



FAA

Report QC2024006
November 14, 2023

Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022



Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022

Required by the Chief Financial Officers Act of 1990

Federal Aviation Administration | QC2024006 | November 14, 2023

What We Looked At

We contracted with the independent public accounting firm KPMG, LLP to audit the Federal Aviation Administration's (FAA) consolidated financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022. KPMG was required to provide an opinion on those financial statements, report on internal control over financial reporting, and report on compliance with laws and other matters. The contract required the audit to be performed in accordance with U.S. generally accepted Government auditing standards; Office of Management and Budget audit guidance; and the Governmental Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*. We performed a quality control review (QCR) of KPMG's report dated November 9, 2023, and related documentation, and inquired of KPMG's representatives.

What We Found

Our QCR disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Our Recommendations

FAA concurred with KPMG's recommendation. We agree with KPMG's recommendation and are not making any additional recommendations.

Contents

Memorandum	1
Independent Auditor's Report	2
Quality Control Review	3
Agency Comments and OIG Response	3
Actions Required	3
Exhibit. List of Acronyms	4
Attachment 1. Independent Auditor's Report	5
Attachment 2. Agency Response	6
Attachment 3. FAA's Financial Statements and Notes	7



Memorandum

Date: November 14, 2023

Subject: ACTION: Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2023 and 2022 | Report No. QC2024006

From: Dormayne "Dory" Dillard-Christian *M. Dillard-Christian*
Assistant Inspector General for Financial Audits

To: Federal Aviation Administrator

I respectfully submit the results of our quality control review (QCR) of the independent auditor's report on the Federal Aviation Administration's (FAA) audited consolidated financial statements for fiscal years 2023 and 2022.

We contracted with the independent public accounting firm KPMG, LLP to audit FAA's consolidated financial statements as of and for the fiscal years ended September 30, 2023, and September 30, 2022; provide an opinion on those financial statements; report on internal control over financial reporting; and report on compliance with laws and other matters. The contract required the audit to be performed in accordance with U.S. generally accepted Government auditing standards; Office of Management and Budget audit guidance; and the Government Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual*.¹

We appreciate the cooperation and assistance of FAA's representatives and KPMG. If you have any questions about this report, please contact me or Ingrid Harris, Program Director.

cc: The Secretary
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-100

¹ *Financial Audit Manual*, Volume 1 (GAO-22-105894), May 2023; Volume 2 (GAO-22-105895), May 2023; Volume 3, (GAO-21-105127), June 2023.

Independent Auditor's Report

In its audit report, dated November 9, 2023, KPMG states that:

- FAA's consolidated financial statements² (see attachment 3) were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- it found one significant deficiency³ in internal control over financial reporting that it did not consider to be a material weakness;⁴ and
- there were no instances of reportable noncompliance with provisions of laws tested, or reportable other matters.

KPMG made one recommendation (see attachment 1).

Significant Deficiency

Weaknesses in general information technology controls. KPMG identified general information technology control deficiencies at the application level within the procurement system related to access controls. Specifically, controls were not operating effectively over provisioning of new or modified user access, recertification of existing system users, and termination of access.

Recommendations

To help strengthen FAA's general information technology controls, KPMG recommended that FAA management:

1. design and perform procedures to consistently approve and document new or modified user account and recertification requests and timely

² The consolidated financial statements are included in FAA's Performance and Accountability Report. For FAA's full Performance and Accountability Report, which includes these statements, related notes, and required supplementary information, go to https://www.faa.gov/about/plans_reports/#performance.

³ A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness but important enough to merit attention by those charged with governance. A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis.

⁴ A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

remove separated users as required by internal policy and standards for effective internal control systems.

Quality Control Review

We performed a QCR of KPMG's report and related documentation, and inquired of the firm's representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted Government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal control over financial reporting, or compliance with laws, or other matters. KPMG is responsible for its report and the conclusions expressed therein.

Our QCR disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Agency Comments and OIG Response

KPMG provided FAA with its draft report on November 7, 2023, and received FAA's response, dated November 9, 2023 (see attachment 2). FAA concurred with KPMG's recommendation and committed to developing a corrective action plan to address the deficiency by December 31, 2023. We agree with KPMG's recommendation and are not making any additional recommendations.

Actions Required

We consider KPMG's recommendation open and unresolved pending receipt of the corrective action plan.

Exhibit. List of Acronyms

DOT	Department of Transportation
FAA	Federal Aviation Administration
OIG	Office of Inspector General
QCR	quality control review

Attachment 1. Independent Auditor's Report



KPMG LLP
Suite 12000
1801 K Street, NW
Washington, DC 20006

Independent Auditors' Report

Administrator, Federal Aviation Administration, and
Inspector General United States Department of Transportation, Federal Aviation Administration:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the United States Department of Transportation, Federal Aviation Administration (FAA), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net costs and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the FAA as of September 30, 2023 and 2022, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the FAA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Performance and Accountability Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis and Required Supplementary Information sections be presented to supplement the basic consolidated financial statements. Such information is the responsibility of management and, although not a part of the basic consolidated financial statements, is required by the Federal Accounting Standards Advisory Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic consolidated financial statements, and other knowledge we obtained during our audits of the basic consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



Other Information

Management is responsible for the other information included in the Performance and Accountability Report. The other information comprises the Snapshot of Resources, Foreword, Messages from the Deputy Administrator and the Chief Financial Officer, Performance Results, and Other Information sections, as listed in the Table of Contents of the Performance and Accountability Report but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2023, we considered the FAA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in the accompanying exhibit as item 2023-1, that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FAA's consolidated financial statements as of and for the year ended September 30, 2023 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.



FAA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the FAA's response to the findings identified in our audit and described and presented in the section *Management's Response to the Independent Auditors' Report*. The FAA's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by Government Auditing Standards

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the FAA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 9, 2023

2023 - 01: Weaknesses in General Information Technology Controls

Background

The Federal Aviation Administration (FAA) utilizes a procurement system to record and track requisitions, purchase orders, and contracts and to compile amounts recorded in its consolidated financial statements.

Criteria

The U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book), sets the standards for an effective internal control system and provides an overall framework for designing, implementing, and operating effective internal control systems. The standards require entities to design appropriate types of control activities to include limiting access to resources and records to authorized individuals, and to periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration. In addition, management should communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

Condition

Control deficiencies exist at the application level within the procurement system related to access controls as listed below:

- Controls were not designed or operating effectively over provisioning of new or modified user access.
- Controls were not designed effectively over the recertification of existing system users.
- Controls were not operating effectively over termination of access.

Cause

Management has not designed and consistently performed procedures to ensure compliance with internal policy and standards for effective internal control systems.

Effect

User accounts with inappropriate access may allow for unauthorized use, disclosure, or modification of system data which could result in a misstatement in the consolidated financial statements not being prevented, detected, or corrected.

Recommendation

We recommend that FAA management design and perform procedures to consistently approve and document new or modified user account and recertification requests and timely remove separated users as required by internal policy and standards for effective internal control systems.

Attachment 2. Agency Response



U.S. Department
of Transportation
**Federal Aviation
Administration**

Office of Financial Services

800 Independence Ave. S.W.
Washington, DC 20591

November 9, 2023

Mr. James Gould
KPMG LLP
1801 K Street, NW, Suite 1200
Washington, DC 20006

Dear Mr. Gould,

We have received your Independent Auditors' Report related to the Federal Aviation Administration's fiscal years 2023 and 2022 consolidated financial statements and offer the following response.

We appreciate working with you in support of the audit and are pleased to receive an unmodified audit result with no material weaknesses. The Federal Aviation Administration values the audit as an essential component of our fiscal responsibilities, and we take that responsibility very seriously – from the highest levels of leadership and throughout the entire agency.

We concur with the finding and recommendations in your report that more timely and documented user account access reviews are needed, as well as more consistent and timely notification of user separations. We will provide our corrective action plan to the Office of Inspector General by December 31, 2023. The corrective actions will include but not be limited to, strengthening controls over user recertification, better communication of separations to ensure timely removal of system access, and adoption of robotics process automation where appropriate for greater efficiency and consistency in these processes. I will monitor implementation of the plan throughout the corrective action process.

Thank you for the professional manner in which you and your team conducted your audit.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Rickard".

David Rickard
Chief Financial Officer

Attachment 3. FAA's Financial Statements and Notes

Financial Statements

U.S. DEPARTMENT OF TRANSPORTATION FEDERAL AVIATION ADMINISTRATION CONSOLIDATED BALANCE SHEETS

As of September 30, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 17,138,803	\$ 17,227,884
Investments, net (Note 3)	19,135,876	13,211,744
Accounts receivable, net (Note 4)	13,125	24,930
Advances and prepayments	129,252	135,404
Total intragovernmental	36,417,056	30,599,962
Other than intragovernmental		
Accounts receivable, net (Note 4)	49,735	45,917
Inventory and related property, net (Note 5)	838,828	834,759
General property, plant, and equipment, net (Note 6)	11,803,546	11,545,951
Advances and prepayments	1,881	1,939
Total other than intragovernmental	12,693,990	12,428,566
Total assets	\$ 49,111,046	\$ 43,028,528
Liabilities		
Intragovernmental		
Accounts payable	\$ 10,545	\$ 12,124
Advances from others and deferred revenue	214,189	221,347
Other liabilities (Note 10)	331,433	322,400
Total intragovernmental	556,167	555,871
Other than intragovernmental		
Accounts payable	508,403	457,243
Federal employee benefits payable (Note 8)	1,236,803	1,246,691
Environmental and disposal liabilities (Note 9)	857,168	783,215
Advances from others and deferred revenue	146,830	131,986
Other liabilities		
Accrued grant liabilities	3,243,824	6,640,832
Other (Note 10)	487,695	478,489
Total other than intragovernmental	6,480,723	9,738,456
Total liabilities	\$ 7,036,890	\$ 10,294,327
Commitments and contingencies (Note 12)		
Net position		
Unexpended appropriations – funds from dedicated collections (consolidated) (Note 13)	\$ 1,163,150	\$ 1,255,980
Unexpended appropriations – funds from other than dedicated collections (consolidated)	10,675,400	6,671,859
Total unexpended appropriations (consolidated)	11,838,550	7,927,839
Cumulative results of operations – funds from dedicated collections (consolidated) (Note 13)	21,399,280	15,838,992
Cumulative results of operations – funds from other than dedicated collections (consolidated)	8,836,326	8,967,370
Total cumulative results of operations (consolidated)	30,235,606	24,806,362
Total net position	42,074,156	32,734,201
Total liabilities and net position	\$ 49,111,046	\$ 43,028,528

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, 2023 and 2022
(Dollars in Thousands)

Line of business programs (Note 14)	2023	2022
Air Traffic Organization		
Gross program costs	\$ 14,155,606	\$ 13,326,871
Less earned revenues	(449,380)	(366,057)
Net costs	13,706,226	12,960,814
Airports		
Gross program costs	5,033,320	7,856,851
Net costs	5,033,320	7,856,851
Aviation Safety		
Gross program costs	1,984,367	1,819,190
Less earned revenues	(12,001)	(8,486)
Net costs	1,972,366	1,810,704
Security and Hazardous Materials Safety		
Gross program costs	176,050	154,278
Less earned revenues	(87,229)	(24,361)
Net costs	88,821	129,917
Commercial Space Transportation		
Gross program costs	47,499	39,405
Net costs	47,499	39,405
Non-line of business programs		
Gross program costs	280,827	266,678
Less earned revenues	(211,224)	(196,673)
Net costs	69,603	70,005
Net cost of operations		
Total gross program costs	21,677,669	23,463,273
Less earned revenues	(759,834)	(595,577)
Total net cost	\$ 20,917,835	\$ 22,867,696

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

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2023 and 2022
(Dollars in Thousands)

	2023			2022		
	Funds from dedicated collections (consolidated) (Note 13)	Funds from other than dedicated collections (consolidated)	Consolidated total	Funds from dedicated collections (consolidated) (Note 13)	Funds from other than dedicated collections (consolidated)	Consolidated total
Unexpended appropriations						
Beginning balances	\$ 1,255,980	\$ 6,671,859	\$ 7,927,839	\$ 716,250	\$ 4,838,873	\$ 5,555,123
Appropriations received (Note 16)	1,921,179	5,558,555	7,479,734	5,000,000	5,951,180	10,951,180
Appropriations transferred-in/out	1,080	(2,000)	(920)	-	(2,000)	(2,000)
Other adjustments	(25,023)	(48,227)	(73,250)	(24)	-	(24)
Appropriations used	(1,990,066)	(1,504,787)	(3,494,853)	(4,460,246)	(4,116,194)	(8,576,440)
Net change in unexpended appropriations	(92,830)	4,003,541	3,910,711	539,730	1,832,986	2,372,716
Total unexpended appropriations – ending	\$ 1,163,150	\$ 10,675,400	\$ 11,838,550	\$ 1,255,980	\$ 6,671,859	\$ 7,927,839
Cumulative results of operations						
Beginning balances	\$ 15,838,992	\$ 8,967,370	\$ 24,806,362	\$ 17,645,310	\$ 9,920,971	\$ 27,566,281
Appropriations used	1,990,066	1,504,787	3,494,853	4,460,246	4,116,194	8,576,440
Non-exchange revenue – excise taxes and other	22,600,967	-	22,600,967	11,537,748	-	11,537,748
Transfers-in/out without reimbursement	(2,082,135)	1,579,891	(502,244)	(1,639,247)	1,188,858	(450,389)
Donations and forfeitures of property	-	13,012	13,012	-	24,868	24,868
Imputed financing (Note 15)	729,908	17,968	747,876	407,877	11,233	419,110
Other	(1)	(7,384)	(7,385)	-	-	-
Net cost of operations	17,678,517	3,239,318	20,917,835	16,572,942	6,294,754	22,867,696
Net change in cumulative results of operations	5,560,288	(131,044)	5,429,244	(1,806,318)	(953,601)	(2,759,919)
Cumulative results of operations – ending	\$ 21,399,280	\$ 8,836,326	\$ 30,235,606	\$ 15,838,992	\$ 8,967,370	\$ 24,806,362
Net Position	\$ 22,562,430	\$ 19,511,726	\$ 42,074,156	\$ 17,094,972	\$ 15,639,229	\$ 32,734,201

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

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2023 and 2022
(Dollars in Thousands)

	2023	2022
Budgetary resources (Note 16)		
Unobligated balance from prior year budget authority, net	\$ 11,387,867	\$ 10,024,552
Appropriations	20,624,528	20,505,993
Contract authority	3,350,000	3,350,000
Spending authority from offsetting collections	10,998,101	7,169,001
Total budgetary resources	\$ 46,360,496	\$ 41,049,546
Status of budgetary resources		
New obligations and upward adjustments	\$ 34,306,979	\$ 30,275,337
Unobligated balance, end of year		
Apportioned, unexpired accounts	9,444,480	7,937,515
Unapportioned, unexpired accounts	2,420,929	2,675,069
Unexpired unobligated balance, end of year	11,865,409	10,612,584
Expired unobligated balance, end of year	188,108	161,625
Unobligated balance, end of year (total)	12,053,517	10,774,209
Total budgetary resources	\$ 46,360,496	\$ 41,049,546
Outlays, net		
Outlays, net (total)	\$ 23,824,106	\$ 23,071,125
Distributed offsetting receipts	(17,685)	(9,669)
Agency outlays, net	\$ 23,806,421	\$ 23,061,456

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. REPORTING ENTITY

The reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

Created in 1958, the FAA is a component of the Department of Transportation (DOT), a cabinet-level agency of the executive branch of the federal government. The FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and safety. As the leading authority in the international aviation community, the FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns.

The U.S. Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. The FAA is accountable for amounts made available per appropriations laws, from the Airport and Airway Trust Fund (AATF), revolving funds, a special fund, and the General Fund. The FAA recognizes budgetary resources as assets when authorized by congressional action and apportioned by the Office of Management and Budget (OMB).

The FAA has contract authority, which allows the agency to enter into contracts prior to receiving an appropriation for the payment of obligations. A subsequently enacted appropriation provides funding to liquidate the obligations. Current contract authority is provided for the Airport Improvement Program (AIP) and funded by appropriations from the AATF.

The FAA also has spending authority from offsetting collections primarily from a non-expenditure transfer from the AATF for Operations funding. The balance of the spending authority from offsetting collections comes from other federal agencies which fund reimbursable activities performed by the FAA on their behalf.

The consolidated and combined financial statements present the accounts of all funds that have been established and maintained to account for the resources under the FAA's control. The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any non-entity assets.

The reporting entity is comprised of the FAA's lines of business and staff offices.

The FAA is the sponsor of the Center for Advanced Aviation System Development (CAASD), a Federally Funded Research and Development Center (FFRDC). CAASD is a disclosure entity, which is not a consolidated entity. While the FAA's financial statements include its spending for studies it contracts with CAASD, the financial statements of the FAA do not include the financial results or position of CAASD. Additional information on FAA's relationship with CAASD is presented in Note 19.

B. PARENT-CHILD REPORTING

The FAA is a party to allocation transfers with other Federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. The FAA receives allocation transfers, as the child, from the Department of Transportation. The FAA does not have any allocation transfers where it is the parent.

C. BASIS OF PRESENTATION

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the FAA. The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been

prepared from, and are fully supported by, the books and records of the FAA in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*, and the DOT and the FAA significant accounting policies, the latter of which are summarized in this note. The statements are subjected to audit, as required by OMB Bulletin 24-01, *Audit Requirements for Federal Financial Statements*.

All material intra-agency activity has been eliminated for presentation on a consolidated basis. However, the statement of budgetary resources is presented on a combined basis in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*. Funds from dedicated collections and funds from other than dedicated collections, presented separately in the balance sheets and statements of changes in net position, are presented on a consolidated basis. Intra-agency activity between funds from dedicated collections and funds from other than dedicated collections are eliminated within the consolidated total.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

D. BASIS OF ACCOUNTING

The financial statements are prepared in accordance with all applicable accounting principles and standards developed and issued by the Federal Accounting Standards Advisory Board, which is recognized by the American Institute of Certified Public Accountants as the entity to establish generally accepted accounting principles for the federal government. The Federal Financial Management Improvement Act of 1996 requires the FAA to comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Standard General Ledger requirements at the transaction level.

Transactions are recorded on both an accrual accounting basis and a budgetary accounting 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.

Due to the inherent limitations on the ability to perform accrual accounting for nonexchange revenue, the

accrual standard for nonexchange revenue might be best characterized as a “modified cash” basis of accounting.

E. REVENUES AND OTHER FINANCING SOURCES

As a component of the U.S. Government-wide reporting entity, the FAA is subject to the federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in entity and the U.S. Government-wide financial reports.

The FAA’s budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the U.S. Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The U.S. Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and aviation user fees), and through reimbursements for products and services provided to domestic and foreign governmental entities, and the public.

The AATF is sustained by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Government. The IRS does not receive sufficient information at the time the excise taxes are collected to determine how they should be distributed to specific funds from dedicated collections. Therefore, the U.S. Treasury makes initial semi-monthly distributions to the AATF based on allocations prepared by its Office of Tax Analysis. These allocations are based on historical excise tax data applied to current excise tax receipts and later adjusted to agree to actual collections when certified by the IRS.

The FAA’s September 30, 2023 financial statements reflect excise taxes certified by the IRS through June 30, 2023, and excise taxes allocated by the Office of Tax Analysis

for the period July 1, 2023 through September 30, 2023, in compliance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources*. Actual excise tax collections for the quarter ended September 30, 2023 will not be available from the IRS until after the statements are released. When actual amounts are certified by the IRS, generally four to five months after the end of each quarter, adjustments are made to the AATF to account for the difference. Additional information on this subject is disclosed in Note 13.

Interest on investments is recognized as revenue on an accrual basis, and classified as exchange or nonexchange depending on the predominant source of funds upon which the interest payment is based.

Appropriations are recognized as a financing source when expended. Revenues from services provided by the FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the FAA are recognized as imputed cost (in the Statement of Net Cost), and are offset by imputed financing (in the Statement of Changes in Net Position). Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

F. TAXES

The FAA, as a federal entity, is not subject to federal, state, or local income taxes and, accordingly, does not record a provision for income taxes in the accompanying financial statements.

G. FUND BALANCE WITH THE U.S. TREASURY

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

Fund balance with Treasury is an asset of the FAA and a liability of the General Fund of the U.S. Government. Similarly, investments in U.S. Government securities that are held by dedicated collections accounts are assets of the FAA and liabilities of the General Fund of the U.S. Government. In both cases, the amounts represent commitments by the government to provide resources for particular programs, but they do not represent net assets to the government as a whole.

When the FAA seeks to use fund balance with Treasury or investments in U.S. Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

H. INVESTMENT IN U.S. GOVERNMENT SECURITIES

Unexpended funds in the AATF and Aviation Insurance Revolving Fund are invested in U.S. Government securities and reported at cost. A portion of the AATF investments is liquidated monthly in amounts needed to provide cash for the FAA appropriation accounts, to the extent authorized. Aviation Insurance Revolving Fund investments are intended to be held to maturity, but may be liquidated to pay insurance claims when necessary. Investments, redemptions, and reinvestments are held and managed under the direction of the FAA by the U.S. Treasury.

I. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed to the FAA by other federal agencies and the public. Amounts due from federal agencies are generally the result of the provision of goods and services to other federal agencies. Accounts receivable from the public include, for example, aviation user fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. Accounts receivable are presented net of an allowance for loss on uncollectible amounts, which is based on historical collection experience or an analysis of the individual receivables.

J. INVENTORY

Within the FAA's Administrative Services Franchise Fund (Franchise Fund), inventory is held for sale to the FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies that the FAA uses to support our nation's airspace system and is predominantly located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma.

Inventory costs include material, labor, and applicable manufacturing overhead.

Inventory held for sale includes both purchased inventory and refurbished inventory. Inventory held for sale is valued using historical cost, applying the moving average cost flow method. The moving average cost flow method is an inventory costing method used in conjunction with a perpetual inventory system. A weighted average cost per unit is recomputed after every purchase. Goods sold are costed at the most recent moving average cost.

The FAA has an exchange and repair program where the FAA field locations exchange non-operational components with the Franchise Fund for operational components. The non-operational repairable components are classified as “held for repair” and valued using the direct method. Under the direct method, inventory held for repair is valued at the same value as a serviceable item less the estimated repair costs.

Raw materials and work in progress is comprised of repairable inventory components, the materials used to bring the components to a re-useable or serviceable condition along with the labor and overhead incurred during the refurbishing process. Raw materials are valued using historical cost, applying the moving average cost flow method. The repairable components, reported as work in progress, are valued at the same value as a serviceable item less the estimated repair costs at the time of transfer from the “held for repair” account to the work in progress account. When the refurbishing process is complete, the inventory components are reclassified to “held for sale.”

Inventory may be deemed to be “excess, obsolete, and unserviceable” if, for example, the quantity exceeds projected demand for the foreseeable future or if the item has been technologically surpassed. The “excess, obsolete, and unserviceable” inventory is determined to have no residual net realizable value, therefore, a loss is recognized to write off the inventory in the current period.

K. OPERATING MATERIALS AND SUPPLIES

Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA-owned aircraft. They are valued based on the latest acquisition cost. Operating materials and supplies are expensed using the consumption method of accounting. Under the consumption method, goods are recognized as assets upon acquisition and are expensed as they are consumed.

Operating materials and supplies “held for use” are those items that are consumed on a regular and ongoing basis. Operating materials and supplies “held for repair” are awaiting service to restore their condition to “held for use.” An allowance of 50 percent has been established for operating materials and supplies “held for repair” based on historical experience.

Operating materials and supplies may be classified as “excess, obsolete, and unserviceable” if, for example, the quantity exceeds projected demand for the foreseeable future or if the item has been technologically surpassed. An allowance is established for “excess, obsolete, and unserviceable” operating materials and supplies based on the condition of various asset categories as well as the FAA’s historical experience with disposing of such assets.

L. PROPERTY, PLANT, AND EQUIPMENT

The FAA capitalizes acquisitions of Property, Plant, and Equipment (PP&E) when the cost equals or exceeds \$100 thousand (except for internal use software, for which the threshold is \$200 thousand) and the useful life equals or exceeds two years. The FAA records PP&E at original acquisition cost. However, where applicable, the FAA allocates an average cost of like assets within a program, commonly referred to as “unit costing.” The FAA purchases some capital assets in large quantities, which are known as “bulk purchases.” If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

Depreciation expense is calculated using the straight-line method. Depreciation commences the first month after the asset is placed in service. The FAA does not recognize residual value of its PP&E.

Real property assets, such as buildings, air traffic control towers, en route air traffic control centers, mobile buildings, roads, sidewalks, parking lots, and other structures, are depreciated over a useful life of up to 40 years.

Personal property assets, such as aircraft; decision support systems; navigation-, surveillance-, communications-, and weather-related equipment; office furniture; vehicles; and office equipment, are depreciated over a useful life of up to 20 years.

Internal use software, such as software used to operate programmatic and administrative information systems, is generally amortized over a useful life of five years. However, it may be adjusted if a determination is made by specific program office and/or subject matter experts to have a longer or shorter useful life (not less than two years).

Construction in progress and internal use software in development are valued at actual direct costs plus applied overhead and other indirect costs.

The FAA researches and develops new technologies to support the nation's airspace system. Until such time as a research and development project reaches "technological feasibility," the costs associated with the project are expensed in the year incurred.

M. LEASES

The FAA occupies certain real property that is leased from the General Services Administration (GSA). The FAA also has non-GSA leases. Payments made by the FAA are based on contractual agreements. Future payments are disclosed for both cancellable and non-cancellable operating leases, but not disclosed separately since most lease agreements are either cancellable or contain termination rights.

Capital leases for buildings and equipment are amortized over the lease term. If the lease agreement contains a bargain purchase option or otherwise provides for transferring title of the asset to the FAA, the buildings are depreciated over a 40-year service life and the equipment is depreciated over its estimated useful life.

N. PREPAID CHARGES

The FAA generally does not pay for goods and services in advance, except for certain reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

O. LIABILITIES

Liabilities covered by budgetary or other resources are those liabilities for which the U.S. Congress has appropriated funds, and which are 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, including the AATF. Liabilities not requiring budgetary resources include custodial liabilities which are collections on behalf of other federal entities or funds, such as the General Fund of the U.S. Government. Custodial liabilities are liquidated when the collections are transferred to the owner. Intragovernmental liabilities are claims against the FAA by other federal agencies.

P. ACCOUNTS PAYABLE

Accounts payable are amounts that the FAA owes to other federal agencies and the public. Accounts payable to federal agencies generally consist of amounts due under interagency reimbursable agreements. Accounts payable to the public primarily consist of unpaid goods and services received by the FAA in support of our nation's airspace system.

Q. ANNUAL, SICK, AND OTHER LEAVE

Annual leave is accrued as it is earned and the accrual is reduced as leave is taken. For each biweekly 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 based on latest pay rates and unused hours of leave. Sick leave is generally non-vested, 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. Non-vested leave is expensed when used.

R. FEDERAL EMPLOYEES' COMPENSATION ACT

The Federal Employees' Compensation Act (FECA), Public Law 103-3, provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases.

The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the FAA for these paid claims. The FECA liability consists of two elements. The first element, accrued FECA liability, is based on workers' compensation claims paid by DOL but not yet reimbursed by the FAA. The FAA reimburses DOL for claims as funds are appropriated for this purpose. In general, there is a two-year period between payment by DOL and reimbursement to DOL by the FAA. As a result, the FAA recognizes an intragovernmental liability for the claims paid by DOL and not yet reimbursed by the FAA.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation

cases, plus a component for incurred but unreported claims. DOL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. The DOL calculates the FECA liability for the DOT, and the DOT allocates the liability amount to the FAA, based on actual workers' compensation payments to FAA employees over the preceding four years. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

S. 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 the CSRS contribute seven percent of their pay and are beneficiaries of the FAA's matching contribution program, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after December 31, 1983. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which the FAA automatically contributes one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security. The FAA's matching contributions are recognized as operating expenses.

The FAA recognizes the full cost of pensions and other retirement benefits during an employee's active years of service. The costs are covered through a combination of FAA appropriations and imputed costs. The imputed amount is calculated using the Office of Personnel Management's (OPM) cost factors and is the difference between the FAA's and the employee's contributions during the year and the total cost of the benefit. OPM actuaries determine pension cost factors by calculating the value of pension benefits expected to be paid in the future and communicate these factors to the FAA.

The OPM also provides information regarding the full cost of health and life insurance benefits. The imputed costs are completely offset with other financing sources, which are reported as an imputed financing source on the Consolidated Statements of Changes in Net Position to the extent that these costs will be paid by the OPM. Reporting

of the assets and liabilities associated with the retirement plans is the responsibility of the administering agency, OPM. Therefore, the FAA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

T. GRANTS

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreement, they request payment by the FAA, typically made via an electronic payment process. Expenses are recorded at the time of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the Airports line of business.

U. USE OF ESTIMATES

Management has made certain estimates and assumptions when reporting assets, liabilities, revenues, and expenses, and in the note disclosures. Actual results could differ from these estimates. Significant estimates underlying the accompanying financial statements include: (a) legal, environmental, and contingent liabilities; (b) accruals of accounts and grants payable; (c) allowance for doubtful accounts receivable; (d) allowances for operating materials and supplies; (e) allocations of common costs to construction in progress; (f) the allocation of an average cost of like property, plant, and equipment within a program, commonly referred to as unit costing; and (g) accrued benefits and benefits payable.

V. ENVIRONMENTAL AND DISPOSAL LIABILITIES

In compliance with applicable laws and regulations including the Clean Air Act of 1963, the Resource Conservation and Recovery Act of 1976, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended by the Superfund Amendments and Reauthorization Act of 1986 and the Community Environmental Response Facilitation Act of 1992, the FAA recognizes two types of environmental and disposal liabilities: environmental remediation and environmental cleanup.

The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

The liability for environmental cleanup is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset presently in service is shutdown. The FAA estimates the environmental cleanup costs at the time that an FAA-owned asset is placed in service. For assets placed in service through FY 1998, the increase or decrease in the estimated environmental cleanup liability is charged to expense. Assets placed in service in FY 1999 and after do not contain any known hazardous materials, and therefore do not have associated environmental liabilities.

There are no known possible changes to these estimates based on inflation, deflation, technology, or applicable laws and regulations.

W. ADVANCES FROM OTHERS AND DEFERRED REVENUE

Advances from others and deferred revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned.

X. CONTINGENCIES

A contingent liability represents a potential cost to the FAA depending on the outcome of future events. Three categories of contingent liabilities — probable, reasonably possible, and remote — determine the appropriate accounting treatment. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 12) when the conditions for liability recognition are not met but are reasonably possible. Contingent liabilities that are considered remote are not disclosed.

In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as “Imputed financing” when made.

Y. FUNDS FROM DEDICATED COLLECTIONS

The FAA’s financial statements include the following funds, considered to be “funds from dedicated collections”:

- AATF
- Operations-AATF
- Operations-General Fund

- Grants-in-Aid for Airports-AATF
- Facilities and Equipment-AATF
- Research, Engineering, and Development-AATF
- Aviation Insurance Fund
- Aviation User Fees

Funds from dedicated collections are those that are financed by specifically identified revenues and financing sources which remain available over time. They are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government’s general revenues.

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers the AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations-AATF, Grants-in-Aid for Airports-AATF, Facilities and Equipment-AATF, and Research, Engineering and Development-AATF. These funds represent the majority of the FAA’s annual expenditures.

In addition, while the Operations-General Fund is primarily funded through transfers from Operations-AATF, it is also supplemented by funding from the General Fund of the U.S. Government through annual appropriations. Because the Operations-General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus those that come from general fund appropriations, the Operations-General Fund is presented as funds from dedicated collections.

Similarly, while the Grants-in-Aid for Airports-AATF account is typically funded through transfers from the AATF, it was also supplemented by funding from the General Fund of the U.S. Government as a result of the CARES Act. Because the funding from general fund appropriations is expected to be temporary and the predominant source of funding historically comes from the AATF, Grants-in-Aid for Airports-AATF is presented as funds from dedicated collections.

The funds from dedicated collections in the Facilities and Equipment-AATF fund are used to purchase or construct PP&E. When PP&E has been placed in service, the funds from dedicated collections are no longer available for future expenditure, have been used for their intended purpose, and are therefore classified as “funds from other

than dedicated collections” on the balance sheet and the statement of changes in net position. Construction in progress is classified as “funds from dedicated collections” because although the funds have been expended, they have not yet fully achieved their intended purpose. The intended result of this presentation is to differentiate between funds from dedicated collections that remain available for future expenditure, or have not yet fully achieved their designated purpose, and funds from dedicated collections previously expended that have achieved their intended purpose.

Additional disclosures concerning funds from dedicated collections can be found in Note 13.

Z. CHANGES IN PRESENTATION

Changes to prior year financial statements, including notes, presented in the current year comparative financial statements were made to conform to the current year presentation, and not the result of a correction of an error or a change in accounting principle.

These changes include a change in the sequence of note disclosures for liabilities not covered by budgetary resources and federal employee benefits payable, and the addition of a new note disclosure for expenditure transfers between FAA accounts.

Note Disclosures Related to the Balance Sheet

Note 2. Fund Balance with Treasury

Status of fund balance with Treasury balances as of September 30, 2023 and 2022 were:

(Dollars in Thousands)

Status of fund balance with Treasury

Unobligated balance

Available

Not available

Obligated balance not yet disbursed

Investments and contract authority supporting obligated and unobligated balances

Non-budgetary fund balance with Treasury

Total

	2023	2022
	\$ 9,444,480	\$ 7,937,515
	2,609,037	2,836,694
	17,153,189	18,352,011
	(12,068,701)	(11,901,189)
	798	2,853
	<u>\$ 17,138,803</u>	<u>\$ 17,227,884</u>

Unobligated budgetary account balances are also reflected on the Statement of Budgetary Resources. Certain unobligated balances may be restricted to future use and are not available for current use. For additional information, see Legal Arrangements Affecting the Use of Unobligated Balances in Note 16.

Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other U.S. federal government entities.

The FAA is funded with appropriations from the AATF and the General Fund of the U.S. Government. While amounts appropriated from the General Fund of the U.S. Government are included in fund balance with Treasury, AATF investments are not. AATF investments are redeemed, as needed, to meet the FAA's cash disbursement needs, at which time the funds are transferred into fund balance with Treasury. The FAA also receives contract authority that allows obligations to be incurred in advance of an appropriation. The contract authority is subsequently funded, as authorized, from the AATF allowing for the liquidation of the related obligations.

Thus, investments and contract authority are not part of fund balance with Treasury; however, their balances will be transferred from the AATF to fund balance with Treasury over time to liquidate obligated balances and unobligated balances as they become obligated, and thus are necessarily included in the Status of fund balance with Treasury. Only the investment and contract authority balances that support the obligated and unobligated balances are presented in this note. Whereas, the investment balances presented in Note 3 also include amounts invested from receipts that are unavailable for obligation upon collection, and therefore do not support the obligated and unobligated balances.

As of September 30, 2023 and 2022, the unused funds in expired appropriations that were returned to Treasury at the end of the fiscal year were \$25.0 million and \$25 thousand, respectively. These balances are excluded from amounts reported as fund balance with Treasury.

Note 3. Investments, Net

As of September 30, 2023 and 2022, the FAA's investment balances were as follows:

(Dollars in Thousands)

2023					
Intragovernmental securities	Cost	Unamortized Premium/ (Amortized Discount)	Interest Receivable	Investments (Net)	Market/ Fair Value
Nonmarketable par value	\$ 16,600,788	\$ -	\$ 93,396	\$ 16,694,184	\$ 16,600,788
Nonmarketable market-based	2,456,438	(31,378)	16,632	2,441,692	2,410,588
Total intragovernmental securities	<u>\$ 19,057,226</u>	<u>\$ (31,378)</u>	<u>\$ 110,028</u>	<u>\$ 19,135,876</u>	<u>\$ 19,011,376</u>

(Dollars in Thousands)

2022					
Intragovernmental securities	Cost	Unamortized Premium/ (Amortized Discount)	Interest Receivable	Investments (Net)	Market/ Fair Value
Nonmarketable par value	\$ 10,818,211	\$ -	\$ 30,694	\$ 10,848,905	\$ 10,818,211
Nonmarketable market-based	2,366,184	(13,813)	10,468	2,362,839	2,323,933
Total intragovernmental securities	<u>\$ 13,184,395</u>	<u>\$ (13,813)</u>	<u>\$ 41,162</u>	<u>\$ 13,211,744</u>	<u>\$ 13,142,144</u>

The Secretary of the Treasury invests AATF funds on behalf of the FAA. The FAA investments are considered investment authority and are available to offset the cost of operations to the extent authorized by the U.S. Congress. As of September 30, 2023 and 2022, \$16.6 billion and \$10.8 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury securities are special series debt securities that the U.S. Treasury issues to federal entities at face value (par value). The securities are redeemed at face value on demand; thus investing entities recover the full amounts invested plus interest. Investments as of September 30, 2023, mature on June 30, 2024, and investments as of September 30, 2022, matured on June 30, 2023. The annual rate of return on Certificates of Indebtedness is established in the month of issuance. The average rate of return for certificates issued during FY 2023 and FY 2022 was 2.67 percent and 1.63 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. The FAA invests Aviation Insurance Fund collections in nonmarketable market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2023, these nonmarketable, market-based securities have maturity dates ranging from November 30, 2023 to November 15, 2024 and have an average rate of return of

approximately 2.20 percent. As of September 30, 2022, these nonmarketable, market-based securities had maturity dates ranging from October 15, 2022 to May 15, 2024 and had an average rate of return of approximately 1.48 percent.

The U.S. Treasury does not set aside assets to pay the future expenditures of the AATF and the Aviation Insurance Fund (i.e., dedicated collections). Instead, the cash collected from the public for the AATF and the Aviation Insurance Fund is deposited in the U.S. Treasury, and used for general government purposes. Treasury securities are issued to the FAA as evidence of the collections by the AATF and the Aviation Insurance Fund. Treasury securities are an asset to the FAA and a liability to the U.S. Treasury. Because the FAA and the U.S. Treasury are both parts of the federal government, these assets and liabilities offset each other from the standpoint of the federal government as a whole. For this reason, they do not represent an asset or a liability in the government-wide financial statements.

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA redeems these securities, the federal government finances those expenditures from accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same manner in which the federal government finances all other expenditures.

The FAA does not have any investment in non-federal securities.

Note 4. Accounts Receivable, Net

Accounts receivable is shown net of an allowance for uncollectible accounts, which is based on historical collection experience or an analysis of the individual receivables. As of September 30, 2023 and 2022, accounts receivable were:

(Dollars in Thousands)

Intragovernmental

Accounts receivable, gross

Allowance for uncollectible amounts

Total intragovernmental

Other than intragovernmental

Accounts receivable, gross

Allowance for uncollectible amounts

Total other than intragovernmental

Total accounts receivable, net

	2023	2022
\$	13,460	\$ 26,184
	(335)	(1,254)
	13,125	24,930
	65,406	60,440
	(15,671)	(14,523)
	49,735	45,917
\$	62,860	\$ 70,847

Note 5. Inventory and Related Property, Net

Inventory is classified as either held for sale, held for repair, or raw materials and work in progress. Collectively, the FAA's inventory is used to support our nation's airspace system and is predominantly located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma. Inventory that is deemed to be excess, obsolete, and unserviceable is expected to have no net realizable value, and a loss is recognized for the carrying amount. The carrying amount before identification as excess, obsolete, and unserviceable inventory was \$20.8 million in fiscal year 2023 and \$5.0 million in fiscal year 2022.

Operating materials and supplies primarily consists of materials and supplies that will be used in the repair and maintenance of FAA-owned aircraft. As of September 30, 2023 and 2022, inventory and related property balances were:

(Dollars in Thousands)

Inventory

Held for sale
Held for repair
Raw materials and work in progress
Inventory total

Operating materials and supplies

Held for use
Held for repair
Excess, obsolete, and unserviceable
Operating materials and supplies total

Total inventory and related property

2023		
Cost	Allowance	Net
\$ 280,941	\$ -	\$ 280,941
443,426	-	443,426
36,924	-	36,924
761,291	-	761,291
53,302	-	53,302
46,041	(23,021)	23,020
7,404	(6,189)	1,215
106,747	(29,210)	77,537
\$ 868,038	\$ (29,210)	\$ 838,828

(Dollars in Thousands)

Inventory

Held for sale
Held for repair
Raw materials and work in progress
Inventory total

Operating materials and supplies

Held for use
Held for repair
Excess, obsolete, and unserviceable
Operating materials and supplies total

Total inventory and related property

2022		
Cost	Allowance	Net
\$ 269,172	\$ -	\$ 269,172
449,742	-	449,742
35,798	-	35,798
754,712	-	754,712
55,173	-	55,173
47,318	(23,659)	23,659
3,269	(2,054)	1,215
105,760	(25,713)	80,047
\$ 860,472	\$ (25,713)	\$ 834,759

Note 6. General Property, Plant, and Equipment, Net

General property, plant, and equipment balances as of September 30, 2023 and 2022 were:

(Dollars in Thousands)

Class of fixed asset	2023		
	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	\$ 7,272,552	\$ (4,412,027)	\$ 2,860,525
Personal property	18,802,188	(14,686,935)	4,115,253
Internal use software	4,496,951	(3,245,055)	1,251,896
Internal use software in development	1,190,514	-	1,190,514
Assets under capital lease (Note 11)	90,111	(57,861)	32,250
Construction in progress	2,353,108	-	2,353,108
Total property, plant, and equipment	\$ 34,205,424	\$ (22,401,878)	\$ 11,803,546

(Dollars in Thousands)

Class of fixed asset	2022		
	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	\$ 7,095,298	\$ (4,230,243)	\$ 2,865,055
Personal property	18,586,415	(14,393,563)	4,192,852
Internal use software	3,935,885	(2,977,076)	958,809
Internal use software in development	1,469,179	-	1,469,179
Assets under capital lease (Note 11)	90,111	(54,295)	35,816
Construction in progress	2,024,240	-	2,024,240
Total property, plant, and equipment	\$ 33,201,128	\$ (21,655,177)	\$ 11,545,951

The changes to the general property, plant, and equipment balance for the fiscal years ended September 30, 2023 and 2022 were:

(Dollars in Thousands)

	2023	2022
Balance beginning of year	\$ 11,545,951	\$ 11,670,008
Capitalized acquisitions	1,710,756	1,507,253
Dispositions	(1,723)	(36,913)
Revaluations	(254,314)	(320,083)
Depreciation expense	(1,211,234)	(1,301,682)
Transfers-in/out without reimbursement	1,098	2,500
Donations	13,012	24,868
Balance at end of year	\$ 11,803,546	\$ 11,545,951

The FAA's construction in progress relates primarily to national airspace assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges. The accumulation of costs to be capitalized for assets in the FAA's PP&E typically flow into and remain

in the construction in progress account until the asset is ready for deployment and placed in service. Once placed in service, the asset balance is transferred from the construction in progress category to its respective asset category.

Liabilities not covered by budgetary resources require future congressional action, whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The following table shows liabilities not covered by budgetary resources as of September 30, 2023 and 2022.

Intragovernmental

(Dollars in Thousands)	2023	2022
Intragovernmental		
Other liabilities (Note 10)		
Federal Employees' Compensation Act payable	\$ 140,198	\$ 142,720
Other unfunded employment related liabilities	23,834	25,286
Reimbursable activities	360	-
Total intragovernmental	164,392	168,006
Other than intragovernmental		
Federal employee benefits payable (Note 8)		
FECA actuarial	666,199	678,350
Unfunded leave	506,010	505,244
Other unfunded employment related liability	48,264	47,829
Environmental and disposal liabilities (Notes 9 and 12)	857,168	783,215
Other liabilities		
Capital lease liability (Notes 10 and 11)	32,470	39,044
Contingent liabilities (Notes 10 and 12)		
Legal claims	50,828	58,595
Warranty contingencies	515	515
Liability for non-fiduciary deposit funds and undeposited collections (Note 10)	318	486
Other liabilities without related budgetary obligations (Note 10)	13,078	13,078
Total other than intragovernmental	2,174,850	2,126,356
Total liabilities not covered by budgetary resources	\$ 2,339,242	\$ 2,294,362
Total liabilities not covered by budgetary resources	\$ 2,339,242	\$ 2,294,362
Total liabilities covered by budgetary resources	4,672,781	7,978,510
Total liabilities not requiring budgetary resources	24,867	21,455
Total liabilities	\$ 7,036,890	\$ 10,294,327

Note 8. Federal Employee Benefits Payable

Federal employee benefits payable as of September 30, 2023 and 2022 were:

(Dollars in Thousands)

Other than intragovernmental

Actuarial FECA liability

Unfunded leave

Annual leave

Compensatory leave and credit hours

Unfunded leave total

Other unfunded employment related liability

Sick leave buyback option for eligible employees

Employer contributions payable

Thrift Savings Plan

Total federal employee benefits payable

	2023	2022
Actuarial FECA liability	\$ 666,199	\$ 678,350
Unfunded leave		
Annual leave	485,633	485,377
Compensatory leave and credit hours	20,377	19,867
Unfunded leave total	506,010	505,244
Other unfunded employment related liability		
Sick leave buyback option for eligible employees	48,264	47,829
Employer contributions payable		
Thrift Savings Plan	16,330	15,268
Total federal employee benefits payable	\$ 1,236,803	\$ 1,246,691

The actuarial FECA liability is the estimated liability for future benefit payments and includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims.

The estimated liability for accrued unfunded leave includes annual and other types of vested leave such as compensatory leave and credit hours.

Under the terms of various bargaining unit agreements, employees who are in FERS have the option to receive a lump sum payment for 40 percent of their accumulated sick leave as of their effective retirement date.

The Thrift Savings Plan is a tax-deferred retirement savings and investment plan available to federal employees.

Note 9. Environmental and Disposal Liabilities

The FAA's environmental and disposal liabilities as of September 30, 2023 and 2022 were:

(Dollars in Thousands)	2023	2022
Environmental remediation	\$ 336,154	\$ 328,360
Environmental cleanup	521,014	454,855
Total environmental and disposal liabilities	\$ 857,168	\$ 783,215

Remediation is performed at contaminated sites where the FAA has liability due to past operations or waste disposal activities. To help manage the cleanup of the contaminated sites, the FAA established an Environmental Cleanup Program that includes three service areas which are responsible for oversight of the contaminated sites. The service area personnel use both actual costs and an automated, parametric cost-estimating tool that provides estimates for all phases of investigation and remediation to estimate the environmental remediation liability.

The Environmental cleanup liability is estimated using a combination of actual costs, adjusted for inflation, and project specific cost proposals for certain targeted

facilities. The FAA uses the average cleanup costs of the targeted facilities as the cost basis for the other like facilities to arrive at the estimated environmental liability for cleanup.

A description of the two categories of environmental liabilities can be found in Note 1V. Information on contingencies related to environmental liabilities can be found in Note 12.

Environmental and disposal liabilities are not covered by budgetary or other resources and thus will require future appropriated funding.

Note 10. Other Liabilities

As of September 30, 2023, the FAA's other liabilities were:

(Dollars in Thousands)

Intragovernmental

Accrued payroll & benefits payable to other agencies

Liabilities covered by budgetary resources

Federal Employees' Compensation Act payable

Other unfunded employment related liabilities

Reimbursable activities

Liabilities not covered by budgetary resources

Custodial liabilities

Liabilities not requiring budgetary resources

Intragovernmental total

Other than intragovernmental

Accrued funded payroll and leave

Liabilities covered by budgetary resources

Capital lease liability (Notes 7 and 11)

Contingent liabilities

Legal claims

Warranty contingencies

Liability for non-fiduciary deposit funds and undeposited collections

Other liabilities without related budgetary obligations

Liabilities not covered by budgetary resources

Other than intragovernmental total

Total other liabilities

2023		
Non-current liabilities	Current liabilities	Total
\$ -	\$ 142,174	\$ 142,174
-	142,174	142,174
76,914	63,284	140,198
-	23,834	23,834
288	72	360
77,202	87,190	164,392
-	24,867	24,867
-	24,867	24,867
77,202	254,231	331,433
-	390,486	390,486
-	390,486	390,486
24,579	7,891	32,470
-	50,828	50,828
-	515	515
-	318	318
-	13,078	13,078
24,579	72,630	97,209
24,579	463,116	487,695
\$ 101,781	\$ 717,347	\$ 819,128

As of September 30, 2022, the FAA's other liabilities were:

(Dollars in Thousands)

Intragovernmental

Accrued payroll & benefits payable to other agencies

Liabilities covered by budgetary resources

Federal Employees' Compensation Act payable

Other unfunded employment related liabilities

Reimbursable activities

Liabilities not covered by budgetary resources

Custodial liabilities

Liabilities not requiring budgetary resources

Intragovernmental total

Other than intragovernmental

Accrued funded payroll and leave

Liabilities covered by budgetary resources

Capital lease liability (Notes 7 and 11)

Contingent liabilities

Legal claims

Warranty contingencies

Liability for non-fiduciary deposit funds and undeposited collections

Other liabilities without related budgetary obligations

Liabilities not covered by budgetary resources

Other than intragovernmental total

Total other liabilities

2022		
Non-current liabilities	Current liabilities	Total
\$ -	\$ 132,939	\$ 132,939
-	132,939	132,939
77,999	64,721	142,720
-	25,286	25,286
-	-	-
77,999	90,007	168,006
-	21,455	21,455
-	21,455	21,455
77,999	244,401	322,400
-	366,771	366,771
-	366,771	366,771
31,006	8,038	39,044
-	58,595	58,595
-	515	515
-	486	486
-	13,078	13,078
31,006	80,712	111,718
31,006	447,483	478,489
\$ 109,005	\$ 691,884	\$ 800,889

Accrued payroll and benefits payable to other agencies consists of FAA contributions payable to other federal agencies for employee benefits. These include FAA contributions payable toward life insurance, health insurance, retirement benefits, and Social Security. These benefits also include FAA contributions payable for the Federal Insurance Contributions Act taxes, which are composed of the old-age, survivors, and disability insurance taxes, also known as Social Security taxes, and the hospital insurance tax, also known as Medicare tax.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Reimbursement to the DOL occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the FAA as part of its annual appropriation from the U.S. Congress in the year in which the reimbursement takes place. The

FAA's accrued liability as of September 30, 2023, includes workers' compensation benefits paid by DOL during the periods July 1, 2021 through June 30, 2023, and accrued liabilities for the quarter July 1, 2023 through September 30, 2023. The FAA's accrued liability as of September 30, 2022, included workers' compensation benefits paid by the DOL during the period July 1, 2020 through June 30, 2022, and accrued liabilities for the quarter July 1, 2022 through September 30, 2022.

The FAA estimated that 100 percent of its \$50.8 million and \$58.6 million legal claims liabilities as of September 30, 2023 and 2022, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

Total liabilities not covered by budgetary resources are presented in Note 7.

Note 11. Leases

ENTITY AS LESSEE

The FAA is the lessee for both capital and operating leases.

CAPITAL LEASES

Following is a summary of the FAA's assets under capital lease as of September 30, 2023 and 2022:

<i>(Dollars in Thousands)</i>	2023	2022
Non-Federal		
Land, buildings, and machinery	\$ 90,111	\$ 90,111
Accumulated depreciation	(57,861)	(54,295)
Non-Federal assets under capital lease, net	32,250	35,816
Total assets under capital lease, net	\$ 32,250	\$ 35,816

As of September 30, 2023, the FAA's future payments due on assets under capital lease were:

<i>(Dollars in Thousands)</i>		
Future payments due by fiscal year		
<i>(Liabilities not covered by budgetary or other resources)</i>		
Year 1 (FY 2024)	\$	7,891
Year 2 (FY 2025)		7,238
Year 3 (FY 2026)		6,701
Year 4 (FY 2027)		3,714
Year 5 (FY 2028)		3,595
After 5 Years		7,584
Total future payments		36,723
Less: Imputed interest		(4,253)
Net capital lease liability	\$	32,470

As of September 30, 2023, all future payments due on assets under capital lease were non-federal.

The FAA's capital lease payments are authorized to be funded annually as codified in the 49 U.S.C. 40110(c)(1) which addresses general procurement authority. The remaining principal payments are recorded as unfunded lease liabilities. The imputed interest is funded and expensed annually. The lease terms for capital leases expire at various dates through FY 2039.

OPERATING LEASES

The FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2023, were:

<i>(Dollars in Thousands)</i>	Federal	Non-Federal	Total
Fiscal year			
Year 1 (FY 2024)	\$ 105,425	\$ 67,402	\$ 172,827
Year 2 (FY 2025)	95,283	41,705	136,988
Year 3 (FY 2026)	88,207	35,694	123,901
Year 4 (FY 2027)	85,238	31,882	117,120
Year 5 (FY 2028)	40,539	25,164	65,703
After 5 Years	258,388	75,610	333,998
Total future operating lease payments	\$ 673,080	\$ 277,457	\$ 950,537

Operating lease expense incurred during the year ended September 30, 2023 was \$206.8 million, of which \$125.7 million was federal and \$81.1 million was non-federal. Operating lease expense incurred during the year ended September 30, 2022 was \$200.3 million, of which \$120.4 million was federal and \$79.9 million was non-federal.

Federal operating leases include General Services Administration leases that have a short termination privilege; however, the FAA intends to remain in the lease. In addition, General Service Administration operating leases are inclusive of other costs such as utilities, taxes, and janitorial services.

The operating lease amounts due after five years do not include estimated payments for leases with annual renewal options. The lease terms for operating leases expire at various dates through FY 2043. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 12. Commitments, Contingencies, and Other Disclosures

Continuing Resolution and Reauthorization. Effective October 1, 2023, the FAA is operating under a continuing resolution, Public Law 118-15, for its FY 2024 appropriation and many of its programmatic and financing authorities. The continuing resolution will be in effect through November 17, 2023, unless superseded by enactment of specified appropriations legislation and includes a provision that allows the FAA to continue spending at FY 2023 rates.

In addition, the passage of the Continuing Appropriations Act, 2024 and Other Extensions Act, Public Law 118-15, authorizes the FAA's programmatic and financing authorities, the Airport Improvement Program contract authority, and the authority to collect and deposit excise taxes into and make expenditures from the AATF. The new authority expires on December 31, 2023.

Airport Improvement Program. The Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements that address airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary hub airports is 75 percent, with the exception of noise program implementation, for which the FAA's share is 80 percent. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 90 percent. However, the CARES Act provided funding for the FAA to pay a federal share of the costs for grants awarded under Public Law 116-94, Further Consolidated Appropriations Act, 2020, to 100 percent. Similarly, the American Rescue Plan Act of 2021 provided funding for the FAA to pay a federal share of 100 percent of the costs for any grant awarded in fiscal years 2021 or 2020, for an airport development project.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual Airport Improvement Program grant agreements. The FAA records an obligation when a grant is awarded. As of September 30, 2023, the FAA had open letters of intent extending through FY 2031 with \$280 million unobligated. As of September 30, 2022, the FAA had open letters of intent extending through FY 2031 with \$256 million unobligated.

Aviation Insurance Program. The FAA provides non-premium war risk insurance for certain U.S. Government contracted operations as permitted by 49 U.S.C. 44305.

Coverage is provided without premium to air carriers at the written request of other U.S. Government agencies. The scope of coverage under the Non-Premium War Risk Insurance program includes hull, bodily injury, personal injury, and property damage. The FAA is currently providing coverage for certain U.S. Department of Defense (DOD) contracted air carrier operations.

Because insurance policies are issued only at the request of other federal departments and agencies, total coverage-in-force fluctuates throughout the fiscal year. The coverage-in-force at any given point in time does not represent a potential liability against the Aviation Insurance Revolving Fund because the Secretary of Defense has entered into an indemnity agreement with the Secretary of Transportation and will fully reimburse the Fund for all losses paid by the FAA on behalf of DOD.

In addition, the FAA is permitted by 49 U.S.C 44302a to provide temporary insurance for air carriers for certain terminated coverage, not to exceed 90 days. The temporary policy may cover hull, comprehensive, and third party liability risks. The premium for coverage is calculated based on a prorated amount equivalent to the premium that was in effect under the terminated insurance carrier policy. However, no temporary policies were issued as of the reporting date.

Contingencies. The FAA has the following contingencies as of September 30, 2023 and 2022:

- **Legal Contingencies.** The FAA's legal contingencies include asserted and pending legal claims. An accrued liability is recognized for legal claims where the loss is probable and the amount can be reasonably estimated. For pending legal claims where the loss is reasonably possible, a liability is not recognized; however, the estimated range of loss is disclosed in the table below. There are other claims that could result in significant pay-outs; however, it is not possible at this time to determine the probability of an unfavorable outcome, or to estimate the amount of potential loss in the event of such an outcome.
- **Environmental Contingencies.** The FAA's environmental contingencies include environmental remediation and environmental cleanup. The nature of these contingencies is described in Note 1V. An accrued liability is recognized for environmental contingencies where the loss is probable and the amount can be

reasonably estimated. For environmental contingencies where the loss is reasonably possible, a liability is not recognized; however, the estimated range of loss is disclosed in the table below. The FAA is a party to environmental remediation sites in Alaska, the Pacific Islands, and New Jersey, in which the extent of liability is not both probable and reasonably estimable. As a result, a liability is not recognized for these sites without further studies and negotiations with other federal agencies.

■ **Warranty Contingencies.** The FAA's logistics center issues parts to customers with a 90-day warranty, that are replaced free of charge if warranty conditions are met. An accrued liability is recognized for warranty contingencies where the loss is probable and the amount can be reasonably estimated. The loss contingency is estimated based on historical averages of parts that failed and the warranty claims were approved. A loss contingency is not estimated for warranty claims that are reasonably possible of loss.

The following table shows the loss contingencies as of September 30, 2023 and 2022:

(Dollars in Thousands)

	2023			2022		
	Accrued liabilities	Estimated range of loss		Accrued liabilities	Estimated range of loss	
		Lower end	Upper end		Lower end	Upper end
Legal contingencies:						
Probable	\$ 50,828	\$ 50,828	\$ 50,828	\$ 58,595	\$ 58,595	\$ 58,595
Reasonably possible	N/A	\$ 135,978	\$ 135,978	N/A	\$ 74,872	\$ 74,872
Environmental contingencies:						
Probable	\$ 857,168	\$ 857,168	\$ 857,168	\$ 783,215	\$ 783,215	\$ 783,215
Reasonably possible	N/A	\$ 135,295	\$ 135,295	N/A	\$ 126,863	\$ 126,863
Warranty contingencies:						
Probable	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515	\$ 515
Reasonably possible	N/A	\$ -	\$ -	N/A	\$ -	\$ -

Note 13. Funds from Dedicated Collections

Funds from dedicated collections are those that are financed by specifically identified revenues and financing sources that remain available over time. They are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government's general revenues.

The FAA's funds from dedicated collections are reported in the Consolidated Statements of Changes in Net Position and on pages 118–119 among two classifications. The first classification is comprised of the financial statement balances in the AATF as of the end of each fiscal year. The second classification of "All other funds from dedicated collections" is comprised of the financial statement balances of all the related funds that receive funding from the AATF and includes the Operations-AATF, Grants-in-Aid for Airports-AATF, Facilities and Equipment-AATF, and Research, Engineering and Development-AATF funds. The "All other funds from dedicated collections" classification also includes the Operations-General Fund, which is funded primarily through transfers from Operations-AATF but is additionally supplemented by the General Fund of the U.S. Government through annual appropriations. However, since the Operations-General Fund account is funded primarily from the AATF, it is properly presented as a "fund from dedicated collections." The category of "All other funds from dedicated collections" also includes the Aviation Insurance Revolving Fund and aviation user fees.

Grants-in-Aid for Airports-AATF is funded primarily through transfers from the AATF, but also received funding in FY 2020 from the General Fund of the U.S. Government as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136. Because the funding from general fund appropriations is expected to be temporary and the predominant source of funding historically comes from the AATF, Grants-in-Aid for Airports-AATF is presented as funds from dedicated collections.

This note presents only the funds from dedicated collections that are financing sources available for future expenses and funds that have been expended but have not yet fully achieved their designated purpose, such as construction in progress. As such, PP&E that has been placed in service, though funded from Facilities and Equipment-AATF, are excluded from this note; these funds are no longer available for future expenditure and have been used for their intended purpose.

This note is presented on both a combined and consolidated basis. The combined presentation does not eliminate intra-entity balances or transactions between funds from dedicated collections held by the entity. Similarly, the combined presentation does not eliminate intra-entity balances or transactions with funds from other than dedicated collections, such as the FAA's Franchise Fund. The consolidated presentation eliminates intra-entity balances or transactions between the FAA's funds from dedication collections.

AIRPORT AND AIRWAY TRUST FUND

The FAA's consolidated financial statements include the results of operations and the financial position of the AATF. The U.S. Congress created the AATF with the passage of the Airport and Airway Revenue Act of 1970.

The Airport and Airway Revenue Act provides a dedicated source of funding for the nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of the FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury allocates the amount collected and subsequently adjusts the allocation to reflect actual collections on a quarterly basis.

As discussed in Note 1E, FY 2023 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters of the year and amounts allocated by the Office of Tax Analysis for the fourth quarter of the year.

ALL OTHER FUNDS FROM DEDICATED COLLECTIONS

- The Aviation Insurance Program had investments of \$2.4 billion and revenues of \$78.6 million for the period ended September 30, 2023 compared to \$2.4 billion and \$23.0 million, respectively, for the period ended September 30, 2022. The Aviation Insurance Program is also discussed in Notes 1H and 12.
- Aviation user fees are charged to commercial airlines that fly in U.S. controlled air space but neither take off nor land in the U.S. The FAA reported aviation user fees of \$138.8 million and \$105.9 million for the periods ended September 30, 2023 and 2022, respectively.

The FAA's funds from dedicated collections as of and for the year ended September 30, 2023, consist of the following:

(Dollars in Thousands)

	2023				
	AATF	All other funds from dedicated collections	Total funds from dedicated collections (combined)	Eliminations between funds from dedicated collections	Total funds from dedicated collections (consolidated)
Balance Sheet					
Assets					
Intragovernmental					
Fund balance with Treasury	\$ 789,749	\$ 3,135,520	\$ 3,925,269	\$ -	\$ 3,925,269
Investments, net	16,694,184	2,441,692	19,135,876	-	19,135,876
Accounts receivable, net	-	6,329,209	6,329,209	(6,314,529)	14,680
Advances and prepayments	-	245,018	245,018	-	245,018
Total intragovernmental	17,483,933	12,151,439	29,635,372	(6,314,529)	23,320,843
Other than intragovernmental					
Accounts receivable, net	-	24,248	24,248	-	24,248
General property, plant, and equipment, net	-	3,385,743	3,385,743	-	3,385,743
Advances and prepayments	-	1,881	1,881	-	1,881
Total other than intragovernmental	-	3,411,872	3,411,872	-	3,411,872
Total assets	\$ 17,483,933	\$ 15,563,311	\$ 33,047,244	\$ (6,314,529)	\$ 26,732,715
Liabilities					
Intragovernmental					
Accounts payable	\$ 6,314,529	\$ 11,931	\$ 6,326,460	\$ (6,314,529)	\$ 11,931
Advances from others and deferred revenue	-	36,545	36,545	-	36,545
Other liabilities	-	301,987	301,987	-	301,987
Total intragovernmental liabilities	6,314,529	350,463	6,664,992	(6,314,529)	350,463
Other than intragovernmental					
Accounts payable	-	442,854	442,854	-	442,854
Federal employee benefits payable	-	1,233,252	1,233,252	-	1,233,252
Advances from others and deferred revenue	-	146,494	146,494	-	146,494
Other liabilities	-	-	-	-	-
Accrued grant liabilities	-	1,602,052	1,602,052	-	1,602,052
Other	-	395,170	395,170	-	395,170
Total other than intragovernmental	-	3,819,822	3,819,822	-	3,819,822
Total liabilities	\$ 6,314,529	\$ 4,170,285	\$ 10,484,814	\$ (6,314,529)	\$ 4,170,285
Net position					
Unexpended appropriations	\$ -	\$ 1,163,150	\$ 1,163,150	\$ -	\$ 1,163,150
Cumulative results of operations	11,169,404	10,229,876	21,399,280	-	21,399,280
Total liabilities and net position	\$ 17,483,933	\$ 15,563,311	\$ 33,047,244	\$ (6,314,529)	\$ 26,732,715
Statement of net cost					
Gross program costs	\$ -	\$ 18,149,815	\$ 18,149,815	\$ -	\$ 18,149,815
Less earned revenues	(4)	(471,294)	(471,298)	-	(471,298)
Net cost of operations	\$ (4)	\$ 17,678,521	\$ 17,678,517	\$ -	\$ 17,678,517
Statement of changes in net position					
Unexpended appropriations					
Beginning balances	\$ -	\$ 1,255,980	\$ 1,255,980	\$ -	\$ 1,255,980
Appropriations received	-	1,921,179	1,921,179	-	1,921,179
Appropriations transferred-in/out	-	1,080	1,080	-	1,080
Other adjustments	-	(25,023)	(25,023)	-	(25,023)
Appropriations used	-	(1,990,066)	(1,990,066)	-	(1,990,066)
Net change in unexpended appropriations	-	(92,830)	(92,830)	-	(92,830)
Total unexpended appropriations – ending	\$ -	\$ 1,163,150	\$ 1,163,150	\$ -	\$ 1,163,150
Cumulative results of operations					
Beginning balances	\$ 5,425,218	\$ 10,413,774	\$ 15,838,992	\$ -	\$ 15,838,992
Appropriations used	-	1,990,066	1,990,066	-	1,990,066
Intragovernmental non-exchange revenue	22,596,583	-	22,596,583	-	22,596,583
Other than intragovernmental non-exchange revenue	-	4,384	4,384	-	4,384
Transfers-in/out without reimbursement	(16,852,401)	14,770,266	(2,082,135)	-	(2,082,135)
Imputed financing	-	729,908	729,908	-	729,908
Other	-	(1)	(1)	-	(1)
Net cost of operations	(4)	17,678,521	17,678,517	-	17,678,517
Net change in cumulative results of operations	5,744,186	(183,898)	5,560,288	-	5,560,288
Cumulative results of operations – ending	\$ 11,169,404	\$ 10,229,876	\$ 21,399,280	\$ -	\$ 21,399,280
Net position end of period	\$ 11,169,404	\$ 11,393,026	\$ 22,562,430	\$ -	\$ 22,562,430

The FAA's funds from dedicated collections as of and for the year ended September 30, 2022, consist of the following:

(Dollars in Thousands)

	2022				
	AATF	All other funds from dedicated collections	Total funds from dedicated collections (combined)	Eliminations between funds from dedicated collections	Total funds from dedicated collections (consolidated)
Balance Sheet					
Assets					
Intragovernmental					
Fund balance with Treasury	\$ 766,693	\$ 3,870,539	\$ 4,637,232	\$ -	\$ 4,637,232
Investments, net	10,848,905	2,362,839	13,211,744	-	13,211,744
Accounts receivable, net	-	6,217,029	6,217,029	(6,191,880)	25,149
Advances and prepayments	-	236,736	236,736	-	236,736
Total intragovernmental	11,615,598	12,687,143	24,302,741	(6,191,880)	18,110,861
Other than intragovernmental					
Accounts receivable, net	-	23,931	23,931	-	23,931
General property, plant, and equipment, net	-	3,407,080	3,407,080	-	3,407,080
Advances and prepayments	-	1,940	1,940	-	1,940
Total other than intragovernmental	-	3,432,951	3,432,951	-	3,432,951
Total assets	\$ 11,615,598	\$ 16,120,094	\$ 27,735,692	\$ (6,191,880)	\$ 21,543,812
Liabilities					
Intragovernmental					
Accounts payable	\$ 6,190,380	\$ 13,528	\$ 6,203,908	\$ (6,191,880)	\$ 12,028
Advances from others and deferred revenue	-	26,465	26,465	-	26,465
Other liabilities	-	296,896	296,896	-	296,896
Total intragovernmental liabilities	6,190,380	336,889	6,527,269	(6,191,880)	335,389
Other than intragovernmental					
Accounts payable	-	413,957	413,957	-	413,957
Federal employee benefits payable	-	1,244,278	1,244,278	-	1,244,278
Advances from others and deferred revenue	-	130,517	130,517	-	130,517
Other liabilities					
Accrued grant liabilities	-	1,943,932	1,943,932	-	1,943,932
Other	-	380,767	380,767	-	380,767
Total other than intragovernmental	-	4,113,451	4,113,451	-	4,113,451
Total liabilities	\$ 6,190,380	\$ 4,450,340	\$ 10,640,720	\$ (6,191,880)	\$ 4,448,840
Net position					
Unexpended appropriations	\$ -	\$ 1,255,980	\$ 1,255,980	\$ -	\$ 1,255,980
Cumulative results of operations	5,425,218	10,413,774	15,838,992	-	15,838,992
Total liabilities and net position	\$ 11,615,598	\$ 16,120,094	\$ 27,735,692	\$ (6,191,880)	\$ 21,543,812
Statement of net cost					
Gross program costs	\$ -	\$ 16,938,113	\$ 16,938,113	\$ -	\$ 16,938,113
Less earned revenues	-	(365,171)	(365,171)	-	(365,171)
Net cost of operations	\$ -	\$ 16,572,942	\$ 16,572,942	\$ -	\$ 16,572,942
Statement of changes in net position					
Unexpended appropriations					
Beginning balances	\$ -	\$ 716,250	\$ 716,250	\$ -	\$ 716,250
Appropriations received	-	5,000,000	5,000,000	-	5,000,000
Appropriations transferred-in/out	-	-	-	-	-
Other adjustments	-	(24)	(24)	-	(24)
Appropriations used	-	(4,460,246)	(4,460,246)	-	(4,460,246)
Net change in unexpended appropriations	-	539,730	539,730	-	539,730
Total unexpended appropriations – ending	\$ -	\$ 1,255,980	\$ 1,255,980	\$ -	\$ 1,255,980
Cumulative results of operations					
Beginning balances	\$ 7,114,547	\$ 10,530,763	\$ 17,645,310	\$ -	\$ 17,645,310
Appropriations used	-	4,460,246	4,460,246	-	4,460,246
Intragovernmental non-exchange revenue	11,533,025	-	11,533,025	-	11,533,025
Other than intragovernmental non-exchange revenue	-	4,723	4,723	-	4,723
Transfers-in/out without reimbursement	(13,222,354)	11,583,107	(1,639,247)	-	(1,639,247)
Imputed financing	-	407,877	407,877	-	407,877
Other	-	-	-	-	-
Net cost of operations	-	16,572,942	16,572,942	-	16,572,942
Net change in cumulative results of operations	(1,689,329)	(116,989)	(1,806,318)	-	(1,806,318)
Cumulative results of operations – ending	\$ 5,425,218	\$ 10,413,774	\$ 15,838,992	\$ -	\$ 15,838,992
Net position end of period	\$ 5,425,218	\$ 11,669,754	\$ 17,094,972	\$ -	\$ 17,094,972

Note Disclosures Related to the Statement of Net Cost

Note 14. Net Cost by Program and Strategic Goal

The FAA's five lines of business represent the programs reported in the Consolidated Statements 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 a specific line of business, such as agency overhead, are allocated. The net cost for non-line of business programs includes services provided by the Mike Monroney Aeronautical Center, aviation overflight user fees, and other programs.

The following is the net cost of operations by strategic goal for the years ended September 30, 2023 and 2022:

(Dollars in Thousands)

	For the Year Ended September 30, 2023				
	Strategic Goals				Total
	Safety	People	Global Leadership	Operational Excellence	
Line of business programs					
Air Traffic Organization	\$ 11,339,790	\$ 109,361	\$ 5,600	\$ 2,251,475	\$ 13,706,226
Airports	1,108,275	189,859	23	3,735,163	5,033,320
Aviation Safety	1,905,535	22,440	36,567	7,824	1,972,366
Security and Hazardous Materials Safety	73,136	904	1,414	13,367	88,821
Commercial Space Transportation	39,460	3,442	349	4,248	47,499
Non-line of business programs	(139,498)	24,942	6,890	177,269	69,603
Net cost	<u>\$ 14,326,698</u>	<u>\$ 350,948</u>	<u>\$ 50,843</u>	<u>\$ 6,189,346</u>	<u>\$ 20,917,835</u>

(Dollars in Thousands)

	For the Year Ended September 30, 2022				
	Strategic Goals				Total
	Safety	People	Global Leadership	Operational Excellence	
Line of business programs					
Air Traffic Organization	\$ 10,867,178	\$ 96,623	\$ 2,671	\$ 1,994,342	\$ 12,960,814
Airports	1,366,138	1,559	2	6,489,152	7,856,851
Aviation Safety	1,751,930	20,113	33,329	5,332	1,810,704
Security and Hazardous Materials Safety	114,329	938	1,221	13,429	129,917
Commercial Space Transportation	31,425	2,869	285	4,826	39,405
Non-line of business programs	(114,386)	21,397	8,947	154,047	70,005
Net cost	<u>\$ 14,016,614</u>	<u>\$ 143,499</u>	<u>\$ 46,455</u>	<u>\$ 8,661,128</u>	<u>\$ 22,867,696</u>

Note 15. Inter-Entity Costs

The FAA receives certain goods and services from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, only certain costs of the providing entity that are not fully reimbursed by the FAA are recognized as imputed costs (in the Statement of Net Cost) and are offset by imputed financing sources (in the Statement of Changes in Net Position). Each of these costs is listed below. However, unreimbursed costs of goods and services other than those listed below are not included in our financial statements.

- The Office of Personnel Management (OPM) provides pension and post-retirement benefits to employees upon retirement from federal service. The imputed cost recognized by the FAA is based on the annual

Benefits Administration Letter issued by the OPM, which provides actuarial cost factors for accrued pension and post-retirement benefit expenses for current employees. The amount recognized represents the difference between employer and employee contributions and the total cost of the benefit.

- The U.S. Treasury’s Judgment Fund provides payments for settlements of lawsuits or court assessments against the FAA.
- The Department of Homeland Security’s Continuous Diagnostic and Mitigation program provides hardware, software, and services in support of the government-wide focus on heightened cyber security.
- The Department of Labor provides workers’ compensation and medical benefit payments to federal employees for COVID-19 claims under ARPA.

For the fiscal years ended September 30, 2023 and 2022, imputed costs were as follows:

(Dollars in Thousands)

Office of Personnel Management
Treasury Judgment Fund
Department of Homeland Security
Department of Labor

Total imputed costs

	2023	2022
	\$ 723,358	\$ 411,007
	23,651	7,766
	-	32
	867	305
	\$ 747,876	\$ 419,110

Note Disclosures Related to the Statement of Budgetary Resources

Note 16. Statement of Budgetary Resources Disclosures

BUDGETARY TERMS

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budget terms are commonly used:

- **Appropriations** are a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- **Budgetary resources** are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- **Offsetting collections** are payments to the government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government and from intragovernmental transactions with other government accounts. The authority to spend offsetting collections is a form of budget authority.
- **Offsetting receipts** are payments to the government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level of the agency and sub function, but in some cases they are deducted at the level of the government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government, and from intragovernmental transactions with other government accounts.
- **Obligations** are binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- **Outlays** are payments to liquidate an obligation (other than the repayment of debt principal or other disbursements that are “means of financing” transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of government spending.
- **Distributed offsetting receipts** are amounts that an agency collects from the public or from other U.S. Government agencies that are used to offset or reduce an agency’s budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts).

UNOBLIGATED BALANCE FROM PRIOR YEAR BUDGET AUTHORITY, NET

The unobligated balance from prior year budget authority is presented net of transfers, recoveries from prior year obligations, and balances withdrawn for cancelled authority. As a result, the amount will not equal the prior year unobligated balance, end of year total. As of September 30, 2023 and 2022, the unobligated balances from prior year budget authority, net of adjustments were:

(Dollars in Thousands)

	2023	2022
Unobligated balance, brought forward from prior year	\$ 10,774,209	\$ 9,570,157
Adjustments to budgetary resources made during current year		
Transferred from other accounts	1,440	-
Adjustments to unobligated balance brought forward	(4)	(774)
Recoveries of prior year obligations	683,492	488,327
Balances withdrawn to Treasury	(25,023)	(24)
Balances withdrawn to the AATF	(46,247)	(33,134)
Unobligated balance from prior year budget authority, net	<u>\$ 11,387,867</u>	<u>\$ 10,024,552</u>

APPROPRIATIONS

Appropriations, as reported in the Combined Statements of Budgetary Resources, includes amounts made available to the FAA from general, revolving, and special funds, as well as funds from dedicated collections. In contrast, appropriations received, as reported in the Consolidated Statements of Changes in Net Position, pertain only to amounts made available to the FAA from general funds. The following is a reconciliation of these amounts as of September 30, 2023 and 2022:

(Dollars in Thousands)

	2023	2022
Combined Statement of Budgetary Resources – appropriations	\$ 20,624,528	\$ 20,505,993
Appropriations transferred-in/out	2,000	2,000
Amounts made available to FAA from AATF dedicated collections	(13,138,210)	(9,555,487)
Other appropriated receipts and budgetary adjustments	(8,584)	(1,326)
Consolidated Statement of Changes in Net Position – appropriations received	<u>\$ 7,479,734</u>	<u>\$ 10,951,180</u>

AVAILABLE CONTRACT AUTHORITY

Contract authority, as reported on the Combined Statement of Budgetary Resources, is the amount permitted by law to enter into contracts or incur obligations. Throughout the fiscal year, the contract authority is liquidated by appropriation. As of September 30, 2023 and 2022, the remaining contract authority available was \$3.8 million and \$1.8 million, respectively.

EXPENDITURE TRANSFERS BETWEEN FAA ACCOUNTS

Budgetary concepts require that appropriations derived from the AATF for a general fund program be transferred through an intermediary trust fund program account. The appropriated amount is transferred, as needed to fund current period disbursements, from the AATF to a trust fund program account, then transferred from the trust fund program account to the general fund program account.

The following table shows the effect of these transfers on budgetary resources:

(Dollars in Thousands)

	2023		2022	
	Trust Fund Account	General Fund Account	Trust Fund Account	General Fund Account
Appropriations	\$ 9,993,821	\$ -	\$ 6,414,100	\$ -
Spending authority from offsetting collections	-	9,993,821	-	6,414,100
Total budgetary resources	<u>\$ 9,993,821</u>	<u>\$ 9,993,821</u>	<u>\$ 6,414,100</u>	<u>\$ 6,414,100</u>
New obligations and upward adjustments				
Expenditure transfers – paid	\$ 9,993,821	\$ -	\$ 7,434,100	\$ -
Expenditure transfers – payable	-	-	(1,020,000)	-
Apportioned, unexpired accounts	-	9,993,821	-	6,414,100
Total budgetary resources	<u>\$ 9,993,821</u>	<u>\$ 9,993,821</u>	<u>\$ 6,414,100</u>	<u>\$ 6,414,100</u>
Outlays, net				
Expenditure transfers – paid	\$ 9,993,821	\$ -	\$ 7,434,100	\$ -
Expenditure transfers - collected	-	(9,993,821)	-	(7,434,100)
Agency outlays, net	<u>\$ 9,993,821</u>	<u>\$ (9,993,821)</u>	<u>\$ 7,434,100</u>	<u>\$ (7,434,100)</u>

UNDELIVERED ORDERS

As of September 30, 2023 and 2022, the amount of budgetary resources obligated for undelivered orders were:

(Dollars in Thousands)

	2023			2022		
	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Obligations, unpaid	\$ 189,913	\$ 12,813,756	\$ 13,003,669	\$ 199,354	\$ 10,696,593	\$ 10,895,947
Obligations, prepaid/advanced	366,778	2,257	369,035	249,838	2,147	251,985
Total	<u>\$ 556,691</u>	<u>\$ 12,816,013</u>	<u>\$ 13,372,704</u>	<u>\$ 449,192</u>	<u>\$ 10,698,740</u>	<u>\$ 11,147,932</u>

LEGAL ARRANGEMENTS AFFECTING THE USE OF UNOBLIGATED BALANCES

Unobligated balances remain legally available for obligation when the funds are apportioned by the OMB and the period of availability is unexpired. Unobligated balances are not available when the funds are not yet apportioned or the period of availability is expired. Unobligated balances of expired accounts are not available to fund new obligations, but they can be used for upward adjustments of obligations

that were incurred during the period of availability or for paying claims attributable to that time period.

Aviation insurance investments are not available for obligation until authorized, for example, in the event of a major air carrier loss caused by a war risk occurrence.

STATEMENT OF BUDGETARY RESOURCES VS. THE BUDGET OF THE U.S. GOVERNMENT

The following is a reconciliation of the Combined Statement of Budgetary Resources with the Budget of the U.S. Government:

(Dollars in Millions)

	For the Year Ended September 30, 2022			
	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FAA Combined Statement of Budgetary Resources	\$ 41,050	\$ 30,275	\$ (10)	\$ 23,071
Items included in the Combined Statement of Budgetary Resources, but excluded from the President's budget:				
Expired funds	(165)	-	-	-
Other	(1)	-	-	-
Budget of the United States Government	\$ 40,884	\$ 30,275	\$ (10)	\$ 23,071

(For consistency with the presentation of the Budget of the U.S. Government, dollars are presented in millions in this table only.)

The Budget of the U.S. Government is available on the OMB's web site. The budgetary resources, new obligations, upward adjustments, and net outlay amounts are from the "Detailed Budget Estimates by Agency" found in the Appendix of the Budget. The distributed offsetting receipts amount is from the "Federal Budget by Agency and Account" found in the Analytical Perspectives of the Budget and reconciled at the department level by the DOT. The actual amounts for FY 2022 are presented in the FY 2024 Budget. The actual amounts for FY 2023 will be presented in the FY 2025 Budget, which occurs after the issuance of these financial statements. The OMB is

expected to publish this information early in calendar year 2024.

The primary difference between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government is that budgetary resources available from funds with expired authority are not included in the Budget of the U.S. Government. Other differences are due to rounding.

Note Disclosures Not Pertaining to a Specific Statement

Note 17. Incidental Custodial Collections

Cash collections that are “custodial” are not revenue to the FAA but are collected on behalf of other federal entities or funds. Custodial collections are considered to be incidental to the FAA’s primary mission. The following table presents custodial collections and the disposition of those collections for the years ended September 30, 2023 and 2022:

(Dollars in Thousands)

Custodial revenue

Sources of cash collections:

Fines, penalties, and forfeitures
 Unclaimed money and property
 General fund proprietary interest
 Miscellaneous recoveries and refunds

Total cash collections

Accrual adjustment

Total custodial revenue

Disposition of collections

Transferred to others (by recipient):

Treasury (general fund)

Amounts yet to be transferred

Total disposition of collections

Net custodial activity

	2023	2022
\$	5,040	\$ 4,915
	279	2
	31	18
	10,000	7,898
	15,350	12,833
	3,411	2,851
	18,761	15,684
	15,350	12,833
	3,411	2,851
	18,761	15,684
\$	-	\$ -

Note 18. Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities.

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

- The acquisition of capital assets results in outlays, but does not result in costs. Rather, the costs are recognized

over the useful lives of the assets as depreciation expense. To reconcile this difference, depreciation is a component of net operating cost but not part of net outlays; and the acquisition of capital assets is a component of net outlays, but not part of net operating cost.

- Special fund receipts, such as aviation overflight user fees, are collected from specific sources that are earmarked by law for a specific purpose and require an appropriation to be expended. The exchange revenue from these receipts is included in the net cost of operations, but there is no corresponding net outlay.

Although some differences presented in the reconciliation relate to amounts reported in the balance sheet and statement of net position, amounts may not agree. Certain financial activities do not result in net operating cost, nor net outlays, and are therefore excluded from the reconciliation. For example, the purchase of investments results in a change in assets on the balance sheet but does not result in net operating cost nor net outlays.

The following is a reconciliation of net cost to net outlays as of September 30, 2023:

(Dollars in Thousands)

	2023		
	Intragovernmental	Other than intragovernmental	Total
Net operating cost	\$ 3,223,646	\$ 17,694,189	\$ 20,917,835
Components of net operating cost not part of net outlays			
Property, plant, and equipment depreciation expense	-	(1,211,234)	(1,211,234)
Property, plant, and equipment disposals and revaluations	-	(256,037)	(256,037)
Cost of goods sold	(306)	(61,754)	(62,060)
Inventory and related property disposals and revaluations	-	12,953	12,953
Increase/(decrease) in assets:			
Accounts receivable, net	(11,805)	605	(11,200)
Investments, net	12,328	-	12,328
Advances and prepayments	(6,152)	(58)	(6,210)
(Increase)/decrease in liabilities:			
Accounts payable	1,579	(51,160)	(49,581)
Federal employee benefits payable	-	9,888	9,888
Environmental and disposal liabilities	-	(73,953)	(73,953)
Advances from others and deferred revenue	7,158	(15,969)	(8,811)
Other liabilities			
Accrued grant liabilities	-	3,397,008	3,397,008
Other	(5,459)	(9,202)	(14,661)
Financing sources:			
Imputed cost	(747,876)	-	(747,876)
Total components of net operating cost not part of net outlays	(750,533)	1,741,087	990,554
Components of net outlays not part of net operating cost			
Acquisition of capital assets	63,318	1,647,438	1,710,756
Acquisition of inventory and related property	-	53,176	53,176
Financing sources:			
Transfers-in/out without reimbursement	9,968	-	9,968
Total components of net outlays not part of net operating cost	73,286	1,700,614	1,773,900
Miscellaneous items			
Special fund receipts	138,547	-	138,547
Deposit funds and miscellaneous receipts	-	(10,031)	(10,031)
Other	3,052	(7,436)	(4,384)
Total miscellaneous items	141,599	(17,467)	124,132
Net outlays	\$ 2,687,998	\$ 21,118,423	\$ 23,806,421
Related amounts on the Statement of Budgetary Resources			
Outlays, net (total)			\$ 23,824,106
Distributed offsetting receipts			(17,685)
Agency outlays, net			\$ 23,806,421

The following is a reconciliation of net cost to net outlays as of September 30, 2022:

(Dollars in Thousands)

	2022		
	Intragovernmental	Other than intragovernmental	Total
Net operating cost	\$ 2,885,129	\$ 19,982,567	\$ 22,867,696
Components of net operating cost not part of net outlays			
Property, plant, and equipment depreciation expense	-	(1,301,682)	(1,301,682)
Property, plant, and equipment disposals and revaluations	(13,294)	(343,702)	(356,996)
Cost of goods sold	44	(62,075)	(62,031)
Inventory and related property disposals and revaluations	-	21,089	21,089
Increase/(decrease) in assets:			
Accounts receivable, net	12,558	12,370	24,928
Investments, net	(7,759)	-	(7,759)
Advances and prepayments	41,303	1,249	42,552
(Increase)/decrease in liabilities:			
Accounts payable	(2,282)	(16,302)	(18,584)
Federal employee benefits payable	-	81,440	81,440
Environmental and disposal liabilities	-	(31,067)	(31,067)
Advances from others and deferred revenue	(14,509)	18,856	4,347
Other liabilities			
Accrued grant liabilities	-	589,612	589,612
Other	(6,099)	(29,708)	(35,807)
Financing sources:			
Imputed cost	(419,110)	-	(419,110)
Total components of net operating cost not part of net outlays	(409,148)	(1,059,920)	(1,469,068)
Components of net outlays not part of net operating cost			
Acquisition of capital assets	51,505	1,455,748	1,507,253
Acquisition of inventory and related property	-	65,037	65,037
Financing sources:			
Transfers-in/out without reimbursement	8,964	-	8,964
Total components of net outlays not part of net operating cost	60,469	1,520,785	1,581,254
Miscellaneous items			
Special fund receipts	93,925	-	93,925
Deposit funds and miscellaneous receipts	-	(7,628)	(7,628)
Other	1,692	(6,415)	(4,723)
Total miscellaneous items	95,617	(14,043)	81,574
Net outlays	\$ 2,632,067	\$ 20,429,389	\$ 23,061,456
Related amounts on the Statement of Budgetary Resources			
Outlays, net (total)			\$ 23,071,125
Distributed offsetting receipts			(9,669)
Agency outlays, net			\$ 23,061,456

Note 19. Disclosure Entities

The Center for Advanced Aviation System Development (CAASD) is a Federally Funded Research and Development Center (FFRDC) sponsored by the FAA. FFRDCs are nonprofit entities that are sponsored and funded by the U.S. Government to meet special long-term research or development needs. CAASD serves the public interest by providing essential research to advance the safety, security, effectiveness, and efficiency of aviation and transportation in the United States and around the world.

The administrator of CAASD is The MITRE Corporation (MITRE). MITRE is a not-for-profit organization that operates multiple FFRDCs including CAASD. MITRE is a “public interest company” having no commercial interests. The absence of commercial conflicts of interest is essential to maintaining independence and objectivity.

As the sponsor of CAASD, the FAA has a long-term relationship with MITRE. The nature of this relationship is for the FAA to provide sufficient physical and financial resources in support of CAASD’s innovative research and development that in turn supports the accomplishment of the FAA’s mission. The FAA’s relationship with MITRE, for the operation of CAASD, presents no financial or non-financial risk, and there is no expectation of benefits based on this relationship, other than the results of the independent research and development. Although MITRE is the administrator of CAASD, MITRE itself is not considered to be a disclosure entity of the FAA.

For the periods ended September 30, 2023 and 2022, the FAA had new obligations of \$171 million and \$151 million, respectively, in support of its sponsorship agreement with MITRE for the operation of CAASD.

Note 20. COVID-19 Activity

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136, provided \$10 billion in general fund appropriations for Grants-in-Aid for Airports to prevent, prepare for, and respond to the COVID-19 pandemic. In addition, of the amounts previously made available from the AATF for operations in the Bipartisan Budget Act of 2018, Public Law 115-123, up to \$25 million may be repurposed to prevent, prepare for, and respond to the COVID-19 pandemic. Airport grants issued with CARES Act funds can be used for airport capital expenditures and airport operating expenses such as payroll, utilities, and debt services.

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSAA), Public Law 116-260, provided an additional \$2 billion in general fund appropriations for Grants-in-Aid for Airports to prevent, prepare for, and respond to coronavirus. Airport grants issued with CRRSAA funds can be used for operational costs and debt service but not for capital expenditures.

The American Rescue Plan Act of 2021 (ARPA), Public Law 117-2, provided an additional \$8 billion in general fund appropriations under Relief for Airports, a new program account, to be allocated to sponsors of airports to prevent, prepare for, and respond to coronavirus. Airport grants issued with ARPA funds can be used for operating expenses, debt service payments, the federal share of airport development projects, and airport concessions. In addition, ARPA established an emergency FAA employee leave fund and appropriated \$9 million from the general

fund for the use of paid leave by any FAA employee who is unable to work due to circumstances related to COVID-19.

Because Grants-in-Aid for Airports is a trust fund program account, budgetary concepts require that general fund appropriations (i.e., \$10 billion from the CARES Act and \$2 billion from CRRSAA) be deposited to a general fund payment account, apportioned, then transferred to an available trust fund receipt account, fully expending the appropriation. The transfer-in to the available trust fund receipt account is then recorded as an appropriated receipt, apportioned, and available for obligation.

Because Relief for Airports was established as a general fund program account, the general fund appropriation is deposited, apportioned, and expended out of the same budgetary program account.

The classification of funds from dedicated collections is made by individual fund. In situations where there is a mixed source of funding, the classification is based on the predominant source of funding.

This note is presented on both a combined and consolidated basis. The combined presentation does not eliminate intra-entity balances or transactions with other non-COVID-19 related funds, such as the FAA's Franchise Fund. The consolidated presentation eliminates intra-entity balances or transactions between the FAA's COVID-19 related funds.

The FAA's COVID-19 activity as of and for the year ended September 30, 2023, consists of the following:

(Dollars in Thousands)

Balance Sheet

Assets

Fund balance with Treasury (Note 2)
Accounts receivable, net (Note 4)
Advances and prepayments

Total assets

Liabilities and net position

Accounts payable
Federal employee benefits payable (Note 8)
Other liabilities
Accrued grant liabilities
Other (Note 10)
Unexpended appropriations
Cumulative results of operations

Total liabilities and net position

Statement of net cost

Gross program costs

Total net cost

Statement of changes in net position

Unexpended appropriations

Beginning balances
Other adjustments
Appropriations used

Total unexpended appropriations

Cumulative results of operations

Beginning balances
Appropriations used
Transfers-in/out without reimbursement
Imputed financing (Note 15)
Net cost of operations
Net change in cumulative results of operations

Cumulative results of operations

Total net position

Combined statements of budgetary resources

Budgetary resources (Note 16)

Unobligated balance from prior year budget authority, net
Appropriations

Total budgetary resources

Status of budgetary resources

New obligations and upward adjustments
Unobligated balance, end of year

Total budgetary resources

Outlays, net

Outlays, net (total)

Agency outlays, net

	2023		
	Funds from dedicated collections	Funds from other than dedicated collections	Total
Assets			
Fund balance with Treasury (Note 2)	\$ 575,421	\$ 1,636,787	\$ 2,212,208
Accounts receivable, net (Note 4)	-	207	207
Advances and prepayments	239	-	239
Total assets	\$ 575,660	\$ 1,636,994	\$ 2,212,654
Liabilities and net position			
Accounts payable	\$ -	\$ 1,457	\$ 1,457
Federal employee benefits payable (Note 8)	-	-	-
Other liabilities			
Accrued grant liabilities	543,480	1,512,471	2,055,951
Other (Note 10)	-	-	-
Unexpended appropriations	-	121,449	121,449
Cumulative results of operations	32,180	1,617	33,797
Total liabilities and net position	\$ 575,660	\$ 1,636,994	\$ 2,212,654
Statement of net cost			
Gross program costs	\$ 154,035	\$ 627,720	\$ 781,755
Total net cost	\$ 154,035	\$ 627,720	\$ 781,755
Statement of changes in net position			
Unexpended appropriations			
Beginning balances	\$ -	\$ 798,074	\$ 798,074
Other adjustments	-	(48,228)	(48,228)
Appropriations used	-	(628,397)	(628,397)
Total unexpended appropriations	\$ -	\$ 121,449	\$ 121,449
Cumulative results of operations			
Beginning balances	\$ 193,594	\$ 926	\$ 194,520
Appropriations used	-	628,397	628,397
Transfers-in/out without reimbursement	(7,384)	-	(7,384)
Imputed financing (Note 15)	5	14	19
Net cost of operations	154,035	627,720	781,755
Net change in cumulative results of operations	(161,414)	691	(160,723)
Cumulative results of operations	\$ 32,180	\$ 1,617	\$ 33,797
Total net position	\$ 32,180	\$ 123,066	\$ 155,246
Combined statements of budgetary resources			
Budgetary resources (Note 16)			
Unobligated balance from prior year budget authority, net	\$ 304,635	\$ 74,362	\$ 378,997
Appropriations	(7,384)	(48,228)	(55,612)
Total budgetary resources	\$ 297,251	\$ 26,134	\$ 323,385
Status of budgetary resources			
New obligations and upward adjustments	\$ 296,173	\$ 16,377	\$ 312,550
Unobligated balance, end of year	1,078	9,757	10,835
Total budgetary resources	\$ 297,251	\$ 26,134	\$ 323,385
Outlays, net			
Outlays, net (total)	\$ 643,787	\$ 3,799,191	\$ 4,442,978
Agency outlays, net	\$ 643,787	\$ 3,799,191	\$ 4,442,978

The FAA's COVID-19 activity as of and for the year ended September 30, 2022, consists of the following:

(Dollars in Thousands)

	2022		
	Funds from dedicated collections	Funds from other than dedicated collections	Total
Balance Sheet			
Assets			
Fund balance with Treasury (Note 2)	\$ 1,226,716	\$ 5,484,206	\$ 6,710,922
Accounts receivable, net (Note 4)	-	-	-
Advances and prepayments	949	-	949
Total assets	<u>\$ 1,227,665</u>	<u>\$ 5,484,206</u>	<u>\$ 6,711,871</u>
Liabilities and net position			
Accounts payable	\$ 1,224	\$ 3,136	\$ 4,360
Federal employee benefits payable (Note 8)	43	62	105
Other liabilities			
Accrued grant liabilities	1,032,782	4,681,956	5,714,738
Other (Note 10)	22	52	74
Unexpended appropriations	-	798,074	798,074
Cumulative results of operations	193,594	926	194,520
Total liabilities and net position	<u>\$ 1,227,665</u>	<u>\$ 5,484,206</u>	<u>\$ 6,711,871</u>
Statement of net cost			
Gross program costs	\$ 174,779	\$ 4,040,866	\$ 4,215,645
Total net cost	<u>\$ 174,779</u>	<u>\$ 4,040,866</u>	<u>\$ 4,215,645</u>
Statement of changes in net position			
Unexpended appropriations			
Beginning balances	\$ -	\$ 4,838,873	\$ 4,838,873
Other adjustments	-	-	-
Appropriations used	-	(4,040,799)	(4,040,799)
Total unexpended appropriations	<u>\$ -</u>	<u>\$ 798,074</u>	<u>\$ 798,074</u>
Cumulative results of operations			
Beginning balances	\$ 368,363	\$ 966	\$ 369,329
Appropriations used	-	4,040,799	4,040,799
Transfers-in/out without reimbursement	(1)	-	(1)
Imputed financing (Note 15)	11	27	38
Net cost of operations	174,779	4,040,866	4,215,645
Net change in cumulative results of operations	(174,769)	(40)	(174,809)
Cumulative results of operations	<u>\$ 193,594</u>	<u>\$ 926</u>	<u>\$ 194,520</u>
Total net position	<u>\$ 193,594</u>	<u>\$ 799,000</u>	<u>\$ 992,594</u>
Combined statements of budgetary resources			
Budgetary resources (Note 16)			
Unobligated balance from prior year budget authority, net	\$ 324,355	\$ 3,670,089	\$ 3,994,444
Appropriations	-	-	-
Total budgetary resources	<u>\$ 324,355</u>	<u>\$ 3,670,089</u>	<u>\$ 3,994,444</u>
Status of budgetary resources			
New obligations and upward adjustments	\$ 199,819	\$ 3,599,254	\$ 3,799,073
Unobligated balance, end of year	124,536	70,835	195,371
Total budgetary resources	<u>\$ 324,355</u>	<u>\$ 3,670,089</u>	<u>\$ 3,994,444</u>
Outlays, net			
Outlays, net (total)	\$ 1,324,033	\$ 3,610,396	\$ 4,934,429
Agency outlays, net	<u>\$ 1,324,033</u>	<u>\$ 3,610,396</u>	<u>\$ 4,934,429</u>

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