL	3-20	11,174,613	(4,486,094)	6,688,519
Assets Under Capital Lease (Note 7)	SL	Term-40	110,432	(38,769)	71,663
Construction in Progress	-	-	3,218,646	-	3,218,646
Property Not in Use	-	-	966	(966)	-
Total Property, Plant, and Equipment			$ 17,805,351	$ (6,078,817)	$ 11,726,534

[1] Land is not depreciated; other real property as defined in Note 1 is depreciated using the straight line method.
[2] The service life disclosed pertains to real property other than land and leasehold improvements. Leasehold improvements are depreciated over the lesser of the remaining life of the "parent" asset or 10 years.

FAA's Construction in Progress (CIP) primarily relates to its NAS assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges. Some centrally funded payments are initially recorded as expenses; therefore, FAA routinely reviews these payments to determine those that are capitalizable. In FY 2002 and FY 2001, these reviews resulted in the identification of additional CIP costs totaling $482 million and $605 million, respectively. After these reviews, FAA then performs an analysis to determine that amount of centrally funded CIP costs that should be transferred to assets that are in-use. As a result of this analysis, FAA transferred $313 million and $1,072 million of centrally funded CIP costs to its in-use assets in FY 2002 and FY 2001, respectively.

Assets temporarily not in use, including decommissioned assets awaiting disposition, are reflected in the FAA financial records as Property Not in Use. FAA reported disposition losses of $82.8 million and $139.1 million in FY 2002 and FY 2001, respectively.

NOTE 7. ENVIRONMENTAL CLEANUP COSTS

As discussed in note 15, FAA's financial statements as of September 30, 2001 have been restated to reflect a reduction in environmental remediation and cleanup and decommissioning liabilities. FAA's environmental liabilities as of September 30, 2002 and 2001 as restated, respectively, were:

	2002	2001 As Restated
Environmental Remediation	$ 311,914	$ 325,019
Environmental Cleanup and Decommissioning	262,762	262,762
Total Environmental Liabilities	$ 574,676	$ 587,781

NOTE 8. EMPLOYEE RELATED, LEGAL, AND OTHER LIABILITIES

As of September 30, 2002 and 2001, respectively, FAA's employee related, legal, and other liabilities were:

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

	2001		
	Non-Current Liabilities	Current Liabilities	Total
Intragovernmental			
Advances Received	$ -	$ 22,537	$ 22,537
Accrued Payroll & Benefits Payable to Other Agencies	-	55,478	55,478
Other	-	95,059	95,059
Liabilities Covered by Budgetary Resources	-	173,074	173,074
Federal Employees Compensation Act	109,981	84,337	194,318
Debt	28	-	28
Liabilities Not Covered by Budgetary Resources	110,009	84,337	194,346
Subtotal, Intragovernmental	110,009	257,411	367,420
With the Public			
Advances Received and Other	-	(15,509)	(15,509)
Accrued Payroll & Benefits Payable to Employees	-	249,063	249,063
Liabilities Covered by Budgetary Resources	-	233,554	233,554
Accrued Unfunded Annual & Other Leave & Assoc. Benefits	412,590	-	412,590
Sick Leave Compensation Benefits for Air Traffic Controllers	47,850	811	48,661
Capital Leases (Note 9)	65,015	15,256	80,271
Legal Claims (Restated, Note 15)	123,900	65,909	189,809
Return Rights	4,050	6,050	10,100
Other Accrued Liabilities	109,346	-	109,346
Liabilities Not Covered by Budgetary Resources	762,751	88,026	850,777
Subtotal, With the Public	762,751	321,580	1,084,331
Total Employee Related, Legal, and Other Liabilities	$ 872,760	$ 578,991	$ 1,451,751

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, 2002 includes workers' compensation benefits paid by DOL during the period July 1, 2000 through June 30, 2002, and accrued liabilities for the quarter July 1, 2002 through September 30, 2002. FAA's accrued liability as of September 30, 2001 was for the corresponding period July 1, 1999 through September 30, 2001.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave, and sick leave under the terms the National Air Traffic Controllers Association agreement, Article 25, Section 13. This agreement gives air traffic controllers, who are covered under the FERS, the option to receive a lump-sum payment for 40 percent of their accumulated sick leave as of the date of retirement eligibility. Based on sick leave balances, this liability was $53.0 million and $48.7 million as of September 30, 2002 and 2001, respectively.

As discussed in note 15, legal claims liabilities as of September 30, 2001 have been restated because the originally stated amount included certain claims that are not considered probable of loss in accordance with SFFAS Number 5. The correction of this overstatement as of September 30, 2001 reduces the originally stated $679.0 million legal claims liability by $489.2 million to $189.8 million, and correspondingly reduces the balance sheet line within which legal claims is reported, "Employee Related, Legal, and Other Liabilities."

FAA estimated that $1.7 million of its $169.9 million legal claims liability as of September 30, 2002, would be paid from FAA appropriations, and $168.2 million would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury. Of its $189.8 million legal claims liability as of September 30, 2001, FAA estimated that $2.1 million would be paid from FAA appropriations, and $187.7 million would be paid from the Judgment Fund.

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 the employees to a future return move at Government expense. As of September 30, 2002 and 2001, there were 154 and 202 employees, respectively, entitled to these return rights.

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, 2002 and 2001:

	2002	2001
Land, Buildings, and Machinery	$ 126,142	$ 110,432
Accumulated Depreciation	(55,397)	(38,769)
Assets Under Capital Lease, Net	$ 70,745	$ 71,663

As of September 30, 2002, FAA's future payments due on assets under capital lease were:

Future Payments Due by Fiscal Year (Liabilities Not Covered By Budgetary Resources)	
Year 1	$ 13,698
Year 2	13,698
Year 3	13,041
Year 4	10,722
Year 5	10,525
After 5 Years	43,128
Less: Imputed Interest	(26,716)
Total Capital Lease Liability	$ 78,096

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, 2002 were:

Fiscal Year	Land & Buildings	Other	Total
Year 1 (FY 2003)	$ 51,875	$ 1,428	$ 53,303
Year 2 (FY 2004)	47,277	1,193	48,470
Year 3 (FY 2005)	44,661	956	45,617
Year 4 (FY 2006)	40,626	686	41,312
Year 5 (FY 2007)	35,822	683	36,505
After 5 Years	63,276	2,820	66,096
Total Future Operating Lease Payments	$ 283,537	$ 7,766	$ 291,303

Operating lease expense incurred during the years ended September 30, 2002 and 2001 was $60.0 million and $48.8 million, respectively. The operating lease amounts due after 5 years does not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

NOTE 10. FEDERAL EMPLOYEE AND VETERANS BENEFITS PAYABLE

As of September 30, 2002 and 2001, FECA actuarial liabilities were $997.1 million and $1,044.3 million respectively.

The DOL calculates the FECA liability for DOT, and DOT allocates the liability amount to FAA based upon actual workers' compensation payments to FAA employees over the preceding four years. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary resources and thus will require future appropriated funding.

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

In FY 2002 and FY 2001, a total of $163 thousand and $2 thousand of FAA's expenses, respectively, related to Community and Regional Development Programs. All other expenses, earned revenues, and intragovernmental transactions related to Transportation Programs.

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

FAA's six lines of business represent the programs reported on the Statement of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated by applying ratios representing the cost for each line of business divided by the total cost (excluding grant payments) for all lines of business.

The FY 2001 Consolidated Statement of Net Cost has been restated to reflect an improved method of allocating certain costs among the FAA lines of business. While this restatement does not impact FY 2001 total net costs, net costs of several FAA lines of business are restated. Also, FAA's correction of its legal claims liability as of September 30, 2001 correspondingly impacts its Consolidated Statement of Net Cost for the year then ended. The effects of these restatements are shown in note 15.

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

	For the Year Ended September 30, 2002		
Line of Business Programs	**Intra-governmental**	**With the Public**	**Total**
Air Traffic Services			
Expenses	$ 993,362	$ 6,320,410	$ 7,313,772
Less: Earned revenues	(56,860)	(20,247)	(77,107)
Net Air Traffic Services Costs	936,502	6,300,163	7,236,665
Regulation & Certification			
Expenses	122,368	802,246	924,614
Less: Earned revenues	(568)	(553)	(1,121)
Net Regulation & Certification Costs	121,800	801,693	923,493
Research & Acquisitions			
Expenses	146,683	440,308	586,991
Less: Earned revenues	(36,549)	(35,580)	(72,129)
Net Research & Acquisitions Costs	110,134	404,728	514,862
Airports			
Expenses	8,547	2,924,995	2,933,542
Net Airports Costs	8,547	2,924,995	2,933,542
Civil Aviation Security			
Expenses	297,168	507,654	804,822
Less: Earned revenues	(110,516)	(80,396)	(190,912)
Net Civil Aviation Security Costs	186,652	427,258	613,910
Commercial Space Transportation			
Expenses	-	11,361	11,361
Net Commercial Space Transportation Costs	-	11,361	11,361
Non Line of Business Programs			
Regional and Center Operations and Other Programs			
Expenses	83,877	257,106	340,983
Less: Earned revenues	(90,004)	(35,104)	(125,108)
Net Other Program Costs	(6,127)	222,002	215,875
Not Assigned to Programs			
Expenses	-	50,622	50,622
Less: Earned revenues	(28,585)	(27,826)	(56,411)
Net Costs Not Assigned to Programs	(28,585)	22,796	(5,789)
Net Cost of Operations			
Total expenses	1,652,005	11,314,702	12,966,707
Less: Total earned revenues	(323,082)	(199,706)	(522,788)
Net Cost of Operations	$ 1,328,923	$ 11,114,996	$ 12,443,919

Comparative Statement of Net Cost information is presented in Note 15.

NOTE 13. TAXES AND OTHER NONEXCHANGE REVENUE

The IRS collects various taxes on behalf of the FAA's Airport and Airway Trust Fund. These taxes can be withdrawn only as authorized by FAA appropriations. Treasury estimates the taxes to be collected each quarter and adjusts the estimates by actual collections. Accordingly, the total taxes recognized for the year ended September 30, 2002 included OTA's estimate of $2.5 billion for the quarter ending September 30, 2002. For the year ended September 30, 2002, Treasury reported to FAA the following taxes collected:

	2002
Passenger Ticket Tax	$ 6,300,562
International Departure Tax	1,410,234
Investment Income	777,693
Fuel Taxes	802,749
Waybill Tax	394,317
Tax Refunds and Credits	(59,613)
Total Taxes and Other Nonexchange Revenue	$ 9,625,942

NOTE 14. IMPUTED FINANCING SOURCES

The FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the Treasury Judgment Fund in settlement of claims or court assessments against the FAA are also recognized as imputed financing. For the fiscal year ended September 30, 2002, imputed financing was as follows:

	2002
Office of Personnel Management	$ 394,826
Treasury Judgment Fund	65,910
Total Imputed Financing Sources	$ 460,736

NOTE 15. PRIOR PERIOD ADJUSTMENTS – RESTATEMENTS

FAA's environmental liabilities as of September 30, 2001 have been restated and reduced by $1,168.2 million to correct the application of relevant accounting standards. The restatement is comprised of reductions of $57.2 million in environmental remediation and $1,111.0 million in environmental cleanup and decommissioning. The restatement results from three primary factors: (1) the 2001 restated liability is reported in constant dollars, while the originally stated liability was determined using inflation factors to approximate the future payments; (2) the restated 2001 liability considers reduced costs associated with cleanup of assets that are co-located within a single facility, while the FY 2001 estimate was without regard to co-locations; and (3) the restated 2001 liability is based on asset counts from the Interim Fixed Asset System (IFAS), which FAA implemented in FY 2001. Asset counts within IFAS differ from the source used in estimating the originally stated FY 2001 liability.

As discussed in note 8, the FAA has restated its legal claims liability as of September 30, 2001 because the originally stated amount included claims that were not probable of loss in accordance with SFFAS Number 5. As a result, the originally stated $679.0 million legal claims liability (as a component of Employee Related, Legal, and Other Liabilities) was reduced by $489.2 million to $189.8 million. This correction of the legal claims liability also reduced FY 2001 expenses by $141.3 million.

As discussed in note 5, the FAA has restated its operating materials and supplies as of September 30, 2001 by reclassifying $48.4 million of slow-moving items from "held for use" to "excess, obsolete, and unserviceable," and establishing a $34.7 million allowance for these items to reflect net realizable value in accordance with SFFAS number 3, *Accounting for Inventory and Related Property*. In addition, $96.2 million of parts and components used to service FAA's fleet of aircraft were reclassified from "held for reserve" to "held for use." As a result, the originally stated $660.9 million balance of operating materials and supplies, net, (as a component of Inventory and Related Property) was reduced by $34.7 million to $626.2 million.

The FY 2001 Consolidated Statement of Net Cost has also been restated to reflect an improved method of allocating certain costs among the FAA lines of business (see note 12).

As disclosed in note 2, the FAA has restated the unobligated balance available and obligated balance not yet disbursed, of its FY 2001 fund balance with Treasury. This restatement among the status classifications did not affect the total reported fund balance with Treasury as of September 30, 2001.

The effects of these restatements on the Consolidated Balance Sheet as of September 30, 2001 are follows:

	2001 Originally Stated	Effect of Restatement	2001 As Restated
Inventory and Related Property, net	$ 1,121,698	$ (34,712)	$ 1,086,986
Environmental Cleanp Costs	$ 1,756,000	$ (1,168,219)	$ 587,781
Employee Related, Legal, and Other	$ 1,573,545	$ (489,214)	$ 1,084,331
Cumulative Results of Operations	$ 23,105,205	$ 1,622,721	$ 24,727,926

Restatements of certain FY 2002 opening balances affecting the Combined Statement of Budgetary Resources are discussed in Note 16.

The effects of the restatements on the Consolidated Statement of Net Cost for the year ended September 30, 2001 are as follows:

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

	2001 Originally Stated	Effect of Reallocations	Effect of Legal Claims Restatement	2001 As Restated
Line of Business Programs				
Air Traffic Service				
Intragovernmental expenses	$ 991,401	$ -	$ -	$ 991,401
Public expenses	6,083,177	54,800	(141,254)	5,996,723
Total expenses	7,074,578	54,800	(141,254)	6,988,124
Less earned revenues	(112,832)	31,675	-	(81,157)
Net Air Traffic Service Costs	6,961,746	86,475	(141,254)	6,906,967
Regulations & Certification				
Intragovernmental expenses	110,027	-	-	110,027
Public expenses	690,212	(275)	-	689,937
Total expenses	800,239	(275)	-	799,964
Less earned revenues	(1,276)	-	-	(1,276)
Net Regulations & Certification Costs	798,963	(275)	-	798,688
Research & Acquisitions				
Intragovernmental expenses	121,041	-	-	121,041
Public expenses	581,605	(177,385)		404,220
Total expenses	702,646	(177,385)	-	525,261
Less earned revenues	(38,966)	-	-	(38,966)
Net Research & Acquisitions Costs	663,680	(177,385)	-	486,295
Airports				
Intragovernmental expenses	8,080			8,080
Public expenses	2,170,496	-	-	2,170,496
Net Airports Costs	2,178,576	-	-	2,178,576
Civil Aviation Security				
Intragovernmental expenses	32,425	-	-	32,425
Public expenses	195,130	(66,121)		129,009
Total expenses	227,555	(66,121)	-	161,434
Less earned revenues	(1,031)	-	-	(1,031)
Net Civil Aviation Security Costs	226,524	(66,121)	-	160,403
Commercial Space				
Intragovernmental expenses	1,329	-	-	1,329
Public expenses	8,243	8		8,251
Net Commercial Space Costs	9,572	8	-	9,580
Non Line of Business Programs				
Regional and Center Operations and Other Programs				
Intragovernmental expenses	77,880	-	-	77,880
Public expenses	101,676	(16,833)		84,843
Total expenses	179,556	(16,833)	-	162,723
Less earned revenues	(11,560)	(32,380)	-	(43,940)
Net Other Program Costs	167,996	(49,213)	-	118,783
Not Assigned to Programs				
Public expenses	(149,298)	205,806	-	56,508
Total expenses	(149,298)	205,806	-	56,508
Less earned revenues	(43,190)	705	-	(42,485)
Net Costs Not Assigned to Programs	(192,488)	206,511	-	14,023
Net Cost of Operations				
Intragovernmental expenses	1,342,183	-	-	1,342,183
Public expenses	9,681,241	-	(141,254)	9,539,987
Total expenses	11,023,424	-	(141,254)	10,882,170
Less earned revenues	(208,855)	-	-	(208,855)
Net Cost of Operations	$ 10,814,569	$ -	$ (141,254)	$ 10,673,315

NOTE 16. STATEMENT OF BUDGETARY RESOURCES DISCLOSURES

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

FAA incurred several rescissions of budgetary resources in FY 2002, including reductions to the Facilities & Equipment Fund of $16.7 million and Grants-in-Aid for Airports contract authority of $301.7 million.

There are two significant instances in which ending balances on the FY 2001 Statement of Budgetary Resources differ from reported FY 2002 beginning balances:

- The FY 2002 Grants-in-Aid program beginning unobligated balance is $301.9 million higher than the FY 2001 ending unobligated balance. At the end of FY 2001, this amount was classified as "Temporarily Not Available" rather than "Unobligated Balance Not Available." If this amount had been reclassified as unobligated not available, the FY 2001 ending and FY 2002 beginning balances would have been in agreement.

- The FY 2002 beginning net obligated balance is $109.3 million less than the FY 2001 ending balance. This adjustment was necessary to correct the balance of "Unfilled customer orders from Federal sources," which was correspondingly overstated as of September 30, 2001.

In FY 2001, there was $36 million appropriated and reported as budget authority for user fees. In FY 2002, $29.6 million in user fees were collected and reported on the SF 132 Apportionment and Reapportionment Schedule as an unobligated balance. The $6.4 million balance that was appropriated but not collected was not carried forward to FY 2002**.**

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

- FAA does not have any significant differences between the information reported on the Statement of Budgetary Resources and the amounts described as FY 2002 "actual" in the Budget of the United States Government for FY 2004. Subsequent to the final FY 2001 FACTS II submission, however, audit adjustments to deobligate $36.3 million were reported in the FY 2001 Statement of Budgetary Resources. The beginning balances of the FY 2002 Statement of Budgetary Resources reflect these audit adjustments. Since the Budget of the United States Government is derived from final FACTS II data, the Budget of the United States Government does not reflect these adjustments.

- FAA does not have obligations classified as "exempt from apportionment." However, during FY 2002, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular A-34, Instructions on Budget Execution, were as follows:

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

Total available contract authority at the end of FY 2002 was $4 billion.

Public Laws 106-181 and 107-87 authorized FAA $3.3 billion and $1.8 billion in contract and liquidating authority, respectively, which are derived from the Airport and Airway Trust Fund and available until expended, for the Grants-in-Aid programs. The unobligated balance at the end of FY 2002 was $.9 million.

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 2001, $15.9 million of unobligated balances, and $.4 million of obligated balances, respectively, were in appropriations cancelled at year-end, pursuant to 31 USC 1552, and thus have not been brought forward to FY 2002.

The net obligated balance, end of period, is comprised of the following components:

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

NOTE 17. FINANCING SOURCES YET TO BE PROVIDED

The following table shows the relationship between liabilities not covered by budgetary resources on the balance sheet and the change in components of net cost of operations that will require resources in future periods.

For the Year Ended September 30, 2002

Liabilities Not Covered by Budgetary Resources, Beginning of Period, as restated	$ 2,677,163
Components Requiring Resources in Future Periods:	
Increases:	
Unfunded Annual & Other Leave & Assoc. Benefits (Note 8)	38,751
FECA (Actual) (Note 8)	5,321
Sick Leave Buy-Back Option for Air Traffic Controllers (Note 8)	4,346
Debt (Note 8)	2
Decreases:	
Environmental Liabilities (Notes 7 and 15)	(13,105)
Legal Claims (Note 8)	(19,909)
Return Rights (Note 8)	(2,400)
Capital Leases (Notes 8 & 9)	(2,175)
Other Accrued Liabilities (Note 8)	(600)
FECA (Actuarial) (Note 10)	(47,156)
Total Components of Net Cost of Operations that will Require Resources in Future Periods	(36,925)
Liabilities Not Covered by Budgetary Resources, End of Period	$ 2,640,238

The FY 2001 ending balance of liabilities not covered by budgetary resources was $4,379.9 million, which was $1,702.7 million greater than the beginning balance of $2,677.2 million brought forward. This difference was attributable to three factors: (a) environmental liabilities were restated and reduced by $1,168.2 million, (b) legal claims liabilities were restated and reduced by $489.2 million, and (c) certain accounts have been reclassified between covered versus not covered by budgetary resources, resulting in a net decrease of $45.3 million.

NOTE 18. CUSTODIAL ACTIVITY

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

NOTE 19. COMMITMENTS, CONTINGENCIES, AND OTHER DISCLOSURES

Contract Options. As of September 30, 2002 and 2001, FAA had contract options of $19.9 billion and $17.9 billion, respectively. These contract options give FAA the unilateral right to purchase additional equipment or services or to extend the contract terms. Exercising this right would require the obligation of funds in future years.

Contract Negotiations. As of September 30, 2002 and 2001, FAA had a total of $42.1 million and $106.4 million, respectively, in commitments (funds reserved for possible future obligations) under unexpired Facilities and Equipment, and Research, Engineering, and Development appropriations. The commitments were for purchases of goods and services for which contract negotiations have not been completed (i.e., agency obligations had not been incurred) at the end of each respective fiscal year.

Letters of Intent. FAA has authority under Title 49 U.S.C. 47110(e) to issue letters of intent (LOI) to enter into AIP grant agreements. Through September 30, 2002, FAA issued LOI's covering FY 1988 through FY 2014 totaling $4.3 billion. As of September 30, 2002, FAA had obligated $2.7 billion of this total amount, leaving $1.6 billion unobligated. FAA anticipates obligating an additional $293 million in FY 2003.

As of September 30, 2001, LOI's covering FY 1988 through FY 2014 totaled $3.9 billion. Of this amount, FAA had obligated $2.4 billion, leaving $1.5 billion unobligated as of September 30, 2001.

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

In FY 2001, AIP grant authority was $3.1 billion, including $1.4 billion in entitlements to specific locations. Of entitlements to specific locations, the sponsors had claimed $1.1 billion, and $298 million remained available from unused or newly enacted contract authority to those sponsors through FY 2003, or in the case of non-hub primary airport locations, through FY 2004.

Aviation Insurance Program. FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. FAA may issue (1) non-premium insurance, and (2) premium insurance for which a risk-based premium is charged to the air carrier.

FAA maintains standby non-premium war-risk insurance policies for 38 air carriers having approximately 974 aircraft available for Defense or State Department charter operations.

On September 22, 2001, the premium insurance program was expanded by the Air Transportation Safety and System Stabilization Act (Public Law 107-42) to include all scheduled domestic air carriers. Under this program, the FAA provided temporary war-risk insurance to U.S. carriers whose coverage was cancelled following the terrorist attacks on September 11, 2001. As of September 30, 2001, $121.68 billion of war risk insurance was extended to 74 carriers for a period of 30 days, and coverage has been subsequently extended, typically for 60-day periods. As of September 30, 2002, $114 billion of war risk coverage was extended to 72 carriers until October 16, 2002. The most recent period of coverage is December 16, 2002 to February 13, 2003, in which $112.5 billion of war risk coverage is extended to 71 carriers. The issuance of temporary war-risk coverage to all scheduled domestic carriers provides necessary insurance to qualifying carriers while allowing time for the commercial insurance market to stabilize. Premiums under this program are established by the FAA and are assessed per departure. During FY 2002 and FY 2001, the FAA recognized insurance premium revenue of $74.6 million and $4.6 million, respectively. Premiums are recognized as revenue on a straight-line basis over the period of coverage. Premium revenue is reported on the Consolidated Statement of Net Cost, under "Regional and Center Operations and Other Programs."

In the past, the FAA has insured a small number of air carrier operations and establishes a maximum liability for losing one aircraft. Typically, the maximum liability for both hull loss and liability, per aircraft, is $1.75 billion. No claims for losses were pending as of September 30, 2002. Since the inception of the Aviation Insurance Program (including the predecessor Aviation War Risk Insurance Program dating

back to 1951) only four claims, all involving minor dollar amounts, have been paid. Because of the unpredictable nature of war risk and the absence of historical claims experience on which to base an estimate, no reserve for insurance losses has been recorded.

Overflight User Fees. FAA issued an interim final rule (IFR) on August 1, 2000, that required certain aircraft operators to pay fees for air traffic control and related services provided by the 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 this IFR in the U.S. Court of Appeals. On July 13, 2001, the Court, in a preliminary opinion, ruled in favor of the airlines. The FAA ceased all billing and collection activities under the IFR. In August 2001, the FAA issued a Final Rule on overflight fees, thereby allowing the agency to resume charging fees and collecting fees. The same group of plaintiffs brought suit against the Final Rule. The FAA filed a motion for reconsideration of the Court's ruling on the IFR. The Court granted this motion on December 28, 2001, allowing the IFR to remain in place. The FAA continued to collect fees throughout FY 2002, while litigation under both the IFR and the Final Rule continued. The financial statements include $27.6 million and $29.3 million in Overflight Fee revenue for the years ended September 30, 2002 and 2001, respectively. While the FAA believes it will prevail, those revenues remain at risk until the litigation has come to a final resolution.

Environmental. The 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, 2002, the amount related to these two sites is $67.7 million. This liability includes the FAA's share of the known remediation cost and the cost to complete the study.

Legal Claims. As of September 30, 2002 and 2001, FAA's contingent liabilities for asserted and pending legal claims reasonably possible of loss were estimated at $499.8 million and $445.8 million, respectively. The FAA does not have material amounts of known unasserted claims.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

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

State/Territory	2002	2001	2000	1999	1998
Alabama	$ 58,506	$ 27,421	$ 19,653	$ 18,134	$ 15,556
Alaska	121,640	83,563	51,788	70,802	77,949
Arizona	54,737	51,783	58,381	53,135	47,243
Arkansas	32,937	32,412	17,534	21,694	19,291
California	243,720	179,447	87,617	106,161	101,896
Colorado	91,495	26,340	29,860	43,452	44,768
Connecticut	10,420	3,480	1,788	4,971	1,348
Delaware	5,838	4,704	2,515	197	284
District of Columbia	71	61	83	54	206
Florida	157,878	110,428	64,694	71,746	60,752
Georgia	67,957	33,652	43,911	43,556	41,604
Hawaii	15,846	34,569	6,567	12,131	7,142
Idaho	19,925	25,477	13,106	15,578	12,532
Illinois	165,518	85,566	66,003	63,596	74,514
Indiana	43,099	30,544	24,141	27,467	21,213
Iowa	30,765	35,159	16,169	30,450	16,983
Kansas	15,655	7,587	7,378	7,451	11,250
Kentucky	48,192	46,166	26,205	32,741	43,116
Louisiana	47,915	32,841	29,200	24,442	20,338
Maine	14,456	7,496	3,828	4,943	5,505
Maryland	26,370	18,953	14,900	18,136	9,765
Massachusetts	30,348	20,709	14,560	15,259	22,615
Michigan	85,851	99,278	27,363	50,995	47,890
Minnesota	85,675	49,143	30,561	27,902	23,430
Mississippi	25,929	28,203	9,281	14,393	9,788
Missouri	71,910	62,701	35,137	30,089	35,996
Montana	24,506	19,254	13,157	16,727	13,367
Nebraska	25,181	22,983	8,534	14,240	13,015
Nevada	45,204	57,332	32,106	22,981	30,420
New Hampshire	40,351	16,173	8,582	8,789	11,743
New Jersey	26,391	18,047	10,012	25,906	9,918
New Mexico	13,106	10,882	7,671	10,149	5,327

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

State/Territory	2002	2001	2000	1999	1998
New York	$ 109,798	$ 118,792	$ 57,671	$ 86,754	$ 67,664
North Carolina	73,493	60,908	26,084	50,572	31,226
North Dakota	16,562	25,221	11,490	8,263	10,980
Ohio	112,015	51,601	45,691	46,374	33,843
Oklahoma	39,238	19,780	8,678	14,949	5,240
Oregon	46,605	31,655	9,847	16,138	17,682
Pennsylvania	109,388	62,343	34,011	57,544	63,025
Rhode Island	12,409	9,547	11,705	10,813	2,692
South Carolina	39,194	18,895	11,792	22,926	15,419
South Dakota	15,440	10,466	12,301	8,893	10,112
Tennessee	46,373	58,638	39,237	36,477	34,885
Texas	192,738	127,046	111,585	103,308	98,154
Utah	21,396	39,235	14,328	8,808	12,910
Vermont	2,767	5,487	1,157	4,141	5,219
Virginia	76,647	75,555	41,109	31,069	21,733
Washington	62,798	34,023	35,498	44,454	18,405
West Virginia	18,562	18,564	7,400	12,592	19,564
Wisconsin	39,971	27,541	26,278	25,512	30,406
Wyoming	25,679	16,446	14,972	7,871	9,337
American Samoa	17,845	5,374	241	676	1,329
Guam	368	3,653	3,399	10,341	1,260
Northern Mariana Island	13,017	5,455	1,610	4,027	3,272
Puerto Rico	9,022	6,399	9,179	7,163	10,482
Trust Territory of Pacific	-	-	138	27	479
Virgin Islands	20,094	5,056	2,411	9,231	2,384
Administration	64,731	58,542	55,196	75,680	52,075
Totals	**$ 2,933,542**	**$ 2,178,576**	**$ 1,375,293**	**$ 1,612,867**	**$ 1,436,541**

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

U.S. Department of Transportation
Federal Aviation Administration
Stewardship Investment
Research and Development
For the Fiscal Years Ended September 30

Expenditures	**2002**	**2001**	**2000**	**1999**	**1998**
Applied Research	$ 59,150	$ 120,395	$ 99,777	$ 118,834	$ 103,274
Development	603	3,419	7,175	18,358	48,237
R&D Plant	44,480	46,988	12,800	14,290	11,254
Administration	3,020	10,130	46,219	36,466	54,179
Total	$ 107,253	$ 180,932	$ 165,971	$ 187,948	$ 216,944

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

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury-protection; explosive detection systems; improved in-flight icing and ground de-icing operations; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors.

NOTE: The FY 1999 amounts reported above are based on actual amounts and differ from those reported in FY 1999, which were based on estimates.

REQUIRED SUPPLEMENTARY INFORMATION

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

Category	Method	Asset Condition*	Costs to Return to Acceptable Condition				
			FY 2002	FY 2001	FY 2000	FY 1999	FY1998
Buildings	Condition Assessment Survey	4&5	$ 73,741	$ 50,568	$ 30,971	$ 17,539	$ 18,214
Other Structures and Facilities	Condition Assessment Survey	4&5	13,843	22,928	59,290	37,442	1,231
Total			$ 87,584	$ 73,496	$ 90,261	$ 54,981	$ 19,445

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

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

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

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

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

Intragovernmental Assets

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

Intragovernmental Liabilities

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

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

Intragovernmental Expenses and Revenues

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

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

Intragovernmental Non-Exchange Revenue

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

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

Budgetary Resources	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Budget Authority									
Appropriations Received	$ (1,378,427)	$ 2,125,000	$ 3,026,595	$ 245,000	$ -	$ -	$ 7,128,000	$ -	$ 11,146,168
Contract Authority	-	3,300,000	-	-	-	-	-	-	3,300,000
Net Transfers	-	-	-	-	-	-	400	-	400
Unobligated Balances									
Beginning of period	10,111,046	302,331	553,845	19,400	88,241	28,620	173,897	29,860	11,307,240
Net transfers, actual	-	-	-	-	-	-	118,000	-	118,000
Spending Authority From Offsetting Collections									
Earned									
Collected	-	-	141,068	4,043	75,566	293,167	775,344	27,596	1,316,784
Receivable from Federal sources	-	-	37,508	(987)	-	958	211,674	-	249,153
Change in unfilled customer orders									
Advanced received	-	-	22,492	-	-	23,076	-	-	45,568
Without advance from Federal sources	-	-	(30,153)	913	-	867	25,797	-	(2,576)
Transfers from trust funds	-	-	-	-	-	-	33,000	-	33,000
Subtotal	8,732,619	5,727,331	3,751,355	268,369	163,807	346,688	8,466,112	57,456	27,513,737
Recoveries of prior year obligations	-	84,936	148,600	8,374	2	-	68,961	52	310,925
Permanently not available	-	(2,251,720)	(44,317)	(161)	-	-	(66,194)	-	(2,362,392)
Total Budgetary Resources	$ 8,732,619	$ 3,560,547	$ 3,855,638	$ 276,582	$ 163,809	$ 346,688	$ 8,468,879	$ 57,508	$ 25,462,270

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

Status of Budgetary Resources	Airport & Airway Trust Fund Corpus	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
Obligations Incurred									
Direct	$ 36	$ 3,559,653	$ 3,230,733	$ 251,426	$ 61,448	$ 290,106	$ 7,352,260	$ 3	$ 14,745,665
Reimbursable	-	-	83,418	3,969	-	-	963,786	-	1,051,173
Subtotal	36	3,559,653	3,314,151	255,395	61,448	290,106	8,316,046	3	15,796,838
Unobligated Balances-Available									
Apportioned	-	277	489,095	16,039	59,389	56,582	100,921	82	722,385
Exempt from apportionment	8,732,583	-	-	-	-	-	-	-	8,732,583
Unobligated Balances-Not Available	-	617	52,392	5,148	42,972	-	51,912	57,423	210,464
Total Status of Budgetary Resources	$ 8,732,619	$ 3,560,547	$ 3,855,638	$ 276,582	$ 163,809	$ 346,688	$ 8,468,879	$ 57,508	$ 25,462,270
Relationship of Obligations to Outlays									
Obligated Balance, net Beg. Of Period	$ -	$ 4,378,147	$ 1,730,817	$ 163,192	$ 127	$ 45,993	$ 930,987	$ 272	$ 7,249,535
Obligated Balance, Net-End of period									
Accounts receivable	$ -	$ -	$ (80,029)	$ (7,579)	$ -	$ (4,644)	$ (253,626)	$ -	$ (345,878)
Unfilled customer orders from Federal sources	-	-	(33,864)	(3,667)	-	(867)	(53,676)	-	(92,074)
Undelivered orders	-	4,988,837	1,683,975	181,915	49	66,150	524,052	39	7,445,017
Accounts payable	-	3,865	418,728	35,278	5,094	10,164	545,536	(27,594)	991,071
Total obligated balance, net, end of period	$ -	$ 4,992,702	$ 1,988,810	$ 205,947	$ 5,143	$ 70,803	$ 762,286	$ (27,555)	$ 7,998,136
Outlays									
Disbursements	$ 36	$ 2,860,162	$ 2,900,203	$ 204,339	$ 56,429	$ 263,472	$ 13,951,695	$ 27,778	$ 20,264,114
Collections	-	-	(163,559)	(4,043)	(75,566)	(316,243)	(6,581,724)	(27,596)	(7,168,731)
Subtotal	36	2,860,162	2,736,644	200,296	(19,137)	(52,771)	7,369,971	182	13,095,383
Less: Offsetting receipts	105	-	-	-	-	-	-	-	105
Net Outlays	$ (69)	$ 2,860,162	$ 2,736,644	$ 200,296	$ (19,137)	$ (52,771)	$ 7,369,971	$ 182	$ 13,095,278

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

The FAA Administrative Services Franchise Fund (Franchise Fund) was authorized under Public Law 104-205, Department of Transportation and Related Agencies Appropriation Act, 1997. The franchise program is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other Government agencies.

Objective

The objective of the Franchise Fund is to enhance the support provided to the core programmatic mission functions within FAA. Benefits of the franchise fund are derived incrementally over time through efficiencies and economies of scale associated with development of partnerships and consolidation of like functions plus the addition of new customers. Efforts in the franchise are directed toward identifying the most efficient and cost effective methods to provide support services, and this is consistent with the current Presidents' Management Agenda initiative relating to competitive sourcing.

Services

The Franchise Fund offers a wide variety of services. These include accounting, payroll, travel, duplicating, multi-media, information technology, and international and management training. In FY 2001, the fund was expanded to include logistics and materiel management functions at the FAA Logistics Center and aircraft maintenance functions in the Office of Aviation System Standards. The customer base includes both DOT and non-DOT government agencies.

Prior Period Adjustments

The Franchise Fund financial statements as of, and for the year ended, September 30, 2001 have been restated to reduce earned revenue by $11.7 million because it represents future (unearned) revenue. This restatement increased Other Liabilities and Net Cost of Operations, and decreased Earned Revenues and Cumulative Results of Operations. The effect of this restatement has been eliminated in the consolidated financial statements of the FAA.

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

	As of September 30	
	2002	2001 As Restated
Assets		
Intragovernmental		
Fund Balance with Treasury	$ 127,297	$ 74,525
Accounts Receivable, Net	2,676	3,686
Other	-	93
Total Intragovernmental Assets	129,973	78,304
Accounts Receivable, Net	1,914	(60)
Inventory and Related Property, Net	402,336	438,101
General Property, Plant, and Equipment, Net	4,011	48,260
Other Assets	4	17
Total Assets	$ 538,238	$ 564,622
Liabilities		
Intragovernmental Liabilities:		
Accounts Payable	$ 5	$ -
Other Intragovernmental Liabilities	67,088	74,884
Total Intragovernmental Liabilities	67,093	74,884
Accounts Payable	10,380	10,340
Other Liabilities	16,366	13,997
Total Liabilities	93,839	99,221
Net Position Balances:		
Cumulative Results of Operations	444,399	465,401
Total Net Position	444,399	465,401
Total Liabilities and Net Position	$ 538,238	$ 564,622

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

	For the Years Ended September 30	
	2002	2001 As Restated
Programs		
Intragovernmental Costs	$ 306,287	$ 203,470
Less Earned Revenues	(284,220)	(197,245)
Net Program Costs	22,067	6,225
Net Cost of Operations	$ 22,067	$ 6,225

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
FRANCHISE FUND
STATEMENT OF CHANGES IN NET POSITION
For the Fiscal Year Ended September 30, 2002

	Cumulative Results of Operations
Beginning Balance	$ 477,101
Prior period adjustment	(11,700)
Other Financing Sources	
Transfers-in/out without reimbursement	(4,328)
Imputed financing from costs absorbed by others	5,387
Other	6
Total Financing Sources	1,065
Net Cost of Operations	22,067
Ending Balance	$ 444,399

OTHER ACCOMPANYING INFORMATION

NET COST BY STRATEGIC GOAL AREA

In an effort to better link actual costs to performance goals, the FAA is presenting a supplemental schedule of net cost for the first time in FY 2002, in which costs by program are allocated to agency strategic goals. FAA's long-term plan is to link costs to projects, and projects to goals, to improve understanding of the cost associated with FAA mission and programs.

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

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

	Strategic Goal Areas					
Line of Business Programs	**Safety**	**System Efficiency**	**Organizational Excellence**	**Security**	**Other**	**Total**
Air Traffic Services	$ 6,566,283	$ 552,982	$ 110,411	$ 6,989	$ -	$ 7,236,665
Regulation & Certification	923,493	-	-	-	-	923,493
Research & Acquisitions	128,306	318,073	-	68,483	-	514,862
Airports	809,005	1,725,897	-	398,640	-	2,933,542
Civil Aviation Security	83,118	-	-	530,792	-	613,910
Commercial Space Transportation	11,361	-	-	-	-	11,361
Non Line of Business Programs						
Regional and Center Operations and Other Programs	-	-	-	-	215,875	215,875
Costs Not Assigned to Programs	-	-	-	-	50,622	50,622
Earned Revenues Not Assigned To Programs	-	-	-	-	(56,411)	(56,411)
Net Cost of Operations	$ 8,521,566	$ 2,596,952	$ 110,411	$ 1,004,904	$ 210,086	$ 12,443,919

TRANSPORTATION SECURITY ADMINISTRATION

The Aviation and Transportation Security Act (Public Law 107-71) was enacted on November 19, 2001. It established the Transportation Security Administration (TSA) and transferred the Civil Aviation Security functions and responsibilities of the FAA to the TSA not later than 3 months after the date of enactment. The TSA assumed responsibility for the Civil Aviation Security functions from the FAA on February 13, 2002.

The Civil Aviation Security program within FAA's Statement of Net Cost includes $611.6 million of net cost for the period February 13 to September 30, 2002, related to security functions that were transferred to the TSA on February 13, 2002, but continued to be funded from FAA's direct appropriations.

In addition, equipment and construction in progress associated with Civil Aviation Security functions have been earmarked for transfer from FAA to the TSA. September 30, 2002 balances associated with this equipment and construction in progress included on FAA's Consolidated Balance Sheets, were as follows:

Future Equipment Transfers to TSA	Amount
Acquisition value	$635,617
Accumulated depreciation	87,778
Net book value	$547,839
Equipment count (unaudited)	2,475

Of the acquisition and net book values reported above, $184.5 million represents construction in progress.

GLOSSARY OF ACRONYMS

A

AIP	Airport Improvement Program
AMASS	Airport Movement Area Safety System
ASAP	Aviation Safety Action Program
ASDE	Airport Surface Detection Equipment
ATCSCC	ATC Systems Control Center
ATOS	Air Transportation Oversight System
ATS	Air Traffic Services

C

CAS	Cost Accounting System
CFIT	Controlled Flight Into Terrain
CFO	Chief Financial Officer
CTAS	Center/TRACON Automation System

D

DOT	Department of Transportation

E

EIS	Environmental Impact Statement

F

F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FAST	Final Approach Spacing Tool
FFP1	Free Flight Phase 1
FFP2	Free Flight Phase 2
FOQA	Flight Operations Quality Assurance
FY	Fiscal Year

G

GA	General Aviation
GAO	General Accounting Office
GPS	Global Positioning System

I

ICAO	International Civil Aviation Organization

N

NAS	National Airspace System
NASA	National Aeronautics and Space Administration

O

OEP	Operational Evolution Plan
OIG	Office of the Inspector General, Department of Transportation
OMB	Office of Management and Budget

P

PFAST	Passive Final Approach Spacing Tool
PFC	Passenger Facility Charge
PP&E	Property, Plant, and Equipment

Q

QAR	Quality Assurance Review Process

R

RE&D	Research, Engineering, and Development
RESTORE	Revitalizing Existing Structures, Technology, and Operational Resources

S

STAR	Standard Terminal Arrival Route
STARS	Standard Terminal Automation Replacement System

T

TRACON	Terminal Radar Approach Control
TSA	Transportation Security Administration

U

URET	User Request Evaluation Tool

INTERNET LINKS

Federal Aviation Administration: www.faa.gov
FAA Offices: www1.faa.gov/index.cfm/1038
FAA Regional Offices and Centers: www1.faa.gov/index.cfm/1040
FAA Operational Evolution Plan (OEP): www1.faa.gov/programs/oep
National Transportation Library: http://ntl.bts.gov
U.S. Department of Transportation: www.dot.gov

ACKNOWLEDGMENTS

This Performance and Accountability Report is the culmination of the hard work and sustained commitment of hundreds of individuals involved in the audit and financial statement preparation process, and in monitoring and reporting on the status of FAA's performance results. The Office of Financial Services would like to acknowledge and convey our sincere thanks to these individuals, and to those throughout the FAA who reviewed this report and provided their comments and suggestions.

WE WELCOME YOUR COMMENTS!

Thank you for your interest in FAA's *FY 2002 Performance and Accountability Report*. We welcome your comments on how we can make this report more informative for our readers. Please send your comments to

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This report is also available on the Internet at www2.faa.gov/aba/html_fm/finst.html

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