

AFM – Accounting Policy Memo : 2003-4.

Internal Guidance Memo

To: Regional, Center Accounting Offices and Washington Accounting Operations Division, AFM-200.

From: Director, Office of Financial Management, AFM-1

Date: 6/27/2003

Re: Policy relating to recognition of revenue from war risk insurance.

Background: Paragraph 79 of Chapter 1 of the Uniform Accounting System Operations Manual (FAA Order 2700.31) states "The accounting records are maintained on the accrual basis. ... The accrual basis recognizes the significant and accountable aspects of financial transactions or events as they occur. ..."

FAA APO Aviation Insurance Program provides insurance to the U.S. domestic airline industry for needs that are not met by the commercial aviation insurance market. FAA derives the authority from Title 49 U.S.C., Subtitle VII, Part A, Subpart III, Chapter 443.

The Homeland Security Act of 2002 authorized the FAA to provide additional coverage including War Risk Hull, Passenger, Crew, and Property Liability in addition to the Third Party Liability that was already authorized under the existing law. For air carriers who retained only Third Party Liability insurance, the first \$50 million of coverage is excluded. For the other carriers who obtained the additional insurance, the coverage begins with the first dollar of any covered loss. On April 16, 2003, The Wartime Supplemental Appropriation became Public Law #108-11 which amended Title 49 U.S.C., Chapter 443, and directed the Secretary of Transportation to extend the premium War Risk Insurance Program through August 31, 2004 with the option for a further extension until December 31, 2004. War Risk Insurance policies are issued in 60 day increments.

Effective date: This policy is effective immediately.

When should do you recognize revenue related to war risk insurance?

The revenue related to war risk insurance must be recognized over the period of the war risk insurance coverage.

How do you record war risk insurance revenue?

At the time war risk insurance is received, the revenue will be recorded as unearned revenue. At the end of each month, FAA will make an adjusting entry to record the earned revenue by debiting unearned revenue and crediting revenue in the amount of the premiums earned over the month.

If you have any questions relating to the application of this policy, please contact Stephen I. Newborn on 202-267-8968.



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