Office of Inspector General

Audit Report

QUALITY CONTROL REVIEW OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS 2013 AND 2012

Federal Aviation Administration

Report Number: QC-2014-014
Date Issued: December 13, 2013

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: **ACTION**: Quality Control Review of Audited Financial Statements for Fiscal Years 2013 and 2012, Federal Aviation Administration
Report Number: QC-2014-014

Date: December 13, 2013

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: Federal Aviation Administrator

We respectfully submit our report on the quality control review (QCR) of the Federal Aviation Administration's (FAA) audited financial statements for fiscal years 2013 and 2012.

The audit of FAA's financial statements, as of and for the years ended September 30, 2013, and September 30, 2012, was completed by KPMG LLP, of Washington, DC (see Attachment) under contract to the Office of Inspector General (OIG). The contract required the audit to be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 14-02, "Audit Requirements for Federal Financial Statements."

KPMG LLP concluded the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2013, and September 30, 2012, 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.

KPMG LLP's Fiscal Year 2013 Audit Report

KPMG LLP reported the following significant deficiency in internal control over financial reporting:

Improvements Needed in Management Review Controls – FAA does not have adequate controls to ensure that all transactions were properly recorded in the general ledger, including sufficient review controls to validate the completeness and accuracy of key inputs and assumptions of certain estimated amounts. As a result, there is a risk that errors will not be detected or corrected in a timely manner.

We performed a QCR of KPMG LLP's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG LLP is responsible for its report dated December 9, 2013, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG LLP did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG LLP made two recommendations to strengthen FAA's financial, accounting, and system controls. FAA officials concurred with KPMG LLP's findings on the significant deficiency. FAA also committed to submitting to OIG, by December 31, 2013, a detailed action plan to address the findings contained in the audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of FAA's representatives, the Office of Financial Management, and KPMG LLP. If we can answer any questions, please contact me at 202-366-1959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at 202-366-1427.

Attachment

#

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

Independent Auditors' Report

Administrator, Federal Aviation Administration
U.S. Department of Transportation:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA), which comprise the consolidated balance sheets as of September 30, 2013 and 2012 and the related consolidated statements of net cost, 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.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes 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' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; 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. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Delaware limited liability partnership, the U.S. member firm of KPMG International Cooperative ("KPMG International"), a Swiss entity.

KPMG

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Aviation Administration as of September 30, 2013 and 2012, 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.

Emphasis of Matter

As discussed in Notes 1 and 12, the consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2013, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis, Required Supplementary Information, and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statements. Such information, 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 auditing standards generally accepted in the United States of America, 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

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, FAA at a Glance, Forward, Messages from the Administrator and Chief Financial Officer, and Performance Results sections as listed in the Table of Contents of the FAA Performance and Accountability Report is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the FAA's internal control over financial reporting (internal control) to determine the 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. However, we did identify certain deficiencies in internal control, described in the accompanying schedule of findings in Exhibit I, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FAA's consolidated financial statements 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 determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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. 14-02.

FAA's Response to Findings

The FAA's response to the findings identified in our audit is described in the accompanying schedule of findings in Exhibit I. The FAA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result 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

December 9, 2013

Improvements Needed in Management Review Controls

Criteria

The Government Accountability Office's (GAO) *Standard for Internal Control in the Federal Government* (the Standards) states that, "... control activities help to ensure that all transactions are completely and accurately recorded."

The Standards further define internal control as "an integral component of an organization's management that provides reasonable assurance that the following objectives are being achieved: effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations." Furthermore, the Standards list examples of control activities that include (1) top-level reviews of actual performance, (2) reviews by management at the functional or activity level ... (4) controls over information processing ... (6) Establishment and review of performance measures and indicators, (7) segregation of duties, (8) proper execution of transactions and events, (9) accurate and timely recording of transactions and events, (10) access restrictions to and accountability for resources and records, and (11) appropriate documentation of transactions and internal control.

The Standards also state, "Internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. It is performed continually and is ingrained in the agency's operations. It includes regular management and supervisory activities, comparisons, reconciliations, and other actions people take in performing their duties."

Appendix A, Section I, of the Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Controls,* states that "Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting. Reliability of financial reporting means that management can reasonably make the following assertions:

- All reported transactions actually occurred during the reporting period and all assets and liabilities exist as of the reporting date (existence and occurrence);
- All assets, liabilities, and transactions that should be reported have been included and no unauthorized transactions or balances are included (completeness); and,
- All assets and liabilities have been properly valued, and where applicable, all costs have been properly allocated (valuation)."

Conditions

During the fiscal year (FY) 2013 audit, we noted several instances whereby the FAA did not have adequate controls in place to ensure that all transactions were properly recorded in the general ledger, including sufficient review controls to validate the completeness and accuracy of key inputs and assumptions of certain estimated amounts. For example, we identified errors totaling over $100 million in three of eight overflight fee revenue transactions tested for the period July 1, 2013 through September 30, 2013.

One error was identified and corrected by management; however, the correction was not made timely. Two errors were identified by us.

In addition, our testing of the grant accrual as of September 30, 2013 revealed the following errors in key inputs and assumptions used in the calculation of the estimate:

- The grant disbursement data used in the calculation of the grant accrual was incomplete, as two months of data was erroneously excluded from the accrual calculation.
- The grant accrual calculation erroneously did not include an accrual for costs associated with one grant that was awarded in August 2013.

The errors above were not detected by management in the review of these accruals at year-end.

Cause/Effect

The errors above related to overflight fee revenue first occurred after personnel at the Enterprise Service Center implemented a Dataloader tool in June 2013 to post overflight fee revenue transactions to the general ledger. The Dataloader did not always properly capture overflight fee revenue and, as a result, posted incorrect transactions to the general ledger. A manual review of the transactions posted by the Dataloader tool was not consistently performed to ensure the recorded amounts were consistent with the related source documentation and general ledger inputs.

The conditions above related to the grant accrual occurred because personnel within the Office of Financial Reporting and Accountability did not perform procedures to validate the completeness and accuracy of key inputs provided by other organizations within FAA for use in calculating year-end accruals. As a result, Grants Payable and Expenses were overstated by $80 million as a result of the error related to incomplete disbursements, and understated by $65 million as a result of the exclusion of one grant from the accrual. The net impact was an overstatement to Grants Payable and Expenses of $15 million. The draft FY 2013 Performance and Accountability Report provided to us contained errors caused by the conditions described above.

Failure to perform sufficient review controls over key general ledger inputs and outputs increases the risk and the likelihood that material differences will not be detected or corrected timely.

Recommendations

We recommend that FAA design and implement policies and procedures 1) to ensure transactions are recorded properly in the general ledger and 2) to validate the completeness and accuracy of key inputs and assumptions that are the basis for transactions recorded to the general ledger.

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

Office of Financial Services/CFO

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

DEC 09 2013

Ms. Hannah Padilla
KPMG LLP
1801 K Street, NW
Suite 12000
Washington, DC 20006

Dear Ms. Padilla:

We have received your Independent Auditors' Report related to the Federal Aviation Administration's (FAA's) fiscal year 2013 consolidated financial statements and offer the following comments.

We concur with the significant deficiency contained in your report. To address the findings, the Office of Financial Services will coordinate with other FAA offices as necessary to develop a corrective action plan, and will submit it to the Office of Inspector General no later than December 31, 2013. I will monitor implementation of the plan throughout the corrective action process.

We reaffirm our commitment to continuously improving our financial management, and to serving the public as cost-effective stewards of their investments. We look forward to continuing to work with you in support of an efficient and effective audit.

As always, we welcome the opportunity to improve our processes and procedures. Thank you for your candor and the professional manner in which you and your team conducted this audit.

Sincerely,

Mark House

Mark House

U.S. Department of Transportation
Federal Aviation Administration

FISCAL YEAR 2013 | PERFORMANCE AND ACCOUNTABILITY REPORT

The FAA. Evolving Technology. Advancing Aviation.

OUR MISSION

To provide the safest, most efficient aerospace system in the world.

OUR VISION

Transform the aviation system to reflect the highest standards of safety and efficiency and be a model for the world. The FAA will bring about this transformation by fostering innovation in our workforce and in how we serve our stakeholders and the American people.

U.S. Department of Transportation
Federal Aviation Administration

FISCAL YEAR 2013

PERFORMANCE AND ACCOUNTABILITY REPORT

The FAA. Evolving Technology. Advancing Aviation.

Our *FY 2013 Performance and Accountability Report* is dedicated to all the people who make aviation safe, efficient, and pleasant: from the mechanics to the air traffic controllers, from the aviation inspectors to the baggage and cargo handlers, from the scientists to the pilots, and so many more. To all of them we say: Thank you!

OUR VALUES

Safety is our Passion.
We work so that all air and space travelers arrive safely at their destinations.

Excellence is our Promise.
We seek results that embody professionalism, transparency, and accountability.

Integrity is our Touchstone.
We perform our duties honestly, with moral soundness, and with the highest level of ethics.

People are our Strength.
Our success depends on the respect, diversity, collaboration, and commitment of our workforce.

Innovation is our Signature.
We foster creativity and vision to provide solutions beyond today's boundaries.

THE FAA AT A GLANCE

Established	1958
Headquarters	800 Independence Avenue, SW Washington, DC 20591 www.faa.gov
FY 2013 Budget *(sequester)*	$15.3 billion
Total Employees	46,027 employees
Headquarters	3,706 employees
Regional and Field Offices	37,362 employees
William J. Hughes Technical Center Atlantic City, NJ	1,427 employees
Mike Monroney Aeronautical Center Oklahoma City, OK	3,532 employees
FY 2013 Passengers on U.S. Carriers	More than 736 million *(estimate)*
FY 2013 Tower Operations and Overflights	53.1 million arrivals, departures, and overflights

FOREWORD

The Federal Aviation Administration (FAA) is part of the U.S. Department of Transportation (DOT). By directives, the Office of Management and Budget (OMB), which implements the Chief Financial Officers Act of 1990 (CFO Act), requires us to prepare financial statements separate from those of the DOT. We consolidate key FAA data and information and provide this to the DOT to incorporate into their corresponding reports. Although we are not required to prepare a separate Annual Financial Report or Performance and Accountability Report (PAR), we recognize that we can better demonstrate our agency's accountability by presenting performance, management, and financial information using the same statutory and guidance framework as that used by the DOT. For this reason, the FAA has produced its own PAR since fiscal year (FY) 2002.

Last year, we were proud to receive our ninth prestigious Certificate of Excellence in Accountability Reporting award for our PAR from the Association of Government Accountants (AGA). This award is indicative of the progress we have made in reporting financial and program performance and in candidly assessing our results. Last year, the AGA also honored 10 federal agencies with "Best in Class" awards for demonstrating specific points of excellence within their PAR. Our PAR was recognized as the "most representative of editorial excellence" across government.

We strive to continue to raise the bar with our performance and financial accountability and do our part to help the DOT and the federal government excel in providing high-quality services and products to the taxpayers we serve.

This report and reports from prior years are available on the FAA website at
www.faa.gov/about/plans_reports

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Michael P. Huerta
Administrator

A MESSAGE FROM THE ADMINISTRATOR

As we celebrate our 55th year, I am pleased to submit the Federal Aviation Administration's (FAA) *Fiscal Year 2013 Performance and Accountability Report* (PAR), the first PAR since I had the honor of being confirmed as Administrator last January. Our FY 2013 PAR discusses the challenges, accomplishments, and performance results of our agency as we delivered on a promise that we make every day—to provide the safest, most efficient aerospace system in the world. This report shows how we went about making good on our promise in the past fiscal year.

The effective operation of FAA programs requires stability and predictability in funding. The agency's many authorization extensions over the past few years inevitably took a toll on the FAA's work in certain areas until the Federal Aviation Reauthorization Modernization and Reform Act of 2012 restored some of the stability essential to our agency's ability to deliver both air traffic management and aviation safety. It is unfortunate that just as the era of protracted uncertainty caused by temporary reauthorizations ended, the new reality of budget sequestration caused even more dire uncertainty. Halfway through FY 2013, more than $600 million was cut from our budget, which is affecting our operations and our future. The FAA urgently needs a longer-term solution to provide the financial certainty essential to our move toward modernization.

Our goal areas of the past year are based on the framework of *Destination 2025*, which was our strategic plan published in 2011. These goals are discussed further in this letter and throughout the PAR. Beginning in 2014, I have established a revised strategic framework where we will focus our efforts during my five-year term as Administrator. These priorities are to:

- Make aviation safer and smarter
- Deliver benefits through technology and infrastructure
- Enhance the FAA's global leadership
- Empower and innovate with the FAA's people

During FY 2014, we will identify specific initiatives for each of these areas.

SAFETY

The FAA's number one priority is safety. We focus on this priority 24 hours a day, 7 days a week. The Asiana Airlines crash in San Francisco in July serves as a somber reminder of how valuable our employees' efforts are in keeping our skies safe for the approximately 70,000 flights that pass through our national airspace each and every day. It is also a sign of the technological progress we are making in aircraft safety, including fire retardant materials aboard aircraft, to keep passengers safe. We continue to work with the National Transportation Safety Board on the investigation of this accident.

In the past few years, Congress has given us significant guidance on how to advance aviation safety. We accomplished a great deal on this front in 2013, including issuing a final rule that increased the qualification requirements for first officers who fly for U.S. passenger and cargo airlines.

This rule requires first officers, also known as co-pilots, to hold an Airline Transport Pilot (ATP) certificate, which mandates 1,500 hours total time of flight experience, including time in a simulator. Previously, first officers were required to have only a commercial pilot certificate, which required just 250 hours of flight time as a pilot. The rule further requires first officers to have an aircraft-type rating, which involves additional training and testing specific to the airplanes they fly. The rule gives first officers a stronger foundation of aeronautical knowledge and experience before they fly for an air carrier.

These new regulations address a congressional mandate in the Airline Safety and Federal Aviation Administration Extension Act of 2010 requiring that both pilots and co-pilots receive the ATP certification.

This is one of several rulemakings required by that Act. Others include new flight duty and rest requirements for pilots that were finalized in December 2011 and new training requirements. These requirements, which ensure that pilots know how to react properly in difficult operating environments, will eventually be included in all air carrier training programs.

We have put new safety data collection programs in place for air traffic controllers and aviation technicians to report a problem or even a mistake they may have made, without fear of retribution. This makes the system even safer because we can learn from mistakes.

This year we took actions to address safety issues that were prompted by incidents involving lithium ion batteries. Failures of these batteries resulted in release of flammable electrolytes, heat damage, and smoke on two Boeing 787-8 airplanes. The FAA issued an emergency airworthiness directive in January 2013, requiring battery system modifications before further flight. Our agency then worked closely with Boeing and the National Transportation Safety Board (NTSB) to understand what prompted the failures and how best to mitigate the safety issues. This included an in depth review of the certification activities, manufacturing processes and supply chain, and a non-advocate review by internationally recognized battery experts. In April 2013, we added requirements to install new battery enclosures and environmental control system ducts; replace the main and auxiliary power unit batteries and their respective battery chargers; and revised the maintenance program. This work involved unprecedented coordination with Boeing, NTSB and our international partners and enabled successful resumption of 787 operations in May 2013.

We are taking many other actions to enhance safety across the board, including promoting safety management systems and fostering the sharing of more data between our agency and the airline industry. By analyzing this data, we are able to identify trends and hazards across the airspace system and mitigate risks before emergencies occur.

Although we operate in one of the safest periods in aviation history, we continually strive to improve. As we undergo the difficult process of implementing the deep cuts required by the sequester, we refuse to sacrifice safety, even if this means that operations may at times be less efficient.

NEXTGEN

We continue to make progress with the Next Generation Air Transportation System, known simply as NextGen. We're moving from a primarily ground-based system to satellite-based operations and an air-ground communication system that relies on digital data exchange, as well as voice. These changes will make flying more efficient and more environmentally-friendly. We remain committed to implementing the technologies that comprise NextGen, even if we may have to shift some of our priorities and alter some of our deployment timeframes.

NextGen tools and procedures are changing the way we fly. By 2020, we project that NextGen will provide $38 billion in savings. We also project a 41 percent reduction in delays compared to what would happen if we did nothing, a reduction of 16 million metric tons in carbon emissions, and a 1.6 billion gallon cumulative reduction of fuel use.

This year we continued with the installation of Automatic Dependent Surveillance Broadcast (ADS-B), which makes use of satellite-based technology to determine and share precise aircraft location information. Early next year we expect to complete the installation of 642 ADS-B ground radio stations.

We also began work on Data Communications (Data Comm) trials. Data Comm supplements today's analog, voice-only, air-to-ground communications system with a digital message system. The sending and receiving of digital instructions to and from pilots will increase overall system efficiency, while reducing the likelihood of hearback and readback errors. We plan to start initial operations of Data Comm in equipped control towers beginning in 2016.

We also continue to make progress with implementation of the En Route Automation Modernization (ERAM) system, which replaces the 1970s era En Route Host computer and backup system used at 20 FAA Air Route Traffic Control Centers nationwide. ERAM is one of the most complex, challenging, and ambitious systems deployed by the FAA in recent times. In effect, the transition to ERAM represents a live transplant of the "heart" of today's air traffic control system while continuing safe and efficient flight operations for the flying public. As ERAM evolves, it will provide benefits for users and the flying public by increasing air traffic flow and improving automated navigation and conflict detection services, all of which are vital to meeting future demand and preventing gridlock and delays. Our goal was to have ERAM in initial operation at all 20 locations by the end of 2013. However, due to sequestration, this will not occur until 2014.

As part of the financial flexibility that Congress gave us earlier this year to mitigate the worst impacts of the sequester (namely, employee furloughs for our entire workforce), we were able to restart the Metroplex work that had been put on hold. Our Metroplex initiative involves optimizing aircraft routes in major metropolitan areas that have one or more airports. The airspace above these airports is among the most congested nationwide. Our individual Metroplex projects are highly collaborative and must include our operational air traffic control personnel. Prior to the congressional action, the planned furloughs under the sequester required us to postpone new design and development efforts, and recall air traffic controllers and managers back to their duty stations. Air traffic controllers have now returned and are applying their needed airspace expertise to all Metroplex efforts. In addition, we have restarted the collaborative process with airlines and the many other stakeholders who are all working together to improve congested airspace over busy cities that have multiple major airports. We were able to do this in the following seven Metroplex areas where the work will continue, including: Washington, D.C., Northern Texas, Charlotte, Northern and Southern California, Houston and Atlanta.

There is much more to NextGen. For more information, go to www.faa.gov/nextgen. Additionally, NextGen accomplishments and highlights also appear on pages 14–15 and 17–19 of this document.

FY 2013 PERFORMANCE HIGHLIGHTS

NEXT LEVEL OF SAFETY. This year we met our domestic commercial aviation fatal accident safety goal. Although we met our goal with our U.S. registered carriers, the Asiana crash in San Francisco in July, which involved a foreign carrier, is a somber reminder of the importance of constant vigilance in the area of aviation safety world-wide. Reducing general aviation (GA) fatalities continues to be a challenge. More than three-quarters of GA fatal accidents are related to human factors. In addition, many GA accidents occur in Alaska, where the state's topography and extreme weather present unique safety challenges to pilots.

In the area of commercial space safety, we maintained our outstanding record, with no fatalities, serious injuries, or significant property damage from launches.

A summary of these performance results is presented in the Management's Discussion and Analysis on page 26. Detailed information about each of our safety performance metrics begins on page 44 of the Performance Results section.

WORKPLACE OF CHOICE. Our employees are our biggest asset. The vital work they do each and every day makes it possible for us to deliver on our mission of safety. Their talent and ideas are what will move us into the future. In order to reach this future, we must create an environment marked by innovation and excellence. We must continue to attract the best-qualified employees and to develop, motivate, and retain them. One of our strategic objectives is for the FAA to be widely recognized as a federal employer of choice.

A summary of both performance results is presented on page 26 of the Management's Discussion and Analysis. Detailed information about each of the workplace performance metrics begins on page 54 of the Performance Results section.

DELIVERING AVIATION ACCESS THROUGH INNOVATION. A complex challenge that we face today is ensuring that airport and airspace services are more efficient, predictable, and cost-effective, and that capacity matches demand. These are important factors that contribute to our goal of meeting the present and future needs of the flying public.

A summary of these performance results is presented on page 27 of the Management's Discussion and Analysis. Detailed information about each of these performance metrics begins on page 57 of the Performance Results section.

SUSTAINING OUR FUTURE. Mitigating noise pollution and improving fuel efficiency are essential to increasing aviation capacity, efficiency, and sustainability. This year, we achieved partial success in meeting our performance targets for these measures.

A summary of these performance results is presented on page 27 of the Management's Discussion and Analysis. Detailed information about each of these metrics begins on page 62 of the Performance Results section.

IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION. As the United States rolls out the improvements of NextGen, we seek to partner more with the International Civil Aviation Organization and other countries and regions. We continue to make strides in global stewardship by working with governments and industries around the world to encourage the alignment with NextGen of concepts, systems, and procedures under development internationally. By doing so, we will enhance safety around the world.

A summary of this performance result is presented on page 27 of the Management's Discussion and Analysis. Detailed information about this metric begins on page 66 of the Performance Results section.

ACCOUNTABILITY

For the sixth consecutive year, independent auditors gave the FAA's financial statements an unmodified opinion with no material weaknesses. We issued an unqualified statement of assurance, shown under "Management Assurances" on page 38, and can state that the financial and performance data are reliable and complete.

We are committed to ensuring transparency and accountability to the public while achieving our mission. Working in a difficult budgetary environment means that we must continue to refine and adjust our priorities as we move forward. We will select and deliver the technologies and programs that will help us achieve the greatest improvements in safety. We will continue to be careful stewards of the tax dollars we receive. This report is a clear indication that we take this responsibility very seriously.

Our *FY 2013 Performance and Accountability Report* (www.faa.gov/about/plans_reports) provides a detailed accounting of our performance and financial management. *A Summary of Performance and Financial Information* presents the information in a condensed form. A summary is available at www.faa.gov/about/plans_reports. Our strategic plan—*Destination 2025*—focuses our performance on the top agency targets that position us to meet the future successfully. The plan can be found at www.faa.gov/about/plans_reports/media/Destination2025.pdf.

CONCLUSION

From its beginnings, aviation has expanded beyond all known technological boundaries. For more than five decades, the FAA has compiled a proven track record of safely introducing new technology and new aircraft. The new technologies and process improvements that we deliver over the next several years will again change the course of aviation history—both here and around the world—for decades to come. I and the FAA's capable and dedicated staff, including our new deputy administrator, Michael Whitaker, look forward to working with the President, the Congress, industry partners, and stakeholders to ensure that the United States continues to set the world standard for aviation safety and efficiency.

Michael P. Huerta
Administrator
December 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

HISTORY OF AVIATION

Orville Wright made the first sustained, powered flight on December 17, 1903, in a plane that he and his brother Wilbur built. This 12-second flight led to the development of the first practical airplane in 1905. The early twentieth century witnessed countless aviation developments as new planes and technologies entered service. During World War I, the airplane also proved its effectiveness as a military tool and, with the advent of early airmail service, showed great promise for commercial applications.

The first lighted airway was a 72-mile strip between Dayton and Columbus, OH, constructed by the Army in 1921, using rotating beacons, field floodlights, and flashing markers. As air travel increased, some airport operators, hoping to improve safety, began providing an early form of air traffic control. Early controllers stood on the field and waved flags to communicate with pilots. Development of radio navigation in the 1920s was conducted by the Post Office Department, the Navy, the Army, and the Bureau of Standards, using radio transmitters on the ground and aircraft receivers with directional antennas on board. Based on ideas from the Bureau of Standards, the Army, and other sources, a radio system was developed during the course of the 1920s that would guide an aircraft along a chosen course and require only simple airborne equipment. With the placement of radio beacons along the airways, air commerce in the United States grew, even during the Great Depression of the 1930s.

On June 30, 1956, a Trans World Airlines Super Constellation and a United Air Lines DC-7 collided in Arizona, over the Grand Canyon, killing all 128 people on board the two airplanes. The collision occurred while the aircraft were flying under visual flight rules in uncongested airspace. The accident dramatized the fact that, even though U.S. air traffic had more than doubled since the end of World War II, little had been done to mitigate the risk of midair collisions.

Accidents like these spurred passage of the Federal Aviation Act of 1958, which transferred Civil Aeronautics Administration functions to a new independent body, the Federal Aviation Agency. On April 1, 1967, the Federal Aviation Agency became one of several organizations within the U.S. Department of Transportation (DOT) and was named the Federal Aviation Administration (FAA).

Today, the FAA's air traffic control system is one piece of the national airspace system which consists of a complex network of systems and aircraft, combined with the people who certify, operate, and maintain them. The network includes more than 19,455 airports, 568 air traffic control facilities, and approximately 65,000 other facilities, including radar, communications nodes, ground-based navigation aids, computer displays, and radios, that operate unceasingly to provide safe and efficient flight services for users. Over 46,000 FAA personnel and approximately 608,000 pilots operate more than 228,000 aircraft within the national airspace system. American air traffic controllers can be responsible for up to 2,850 flights at any given moment, half of the world's air traffic.

The system operates non-stop, 24 hours a day, every day of the year, providing safe air transportation for millions of passengers. Under agreement with the International Civil Aviation Organization (ICAO), a specialized United Nations agency dedicated to air transportation and navigation, the national air space system not only spans the country, but extends across the Atlantic, Pacific, and Arctic oceans. It also interfaces with neighboring countries' air traffic control systems for international flights.

Passengers boarding a plane on a rainy day at the municipal airport in Washington, D.C. From the Farm Security Administration—Office of War Information Photograph Collection, Library of Congress.

An airlines hostess. Municipal airport, Washington, D.C. From the Farm Security Administration—Office of War Information Photograph Collection, Library of Congress.

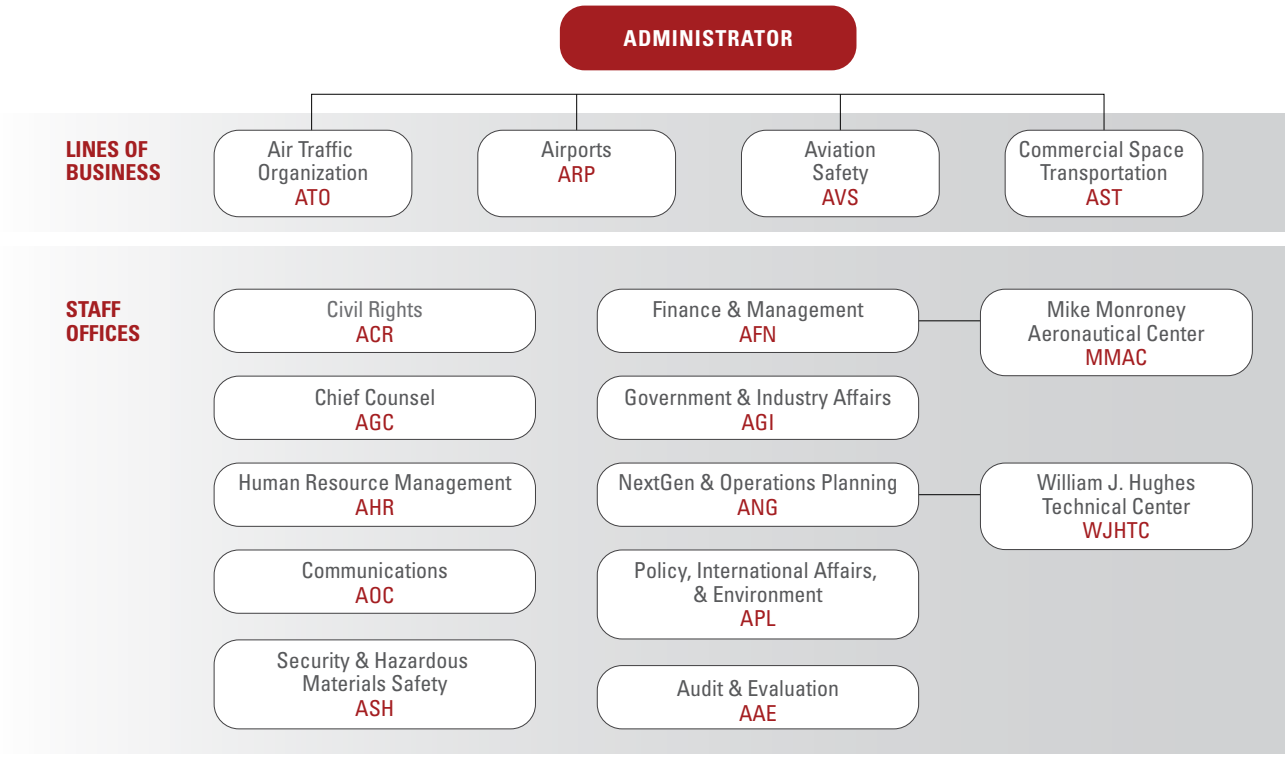
OUR ORGANIZATION

The FAA fulfills its mission through four lines of business that work collaboratively to create, operate, and maintain the national airspace system.

- **Air Traffic Organization (ATO).** Moves air traffic safely and efficiently. The customers of the world's largest air navigation service provider are commercial, private, and military aviation. Approximately 33,000 ATO employees provide services to these customers.
- **Airports (ARP).** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program (AIP), which provides grants to public agencies and, in some cases, to private owners and entities, for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems (NPIAS); enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; establishes regulations for the safe operation of commercial service airports; and inspects airports for compliance.
- **Aviation Safety (AVS).** Oversees the safety of aircraft and the credentials and competencies of pilots and mechanics, develops mandatory safety rules, and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- **Commercial Space Transportation (AST).** Oversees the safety of commercial space transportation activities; regulates the U.S. commercial space transportation industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

The FAA has 10 staff offices that support these lines of business and accomplishment of the agency's mission. Key among these staff offices are:

- **Finance and Management (AFN).** Consolidates support services and provides a centralized focus for finance, acquisition, information services, and region and center



operations. The streamlining of agency functions enables us to be more responsible stewards of FAA resources. AFN is comprised of the following offices:

- **Financial Services**
- **Acquisitions and Business Services**
- **Information Services**
- **Regions and Center Operations**
  - **Aeronautical Center.** The Mike Monroney Aeronautical Center in Oklahoma City, OK, provides logistics, enterprise business services, software design, training, course design, and acquisition services. The Aeronautical Center also trains the air traffic control workforce and the technician workforce, as well as provides technological training, national partnerships, logistics support, simulation, and medical research—all to move the NextGen transformation forward.
- **NextGen (ANG).** The NextGen Office provides leadership in planning and developing the Next Generation Air Transportation System. This office coordinates NextGen initiatives, programs and policy development across the FAA.
  - **Technical Center.** The William J. Hughes Technical Center, located in Atlantic City, NJ, supports the NextGen office and serves as the national scientific test base for the FAA. The Technical Center focuses on research and development, including long-range development of innovative aviation systems and concepts; development of new air traffic control equipment and software; and modification of existing systems and procedures. The Technical Center also verifies and validates air traffic control, communications, navigation, airports, aircraft safety, and security systems.

Go to www.faa.gov/about/office_org for more details about our organization.

THE FAA AND SEQUESTRATION

The Budget Control Act of 2011 established enforcement mechanisms to reduce federal budget deficits by at least $2.1 trillion over 10 years. The act mandated automatic spending cuts for most federal government departments and agencies, if the Congress failed to enact balanced deficit reduction legislation. These budget reductions, known as sequestration, began on March 1, 2013, and are slated to last 10 years.

While exempting most mandatory programs such as Social Security, Medicaid, federal pensions, and veterans benefits from cuts, the 2013 sequester reduced most discretionary budget accounts by approximately five percent, or $85 billion for the government as a whole. Sequestration reduced the FAA's FY 2013 budget by $637 million.

With sequestration looming, the FAA implemented cost-saving strategies, including a partial hiring freeze and elimination of employee bonus awards, early in the fiscal year. These were in addition to ongoing spending restrictions on items such as travel, training, IT, conferences, office supplies, and contracts. When the sequestration became effective on March 1, the FAA initiated severe hiring restrictions.

Given the large percentage of the operations budget devoted to payroll, however, the FAA was also forced to implement across-the-board employee furloughs, or unpaid time off. Controllers, technicians, and inspectors were included in the furlough. Flight delays began occurring almost immediately.

Congress responded to the crisis by enacting special legislation, the Reducing Flight Delays Act of 2013, which granted the FAA the flexibility to transfer up to $253 million from the Grants-in-Aid for Airports program (which had been exempt from sequestration) to the Operations and Facilities & Equipment accounts. This funding transfer enabled the FAA to immediately stop employee furloughs and a proposal to close low-traffic towers. But other cutbacks have remained in place.

The special legislation only addressed the funding shortfall in FY 2013. The FY 2014 continuing resolution that funds government operations through January 15, 2014, includes additional funding to avoid FAA furloughs during this time period. The final FY 2014 funding level, however, remains uncertain. And for as long as the sequestration law remains in effect, the FAA will continue to face the prospect of reductions to aviation services.

NextGEN PROGRESS TODAY ENSURES A VIABLE FUTURE FOR AVIATION TOMORROW

The Next Generation Air Transportation System, called NextGen—mandated by Congress in its 2003 reauthorization of the FAA—is in the midst of transforming our nation's airspace system by increasing safety, saving time, and reducing fuel use and environmentally undesirable emissions, all while fostering the flow of commerce. Our latest estimates for the benefits to aviation efficiency indicate that by 2020, NextGen improvements will reduce current delays by 41 percent.

The movement to NextGen is being enabled by a shift to smarter satellite-based and digital technologies and new procedures. NextGen is already being deployed and used today. Three main NextGen areas that have seen steady advances are infrastructure, controller decision support tools, and performance-based navigation.

Infrastructure

Automatic Dependent Surveillance—Broadcast (ADS-B)

Although NextGen is fundamentally satellite-based, its ADS-B program works with a network of ground-based stations. This fiscal year has seen a steady increase in deployment of these stations. As of October 2013, the FAA had installed more than 578 ADS-B ground stations, of which 550 were operational. Ground stations help provide traffic and weather information both directly to aircraft equipped with ADS-B technology and to air traffic control separation services at 45 Terminal Radar Approach Control (TRACON) facilities and 11 en route facilities across the country.

A great benefit of ADS-B then is that it can provide precise aircraft location information not only to controllers, but directly to pilots' instrument panels. In the future, aircraft equipped with the now optional ADS-B *In* reception capability—in addition to the currently mandated ADS-B *Out* transmission capability—will be able to "see" the location of nearby ADS-B *Out*-equipped aircraft via air-to-air reception or by relay from the ground. In addition, ADS-B *In* can display the location of aircraft equipped solely with transponders, even if they lack ADS-B *Out* technology, thus providing fully equipped pilots with awareness of all nearby aircraft.

ADS-B *In* is also providing another service to equipped operators in the airspace where it is operational: Flight Information System-Broadcast (FIS-B). The FIS-B data stream is packed with information from the National Weather Service, including NEXRAD (Next-Generation Radar), winds aloft, and pilot reports. FIS-B also includes information on temporary flight restrictions and airspace reserved for special use.

Data Communications (Data Comm)

Data Comm will add a digital data exchange capability to air-to-ground communications, enhancing safety by reducing potential errors in voice transmission. Controllers will still talk to pilots, but the need to talk will be reduced by the ability to exchange digital messages. With Data Comm, controllers will be able to push a button and send routine information—such as clearances, instructions, and advisories—to many pilots at the same time. Flight crews will be able to transmit requests this way too. With this capability, radio frequency congestion will be reduced and controllers will safely be able to handle more traffic. Data Comm is expected to reduce flight times by improving traffic flow.

Through active collaboration and agreements with multiple air carriers, the FAA has already started field testing a major component of Data Comm at Memphis International Airport and Newark Liberty International Airport.

En Route Automation Modernization (ERAM)

ERAM is the new automation platform for the centers which control high-altitude traffic, allowing faster processing of route requests and in-flight route changes. ERAM deployment is nearly complete,

with 17 of 20 sites having achieved initial operating capability this year and the remaining three expected to do so in early 2014. Eleven sites are fully operational. All ERAM sites should reach this status in FY 2015. Further software development will make ERAM a foundation for important NextGen capabilities, such as Data Comm and Time-Based Flow Management (TBFM). TBFM will help optimize the flow of aircraft into capacity-constrained areas, decrease delays by enhancing the predictability of airspace use, and improve fuel efficiency.

Controller Decision Support Tools

Wake Recategorization (RECAT)

Since November 2012, controllers at the Memphis International Airport air traffic control tower have been using new wake-spacing criteria (called RECATs, short for recategorizations) to manage separations between aircraft as they approach and depart from the airport. Wake turbulence is a trail of disrupted air that is left behind an aircraft and that can be dangerous to aircraft that follow. The strength of this turbulence is primarily determined by the weight, wingspan, and speed of the aircraft. In order to address this phenomenon, the FAA has developed wake categories to safely manage the separation between different sizes of aircraft.

Compared to the traditional wake categories, the RECATs being used in Memphis provide for more consistency among similar-sized aircraft. As a result, separation standards between successive aircraft can now be safely reduced for many of the same aircraft-pair combinations. Aircraft flight sequences at Memphis are now tighter—arrivals are about 7.5 percent and departures 5 percent closer to each other on average. Consequently, aircraft flows are more efficient, resulting in flight reduction times of almost a minute for arrivals and of 2.8 minutes for departures.

One Memphis air carrier is reporting significant capacity increases since the reduced separation standards have been in place, adding nine flight operations per hour, an increase of 17 percent.

Performance-Based Navigation (PBN)

PBN is a NextGen framework for defining the performance requirements an aircraft must meet in order to use applicable air traffic routes, instrument procedures, or defined airspace. The two main components of the PBN framework are Area Navigation (RNAV) and Required Navigation Performance (RNP). RNP is RNAV with the addition of an onboard performance monitoring and alerting capability, meaning that the crew is informed if a required performance level is not met during an operation.

Area Navigation Procedures with Authorization Required (RNP ARs) with Defined Turn-to-Final

Certain RNP operations require advanced features of the onboard navigation function and approved training and crew procedures. These operations must receive approvals that are characterized as Authorization Required (AR). As of March 2013, the FAA had published 359 RNP AR approaches across the national airspace system. Major components of the authorized traffic patterns in the RNP AR include 229 Radius-to-Fix (RF) turns, and 172 defined turns-to-final. Such advanced RNP procedures optimize terminal arrival operations, resulting in shorter flight times, an improvement that is being made today. The FAA is encouraging the use of such procedures whenever possible in order to achieve these benefits.

Optimized Profile Descents (OPDs)

OPDs reduce fuel consumption and noise by maintaining a constant and optimal descent angle during landing (instead of the traditional "step-down" and "level off" descent pattern). The key benefit of OPDs is flight efficiency, but they can also deconflict terminal air traffic and improve safety. The FAA is including OPDs as part of PBN arrival procedures whenever possible.

By August 2013, the FAA had published 69 PBN arrival procedures with OPDs. Benefits vary from one location to another, depending on such factors as proximity of other airports, terrain, airspace restrictions, and typical weather conditions,

At Reagan National and Dulles International airports, for instance, the new procedures provide shorter routes for arrivals from the west and facilitate more efficient vertical arrivals. A vertical arrival is one that is continuous from the beginning of the descent to touchdown, without any leveling-off segments, and with aircraft engines set to nearly idle throttle. Vertical profiles also help keep arriving aircraft at a safe distance from each other, resulting in fewer aircraft interactions.

At Memphis International Airport, OPDs, together with the new RECAT wake- spacing criteria, improved terminal flows and yielded more than a 50 percent reduction in airborne holding time.

At Denver International, one airline estimates saving 100-200 pounds of fuel on each arrival. With an average of 120 flights per day, that equates to an estimated annual reduction of 4.4–8.8 million pounds of fuel and 13.8–27.6 million pounds of carbon dioxide emissions.

The FAA updates the NextGen Implementation Plan annually. The plan provides a comprehensive overview of implementation activities and benefits.

For more information on these and other NextGen achievements, see **http://www.faa.gov/nextgen**.

THE YEAR IN HIGHLIGHTS

The FAA Serves the Flying Public by Operating a System that:

- Operates 24 hours a day, 7 days a week, 365 days a year.
- Provides more than 65,000 facilities with related equipment.
- Maintains FAA-operated or FAA-contracted towers at more than 500 airports.
- Inspects and certifies approximately 228,000 aircraft and 608,000 pilots.
- Facilitates more than 5,700 takeoffs and landings per hour.
- Transports more than 736 million passengers annually.
- Safely guides approximately 25 million flights every year.
- Generates more than 10 million jobs, with earnings of $394 billion.
- Contributes $1.3 trillion annually to the national economy and constitutes 5.2 percent of the gross domestic product.

The FAA Provides:

- A workforce of more than 46,000 personnel who operate, maintain, oversee, and support the most complex aerospace system in the world.
- An array of services and programs within an annual budget of approximately $15.3 billion.
- Almost 14,500 controllers who manage and ensure ever-increasing levels of safety in the busiest air traffic system in the world.
- Almost 6,000 system specialists who maintain the equipment in the national airspace system to extremely high levels of operability.
- Research to improve aviation safety and efficiency.
- Grants to improve up to 3,330 eligible public-use airports in the United States.
- Protection of the public, property, and the national security and foreign policy interests of the United States during commercial space launch and reentry activities.

MAJOR ACCOMPLISHMENTS

In FY 2013, as the FAA celebrated its 55th year, the agency continued to meet its most important goal—safety—and achieved one of the safest years in aviation history. With more than 70,000 flights on any given day, the agency ensured that more than 736 million passengers safely reached their destinations over the course of the year. This year also saw other major accomplishments, particularly in the area of NextGen, with its wealth of technological improvements.

NEXTGEN

NextGen provides a comprehensive overhaul of the nation's airspace to make air travel more convenient and dependable, while ensuring that flight is as safe, efficient, and environmentally-friendly as possible. Our agency remains committed to implementing NextGen's 21st century aviation system, which includes integrating satellite-based and digital technologies largely unheard of not long ago.

As demand for our nation's increasingly congested airspace continues to grow, NextGen improvements are enabling the FAA to guide and track aircraft more precisely on more direct routes. NextGen efficiency reduces delays, saves fuel, and reduces aircraft exhaust emissions. NextGen is also vital to preserving aviation's significant contributions to our national economy.

While the agency has had to shift some of its priorities and alter some of its NextGen deployment timeframes, we remain committed to delivering the NextGen capabilities outlined over the past several years.

Just as important as proper funding is effective collaboration. Industry, government, and labor, working in concert, will enable us to deliver the NextGen transformation of our airspace and realize maximum benefits for everyone.

To see the impact of today's NextGen improvements, please visit the NextGen Performance Snapshots website (www.faa.gov/nextgen/snapshots), which tracks NextGen performance metrics and highlights success stories.

Automatic Dependent Surveillance-Broadcast (ADS-B)

ADS-B is a system for air traffic surveillance that brings the added precision and reliability of satellite-based surveillance to the nation's skies. With ADS-B, each aircraft broadcasts its identification, position, altitude, velocity, and other information. Aircraft that broadcast this information are considered to be equipped with "ADS-B Out." Radio stations on the ground receive this information and relay it to automation system displays at FAA facilities. The use of this data by controllers will allow improved separation services, along with other applications such as continuous descent approaches.

The same radio stations on the ground also process traffic and weather information and broadcast it to displays in the cockpit. Aircraft that can receive and display this information are "ADS-B In"-equipped. The use of ADS-B information in the cockpit will allow for better situational awareness and traffic avoidance along with future applications.

Current ADS-B technology significantly improves controllers' situational awareness by allowing them to "see" aircraft data with satellite-based precision, a precision that radar-based technology cannot provide. The displays update in real time and do not degrade with distance or terrain. Pilots will be able to fly more direct routes between point A and point B by means of new procedures, such as enhanced merging and tighter aircraft spacing, and they can fly at more fuel-efficient altitudes. The system also gives pilots in equipped aircraft direct access right on their flight decks to weather and flight information.

ADS-B technology is crucial to turning the NextGen vision into a reality. After years of research, development, and operational use by General Aviation (GA) pilots in Alaska and air transport carriers in the Ohio River Valley, the FAA determined in 2005 that ADS-B was ready to be implemented throughout the national airspace system. The gains in safety, capacity, and efficiency as a result of moving from a radar-based system to a satellite-based system will enable the FAA to meet the expected growth in air traffic predicted for coming decades. Because ADS-B is flexible and expandable, it can change and grow with the evolving aviation system.

As of FY 2013, 550 ADS-B ground radios have been deployed throughout the United States and the program is on track to

complete deployment of 642 ADS-B ground radio stations in FY 2014. As more aircraft equip with ADS-B receivers, we will be able to realize its benefits more fully throughout the national airspace system.

Performance-Based Navigation (PBN)

Another cornerstone of NextGen is PBN. It allows for navigation routes and procedures that use the satellite-based global positioning system (GPS) to determine and share precise aircraft location information.

PBN routes and instrument procedures enable aircraft to fly more direct routes, thereby increasing efficiency and capacity gains. PBN helps reduce fuel burn and emissions through more continuous climbs and descents that eliminate the need for gradually "stepping up" to ascend or gradually "stepping down" to descend. The FAA is supporting the use of PBN to provide greater flexibility in the management of air traffic. This year, the FAA produced 677 PBN routes and procedures.

In May 2013, we launched the PBN Dashboard at www.faa.gov/nextgen/pbn/dashboard. The website provides PBN implementation and usage statistics for all major airports in the national airspace system that have had PBN procedures published for them. The data is captured on a periodic basis and displayed in an easy-to-interpret format for interested parties.

UNMANNED AIRCRAFT: A NEW FAA FRONTIER

NextGen transformations are not the only major innovation in the offing at the FAA. In the FAA Modernization and Reform Act of 2012 (FMRA), Congress directed the agency to integrate Unmanned Aircraft Systems (UAS) into the evolving national airspace safely and efficiently by 2015.

UAS are unmanned vehicles that can be the size of toy aircraft and fly at low altitudes, or have the equivalent wingspan of a Boeing 737 and fly above 60,000 feet. For many UAS operations, an observer on the ground or an accompanying manned "chase" aircraft is required to maintain visual contact with the UAS vehicle at all times, providing the pilot-in-command who is controlling the UAS with "sense and avoid" capabilities in relation to other aircraft.

UAS have been deployed mainly for "public interest" military and border patrol purposes since 1990. But in July 2013, for the first time, the FAA certified two small UAS for commercial use.

These initial commercial UAS operations in Arctic locations will be cost effective and environmentally friendly, and because of the lack of dense air traffic, they will reduce the risk to manned aviation. The Scan Eagle, manufactured by Boeing subsidiary Insitu, will survey ocean ice floes and migrating whales in Arctic oil exploration areas. AeroVironment's PUMA will support emergency response crews in oil-spill monitoring and wildlife surveillance over the Beaufort Sea.

UAS are less expensive to operate than manned aircraft and may be used for a wide variety of purposes, including monitoring natural disasters, such as forest fires; tracking dangerous weather patterns, such as hurricanes; conducting crop monitoring; performing scientific research for National Aeronautics and Space Administration (NASA) and National Oceanic and Atmospheric Administration (NOAA), as well as for universities; supporting law enforcement; and assisting in humanitarian search and rescue operations, such as finding stranded climbers or a missing child.

In February 2013, in accordance with the requirements of FMRA, the FAA kicked off a process to select six test sites to conduct research and development to assist in the integration of UAS into the national airspace system. To address public concerns about privacy related to the UAS test sites, the FAA held a public engagement session in April to help determine the required privacy approach for the test sites. The final, approved privacy approach will be included in the contractual agreement between the FAA and test site operators. In addition, the agency is consulting with other government agencies about the privacy policies that will shape UAS implementation more broadly beyond UAS test sites.

(Editorial note: On November 7, 2013, the FAA published the UAS Roadmap, Comprehensive Plan, and Final Privacy Policy for the UAS Test Sites. All three may be found at http://www.faa.gov/about/initiatives/uas/.)

NASA's Global Hawk UAS aircraft flies above the equatorial Pacific, collecting data that will help researchers identify how changes in humidity in the upper atmosphere may affect climate. Photo: NASA, March 2013.

Optimized Profile Descents (OPDs)

During the past six years, we have completed 59 Standard Terminal Arrival Routes with Optimized Profile Descent (OPD) capability. OPD allows pilots to set aircraft engines at near idle throttle while they descend. Traditional arrival procedures involve multiple segments of flight at different levels during descent, and each "step-down" requires a change in power settings, like walking down the stairs. It is the aviation equivalent of stop-and-go driving along the highway. The OPD procedures enable arriving aircraft to descend from cruise altitude to final approach with few, if any, level-offs; it is like sliding down the bannister. With OPD, aircraft reduce fuel consumption, emissions, and noise.

The Benefits of the Wide-Area Augmentation System (WAAS)

GPS signals must be enhanced or augmented before they can meet the FAA's stringent requirements for accuracy, integrity, and availability for navigation. The Wide-Area Augmentation System (WAAS) corrects for GPS signal errors caused by atmospheric disturbances, clock drift, and errors in satellite orbit. It also provides vital information about the health of each GPS satellite. The system consists of multiple ground reference stations positioned across the United States that monitor GPS satellite data and three geostationary satellites that broadcast correction signals to aircraft.

In the general aviation (GA) community, tens of thousands of aircraft are already equipped with WAAS receivers, which can improve GPS signal accuracy to within three feet laterally and six feet vertically. Pilots of WAAS-equipped GA aircraft are the primary users of Localizer Performance with Vertical Guidance (LPV) and Localizer Performance (LP) approach procedures. LPV and LP procedures enable pilots to descend to heights as low as 200 feet in low visibility before having to see the runway to land.

The FAA must develop new approach procedures for each airport to take advantage of WAAS. By September 2013, the FAA had published 3,822 WAAS-enabled LPV and LP procedures at more than 1,800 airports. The agency plans to provide for as many as 5,218 LPV and LP facilitated runways in the national airspace system by 2018. The latest information can be found on FAA's Satellite Navigation Program website: www.faa.gov/about/office_org/headquarters_offices/ato/service_units/techops/navservices/gnss/approaches/index.cfm.

Equivalent Lateral Spacing Operations (ELSO)

Another NextGen area in which progress is being made is in the greater use of equivalent lateral spacing operations, or ELSO. The enhanced precision of NextGen navigation means that aircraft can safely access runways that are slightly closer together. This tighter use of space has been used in Atlanta, resulting in an increase of 8 to 12 departures per hour. We estimate that this saved customers 700,000 minutes, the equivalent of 1.3 years, of waiting in line for take-off in Atlanta last year. ELSO is better for the environment too, because aircraft spend less time waiting on the ground with their engines running. As a result, less fuel is burned and pollution is decreased.

We want other major airports to be able to use ELSO, so we are changing our air traffic control handbook, which sets the standards that controllers use to ensure safe separation between aircraft. Since this change has saved airlines approximately $20 million per year at Atlanta, it could bring large savings when used across the nation.

OTHER MAJOR ACCOMPLISHMENTS

Partnership with Industry, Labor Unions, and National Transportation Safety Board (NTSB) to Help Prevent Accidents

This year, the FAA, the airlines, and the aviation labor unions announced a partnership with the NTSB to share summarized safety information in order to help prevent accidents. This would include summarized safety data from accidents and incidents, including that from the Asiana accident in July.

Data collection and control room at the National Airport Pavement Test Facility, located at the FAA's William J. Hughes Technical Center. Photo: FAA.

The nation's impressive safety record is in part due to an unwavering commitment by government and industry to work together to monitor data and identify trends to prevent accidents. More than 90 percent of air carriers use voluntary reporting programs to report trend data. The data are shared with the FAA to help identify trends. This data-sharing has led to significant safety improvements in training, operations, and maintenance.

The information, which will now be shared with the NTSB through the Aviation Safety Information Analysis and Sharing (ASIAS) Executive Board, will help determine if an accident is a unique event or an indication of systemic risks.

ASIAS uses aggregate, protected data from industry and government voluntary reporting programs, without identifying the source of the data, to proactively find safety issues, identify safety enhancements, and measure the effectiveness of solutions. Begun in 2007, ASIAS now has 44 members and receives voluntary data representing 95 percent of all commercial air carrier operations. It connects 131 data and information

IMPROVING THE SAFETY OF GENERAL AVIATION

General Aviation (GA) refers to flights not conducted by the regularly scheduled airlines or the military. GA aircraft include gliders, helicopters, air taxis, and small, privately-owned planes, as well as high-performance business jets. GA aircraft also provide aerial firefighting, disaster relief, aeromedical rescue, law enforcement, rush-hour traffic monitoring, and access to remote communities.

Most of the world's air traffic is GA traffic, including in the United States, where some 3,700 airports are used primarily by GA aircraft, while scheduled commercial flights operate from approximately 378 primary airports. GA activities and products are vital to the U.S. economy. They generate more than one percent of our gross domestic product and account for some 1.3 million professional services and manufacturing jobs. General aviation is also a principal training ground for commercial airline pilots.

Five-Year Safety Plan for GA

Because the fatal accident rate has been slow to improve, the FAA has undertaken a five-year plan to improve GA safety. Recommendations are forthcoming on improving the aeronautical training and testing materials used for GA pilot and instructor certification. And in July, recommendations came out for streamlining the GA aircraft certification process, so that manufacturers can incorporate safety improvements in new planes more easily and inexpensively. The recommendations will also facilitate upgrades to the existing GA fleet and provide greater flexibility to incorporate future technological advances.

GA and NextGen

NextGen, which transitions the national airspace to satellite-based navigation, offers technology and procedures especially conducive to GA safety:

- Wide-Area Augmentation System (WAAS). WAAS improves the accuracy, integrity, and availability of Global Positioning System (GPS) signals, enabling aircraft to rely on GPS for all phases of flight, including precision approaches to airports. GPS signal errors are caused by such things as atmospheric disturbances, clock drift, and errors in satellite orbit. Tens of thousands of GA aircraft are already equipped with WAAS receivers.
- Localizer Performance with Vertical Guidance (LPV). LPV approach procedures enable pilots of WAAS-equipped aircraft to descend to as low as 200 feet in poor weather before having to see the runway. The availability of LPVs has improved safety and access at more than 1,500 small and medium-sized airports used by GA.
- Automatic Dependent Surveillance-Broadcast (ADS-B). ADS-B enhances safety by making an aircraft's position visible, in real time, to air traffic controllers and to other appropriately equipped ADS-B aircraft. The ADS-B Traffic Advisory System (ATAS) is being developed for the GA community, to provide traffic situational awareness for small aircraft to use while en route and when landing at small airports.

Small business aircraft at an airport. Photo: FAA.

sources across the industry and is integrated into the Commercial Aviation Safety Team (CAST) process, which uses a data-driven strategy to reduce the commercial aviation fatality risk in the United States and promote safety initiatives throughout the world. CAST's work, along with new aircraft, regulations, and other activities, reduced the fatality risk for commercial aviation in our country by 83 percent from 1998 to 2008.

Seven of CAST's 76 safety enhancements have been derived from forward-looking data analysis in ASIAS. Additionally, ASIAS stays connected to CAST's safety enhancements to track the effectiveness of those interventions. The databases used to identify trends include Flight Operations Quality Assurance (FOQA) programs, the Aviation Safety Action Partnership (ASAP), the Air Traffic Safety Action Program (ATSAP), FAA surveillance data, and many others.

The agreement outlines the procedures, guidelines, and roles and responsibilities to be used by the ASIAS Executive Board to address specific written NTSB requests for ASIAS information. The agreement does not allow any of the parties to use aggregate FOQA, ASAP, ATSAP or other non-publicly available data to measure individual performance or safety.

The NTSB will initiate written requests for ASIAS information related to aircraft accidents involving U.S. air carriers that occur in the U.S. and address safety issues that both the NTSB and the ASIAS board determine are significant and non-routine or reoccurring. The NTSB will not publicly disclose ASIAS information it receives via the process unless the ASIAS Executive Board agrees.

The NTSB will share with ASIAS its archived air carrier accident and incident flight data recorder information related to a request.

Approval of Additional Oxygen Concentrator Models

Early in the fiscal year, the FAA approved seven additional portable oxygen concentrator models for use aboard airplanes, bringing the total number of approved units to 21. This is good news for passengers who may need to use medical oxygen.

Portable oxygen concentrators are small, portable devices that separate oxygen from nitrogen and other gases in the air and provide oxygen to users at greater than 90 percent concentration. They do not use compressed or liquid oxygen, which the government classifies as hazardous materials.

The Department of Transportation (DOT) requires that U.S. airlines and foreign air carriers flying into the U.S. allow passengers to use portable oxygen concentrators approved by the FAA during all phases of a flight if the unit displays a manufacturer's label that indicates it meets FAA requirements for portable medical electronic devices. Moreover, the DOT strongly encourages airlines to voluntarily allow the in-flight use of oxygen concentrators even if they are not labeled as FAA-approved because they pose no safety danger.

Passengers must ensure that the unit is in good working order and must be able to respond to the unit's warning alarms. They must protect extra batteries in carry-on baggage from short circuits and physical damage. The unit must be properly stowed when not in use. Carriers also must allow passengers to operate these FAA-approved concentrators while moving about the cabin whenever the captain turns off the "Fasten Seat Belt" sign.

Alternative Aviation Fuels Partnership with Spain

While we maintain the largest airspace in the world, we cannot be fully successful without working hand-in-hand with our foreign counterparts. The growth in international traffic makes ongoing collaboration with our foreign partners essential. Our agency continues to work closely with other countries and regions as we all develop new technologies, share ideas, and harmonize programs.

In February of 2013, the FAA and the Spanish Aviation Safety and Security Agency (AESA) signed a Declaration of Cooperation to promote the development and use of sustainable alternative aviation fuels in the U.S. and Spain.

The declaration calls for the United States and Spain to exchange ideas, information, skills, and techniques, and to collaborate on problems and projects of mutual interest in the development and use of sustainable alternative aviation fuels. The specific areas of cooperation include exchanging information about research results, publications, funded research, and development activities. The parties will also share best practices in alternative jet fuel conversion research, development, and deployment. The declaration also enables the FAA's Office of Environment and Energy and the AESA to conduct research leading to reductions in the cost of producing alternative aviation fuels.

PERFORMANCE HIGHLIGHTS

Although we take pride in our accomplishments to date on various fronts, we remain vigilant in scrutinizing our performance.

At the FAA, we are charged with promoting the safety and efficiency of the nation's aviation system. We maintain the system's integrity and reliability through our broad authority to enforce safety regulations and conduct oversight of the civil aviation industry. Our strategic plans, annual business plans, human capital plans, program evaluations, annual PARs, and constant reevaluation of our efforts create a recurring cycle of planning, program execution, measurement, verification, and reporting. We have created a strong link between resources and performance that focuses us on accomplishing defined priorities in the context of their costs.

MANAGING PERFORMANCE

We manage organizational performance through a four-step process that is based on best practices borrowed from several private and public-sector organizations:

- **Set Goals**
- **Plan, Work, and Budget**
- **Monitor Work**
- **Assess Results**

Each year we improve on this strategy through adaptation and enhancements of technologies that support the process.

Set Goals

The first step in the performance management process includes consulting with management, employees, and stakeholders to identify areas to target for improvement. These areas include near-term priorities and long-standing management challenges. Goals, performance measures, targets, and initiatives are laid out in our strategic plan.

Plan, Work, and Budget

The second step in evaluating our performance focuses on planning, which begins with reviewing the critical activities and resources required to achieve our goals. Budget formulation involves a series of steps that the FAA takes to determine where a program or activity stands at present, where it is going (i.e., reasonable expectations for progress), and what else (i.e., alternative approaches) the FAA could implement to achieve its stated objectives. One of the basic objectives of the budget formulation process is to ensure that decision-makers have the information they need to determine how best to allocate resources to achieve goals.

Our complete FY 2013 Congressional Justification can be found at: http://www.dot.gov/sites/dot.dev/files/docs/faa_%20fy_%202013_budget_estimate.pdf. The FAA also has a section in the DOT- prepared *Budget Highlights Fiscal Year 2013*. This document can be found at: http://www.dot.gov/sites/dot.dev/files/docs/dot_budget_highlights_fy_2013_5MB.pdf. In addition, our strategic plan and FY 2013 business plans for all FAA organizations are available at www.faa.gov/about/plans_reports.

Monitor Work

Monitoring occurs in the course of the various performance management activities in which our executives and employees participate each month.

The agency's overall governance model was revised this year to streamline decision-making at the executive level. The revised model includes two new groups—an Executive Council and a Business Council.

The Executive Council, headed by the Administrator and including a select number of FAA executives, is charged with making major strategic externally-facing decisions. The Business Council, headed by the Deputy Administrator and including the leaders of all FAA organizations, is charged with making major internal decisions. Both councils are chartered and follow a formal decision-making process, which includes:

- Identifying council decisions
- Developing options and alternatives
- Debating and making decisions
- Communicating and monitoring execution.

The new councils were established to: create a more transparent decision-making process, one with clear roles; clarify decisions across the FAA; clearly communicate decisions by means of decision memos; and retire the previous governance structure, which included the former Strategy, Budget and Performance

(SBP) Committee and the Governance Roundtable. The Joint Resources Council and NextGen Management Board will continue to operate.

However, the Performance Subcommittee from the former SBP continues to meet monthly to review goals and related performance targets so as to identify areas in special need of management's attention. These sessions also result in decisions about resource allocation to support priorities. The subcommittee will continue to meet and provide information and recommendations to the Business Council until a new structure is established for this purpose.

Assess Results

This is the final, but critically important step in the performance management process. Using performance information, the agency looks for ways to learn from past performance and improve outcomes.

COMMERCIAL SPACE TRANSPORTATION: A BOOMING MARKET

Just three licensed or permitted commercial space launches took place in all of FY 2012. In FY 2013, that number climbed to 18 licensed or permitted launches. Some of the ongoing activities include:

- ***Transporting Supplies to the International Space Station (ISS)***
  In October 2012, Space Exploration Technologies (SpaceX), using its Dragon spacecraft, made history as the first private company to bring supplies to the ISS. The mission followed SpaceX's successful ISS resupply "demonstration" in FY 2012. Also in FY 2013, again with NASA support, Orbital Sciences became the second company to demonstrate an ISS cargo resupply capability. Having multiple companies capable of flying these missions will help keep pace with commercial space demand and provide flexibility in the event of a delay in one company's program.
- ***Ferrying Crews to the ISS***
  NASA is partnering with SpaceX, Boeing, and Sierra Nevada Corporation to develop vehicles to take astronauts to and from the ISS. Sierra Nevada's Dream Chaser spacecraft passed several key tests in August 2013, including evaluation of its flight computer, guidance systems, navigation systems, landing gear, and nose skid capabilities. Developing a manned American transportation capability is critical because NASA currently pays the Russian space program $70 million per person per trip, twice a year, to ferry our astronauts to the ISS.
- ***Reusing Space Vehicles***
  With the "Grasshopper," SpaceX is now performing multiple tests of its reusable take-off and landing design, bringing rocket stages directly back to the launch pad for repeat missions. Currently rocket pieces land in the ocean or burn up upon reentry. Reusable space vehicles will radically reduce the cost of commercial space travel.
- ***Transporting Space Tourists***
  Virgin Galactic will take space tourists on suborbital flights with SpaceShipTwo, which began conducting powered test flights in 2013. Departures from Spaceport America in New Mexico may occur as soon as 2014, with more than 600 advance tickets already sold. During what will probably be about a two-hour flight offered by Virgin Galactic and other companies, tourists will fly 62 miles up, experience weightlessness, and enjoy breathtaking views of the earth.

All commercial space launches are regulated and licensed by the FAA's Office of Commercial Space Transportation (AST). The significant increase in demand for such missions occurs at a time when sequestration limits AST's ability to process applications for new licenses and permits.

SpaceX-2 Mission Launch: Space Exploration Technologies' Falcon 9 rocket lifts off on March 1, 2013, carrying a Dragon capsule filled with cargo for the International Space Station. Photo: NASA.

Performance measures and targets support our mission to provide the American public with a safe and efficient global aviation system. The table on page 27 summarizes how well we are doing year-to-year in achieving our performance goals. As the table indicates, we have streamlined our strategic focus over the past seven years. As our strategic management processes continue to mature and the focus becomes sharper, the number and mix of performance targets will shift. This plan is reviewed on a yearly basis to ensure that we are on track to meet future challenges.

PERFORMANCE GOALS

When we began reporting against *Destination 2025* goals in FY 2012, we streamlined and thereby reduced the number of performance measures supporting our strategic goals from 31 to 14. These are the same measures we report on in the FY 2013 PAR. We also continue to track other detailed measures internally. As part of our work monitoring, we report on the status of all measures in our monthly performance meetings and on our monthly performance scorecards.

Strategic Goals

Our strategic goals are:

- Next Level of Safety
- Workplace of Choice
- Delivering Aviation Access through Innovation
- Sustaining Our Future
- Improved Global Performance through Collaboration.

Next Level of Safety. Achieving the lowest possible accident rate and always striving to improve safety ensure the highest possible level of safety for the public.

In FY 2013, we met five of six safety goals, missing our target for General Aviation Fatal Accident Rate. For a more complete discussion of all safety measures and performance results for FY 2013, as well as next steps, see page 44.

Workplace of Choice. FAA employees are our most valuable resource. We aim to create a workplace of choice marked by integrity, fairness, diversity, accountability, safety, and innovation. Our workforce will have the skills, abilities, and support systems needed to achieve and sustain NextGen.

We operate the largest and safest aerospace system in the world. To do this efficiently, we must continually strive for stronger leadership, a better-trained and more safety-conscious workforce, and improved decision-making. We will not have the FY 2013 results for the two workplace of choice performance measures until early FY 2014. For a more detailed discussion of all workplace measures and performance results for FY 2012, as well as next steps, see page 54.

Delivering Aviation Access through Innovation. Our goal is to enhance the experience of the traveling public and other users by improving access to and increasing the capacity of the nation's aviation system. We will ensure that airport and airspace capacity are matched to public needs and are more efficient, predictable, and cost-effective.

In FY 2013, we met one of three aviation access measures. For a more complete discussion of these measures and performance results for FY 2013, as well as next steps, see page 57.

Sustaining Our Future. Our goal is to develop and operate an aviation system that is a model of sustainability: reducing aviation's environmental and energy impacts, yet not constraining growth. In FY 2013, we met one of our two environmental goals. For a complete discussion of all sustainability measures and performance results for FY 2013, as well as next steps, see page 62.

Improved Global Performance through Collaboration. Our goal is to achieve enhanced safety, efficiency, and sustainability of aviation world-wide. We aim to provide leadership in collaborative standard-setting and help with the creation of a seamless global aviation system. In FY 2013, we met our one

Aviation meteorologists studying weather patterns to provide information for planning safe and efficient flight routes. Photo: FAA.

global performance goal. For a complete discussion of this global performance measure and performance result for FY 2013, as well as next steps, see page 66.

PERFORMANCE AT A GLANCE

The following tables summarize our performance on our FY 2013 performance measures to date. The measures are listed in terms of the strategic goals and objectives that appear in our strategic plan. The Performance Results section, beginning on page 42, contains full discussions of the FAA's FY 2013 performance and results for each of these measures.

YEAR TO YEAR PERFORMANCE GOALS ACHIEVED

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Number of Performance Targets Met	24 of 30	26 of 29	28 of 31	28 of 31	27 of 29	13 of 14	8 of 12
Percentage of Performance Targets Met	80%	90%	90%	90%	93%	93%	67%

The results of two of the fourteen FY 2013 targets are not yet available as of the date of publication. Therefore, only targets with known results are reported. The FY 2013 percentage is computed based on the twelve FY 2013 targets for which results are available. To view the full array of performance data, please visit: www.dot.gov/budget/dot-budget-and-performance. For archived performance information, visit: www.dot.gov/mission/budget/dot-annual-budget-and-performance-archive.

Aircraft Rescue and Fire Fighting vehicle. Photo: FAA.

STRATEGIC GOAL: NEXT LEVEL OF SAFETY

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
STRATEGIC OBJECTIVE: No Accident-Related Fatalities on Commercial Service Aircraft in the U.S.				
Commercial Air Carrier Fatality Rate* In FY 2013, the commercial air carrier fatality rate will not exceed 7.4 fatalities per 100 million people on board.	7.4	1.1[1]	✓	7.2
STRATEGIC OBJECTIVE: Aviation Risk Is Reduced through All Phases of Flight (Gate-to-Gate)				
Serious Runway Incursions Rate* Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.395	0.200[2]	✓	0.395
System Risk Event Rate Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the National Airspace System.	20	5.66[2]	✓	20
Information Security Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	0	0	✓	0
General Aviation Fatal Accident Rate* Reduce the general aviation fatal accident rate to no more than 1.057 fatal accidents per 100,000 flight hours.	1.057	1.061[3]	✘	1.05
STRATEGIC OBJECTIVE: There Are No Fatalities Resulting from Commercial Space Launches				
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0

STRATEGIC GOAL: WORKPLACE OF CHOICE

Performance Measure	FY 2013 Target	FY 2013 Results[4]	FY 2013 Status	FY 2014 Target
STRATEGIC OBJECTIVE: The FAA Is Widely Recognized as an Employer of Choice				
FAA Ratings Top 75 percent rating on the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents.	75%	TBD	TBD	61%
Outside Ratings Achieve a 90 percent success rate in the areas of financial management and human resources management.[5]	90% success rate	TBD	TBD	90% success rate

**This performance measure supports a DOT Agency Priority Goal.*

✓ Target met ✘ Target not met

1 Preliminary estimate until final result can be confirmed by NTSB in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

2 Preliminary estimate until the final result becomes available in January 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

3 Preliminary estimate until the final result becomes available in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target. This target was previously displayed rounded to two decimal places as 1.06. For clarity in demonstrating that the target was not achieved, it is now displayed rounded to three decimal places.

4 Results are not available at this time.

5 For an explanation of "success rate," see page 56.

STRATEGIC GOAL: DELIVERING AVIATION ACCESS THROUGH INNOVATION

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
STRATEGIC OBJECTIVE: NextGen Capabilities Are Fully Implemented and Utilized Based on U.S. Aviation Community System Needs				
Air traffic control systems improve the efficiency of airspace* By September 30, 2013, replace a 40-year old computer system serving 20 air traffic control centers with a modern, automated system that tracks and displays information on high altitude planes.	11	8	✘	N/A
Major System Investments In FY 2013, maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline at completion.	90%	90%	✓	90%
STRATEGIC OBJECTIVE: Safety, Airport Infrastructure and Environmental Issues Are Advanced and Leveraged by Full Utilization of NextGen Capabilities				
LPV or LP Procedures Publish 500 LPV or LP procedures in FY 2013 to ensure Localizer Performance (LP) or Localizer Performance w/Vertical (LPV) procedures are available at 3,800 runways in the national airspace system.	500	469	✘	400

STRATEGIC GOAL: SUSTAINING OUR FUTURE

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
STRATEGIC OBJECTIVE: Community Noise Concerns Are Not a Significant Constraint on Growth				
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 371,000 in calendar year 2013.	371,000	321,000	✓	356,000
STRATEGIC OBJECTIVE: Improve the Energy Efficiency of the National Airspace System				
National Airspace System Energy Efficiency Improve aviation fuel efficiency by 16 percent, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-16.00%	-15.61	✘	-18.00%

STRATEGIC GOAL: IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION

Performance Measure	FY 2013 Target	FY 2013 Results[6]	FY 2013 Status	FY 2014 Target
STRATEGIC OBJECTIVE: Reduce Aviation Accidents and Fatalities World-wide				
World-Wide Fatal Aviation Accidents In FY 2013, limit world-wide fatal accidents in Part 121-like operations to no more than 20 fatal accidents per million revenue aircraft departures.	20	12	✓	21

**This performance measure supports a DOT Priority Goal.*

✓ Target met ✘ Target not met

6 Preliminary estimate until final result becomes available in July 2014 when the International Civil Aviation Organization (ICAO) updates their world-wide departure data. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

THE FAA RESPONDS TO NATURAL DISASTERS

Natural disasters made FY 2013 exceptionally challenging for both the FAA and the American public. On October 29, 2012, Hurricane Sandy brutalized the Caribbean and the U.S. East Coast, killing some 159 people in the United States alone. New York and New Jersey were among the areas hardest hit. Streets, tunnels, and subway lines in and around New York City lay under water. The three airports in the New York City metropolitan area were inundated. Then, on May 19, 20, and 31, 2013, a mere seven months later, deadly tornadoes devastated towns in Oklahoma. The heavy rains and high winds accompanying the twisters also significantly damaged the Mike Monroney Aeronautical Center (MMAC) in Oklahoma City. FAA personnel at the center repaired the damage to their own facility and turned out in force to help their neighbors.

Hurricane Sandy in New York and New Jersey: Teamwork Saved the Day

The megastorm that hit the New York area on October 29, 2012, resulted in record flooding of runways at LaGuardia, John F. Kennedy, and Newark airports. In addition, silt and salt water invasion of electrical equipment resulted in unparalleled damage to essential flight navigational aids, radio transmitters that make possible communications between air traffic controllers and pilots, airport lighting, and airport surface pumping stations.

The hurricane caused passenger delays at airports all over the country and around the world. But the grounding of planes not only affected passengers; it threatened the recovery. Airplanes were needed for delivery of the tons of emergency replacement equipment and the numerous emergency workers critical to the recovery effort. Although many had suffered damage to their own homes, teams of FAA employees immediately transitioned to the task of assessing and restoring the destroyed FAA equipment at the airports. The mission of serving the flying public was paramount.

When many of the parts needed for repair or replacement were unavailable, team members, working 14-hour shifts, used their engineering expertise, esprit de corps, and sheer creativity to rebuild or reconfigure the destroyed facilities and equipment. Three days later, on the morning of November 1, 2012, all three airports reopened for business.

293 mph winds toppled a long-range radar antenna onto a building at the MMAC. Photo: FAA.

The Disaster Relief Appropriations Act of 2013, passed in January, provided the FAA with $28.5 million to complete work on the systems destroyed by the megastorm. The funding is being used to decontaminate and repair or replace navigation, power, and communications systems, as well as manned and unmanned structures and facilities.

The teamwork demonstrated during these efforts garnered two awards for FAA personnel. The FAA's Technical Operations group won both the New York City Federal Executive Board Award for Teamwork and the FAA Eastern Region Regional Administrator's Award for Team Excellence.

Tornadoes in Oklahoma: People Pulled Together

Over a 12-day period this past May, three monster tornadoes ravaged Oklahoma. The last of them, on May 31, also inflicted severe damage on the MMAC in Oklahoma City. The FAA facility provides consulting, engineering, repair services, technical support, and training for air traffic control and aviation safety activities in the United States and 44 other countries.

The storm destroyed power at the facility, toppled a 70-foot-wide, 20-foot-high radar antenna onto one building, flooded an air traffic building with nearly 100,000 gallons of water, and tore part of the roof off an air traffic training building. Of the 128 campus buildings, at least a quarter sustained water damage.

The homes of more than 100 FAA employees were severely damaged or destroyed. One FAA employee survived the tornado that struck Moore, OK, by sheltering with others in a bank vault. The thick walls of the vault just barely kept out the storm, but the bank building was demolished around them. Another FAA employee was among the 24 identified men, women, and children killed in the tornado that laid waste to Moore.

The disasters generated immense support from people living in other states. An automation system support center manager at the Dallas/Fort Worth Terminal Radar Approach Control facility who had formerly served as an instructor at the FAA Academy on the MMAC campus used a week of her annual leave to join Team Rubicon, a disaster recovery organization that traveled to Moore to provide assistance. In the words of one tornado survivor, the turnout showed that "Americans understand that people matter more than politics, economics, and many other things that we tend to argue about."

Many people working at the MMAC performed double duty, both responding to the crisis at their workplace and joining search and rescue missions in the surrounding neighborhoods. All in the space of a few days, for example, one FAA employee, a supervisory lead for the center's AeroNav Products instrument flight procedures review team, joined search and rescue operations for a neighborhood hit hard by the first tornado, deployed to Moore as part of the Cleveland County Task Force after the second tornado, and managed recovery for the MMAC operations center after the third tornado.

ALIGNMENT OF FAA COSTS AND GOALS

We use our Cost Accounting System to track and summarize our costs in a matrix format by organizational unit and project. This enables the FAA to monitor that our spending is in alignment with our strategic goals. At the beginning of each project, we determine the degree to which the project will contribute to one or more of our strategic goal areas: Next Level of Safety, Workplace of Choice, Delivering Aviation Access through Innovation, Sustaining our Future, and Improved Global Performance through Collaboration. We allocate actual project costs to the strategic goal areas supported by the project. Because we also routinely accumulate costs by organizational unit, we are then able to assign total net costs among our four lines of business and our combined staff offices, by strategic goal area.

The FAA total net cost of $16.2 billion was allocated to our strategic goal areas as described below and as shown in Note 11 of the financial statements on page 106.

Next Level of Safety. More than $9.9 billion, or approximately 60 percent, of our total net cost was devoted to our primary goal of ensuring the safety of the national airspace system.

- The Office of Airports (ARP) directed $1.9 billion to establish safe airport infrastructure.
- The Air Traffic Organization (ATO) spent approximately $6.3 billion, largely to maintain the safe separation of aircraft in the air and on the ground.
- The Aviation Safety Organization (AVS) spent just under $1.4 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation.
- The Office of Commercial Space Transportation (AST), the other FAA staff offices, and other programs spent slightly less than $14 million to further support the agency's safety mission.

Workplace of Choice. Approximately $585 million supported our workplace of choice goal, to which nearly all the lines of business and staff offices contributed.

Delivering Aviation Access Through Innovation. Approximately $5.7 billion—or about 35 percent of total net costs—was assigned to support our goal of expanding the capacity of the national airspace system, particularly through the pursuit of programs contributing to the NextGen initiative.

- The ATO spent approximately $4.1 billion, largely to finance its facilities and equipment projects.
- The ARP spent over $1.7 billion to enhance the capacity of the country's airports through runway projects and other efforts.
- The AST contributed nearly $5 million to improve commercial space launch capabilities through its spaceport grant program.

Sustaining Our Future. As a whole, we committed approximately $66.7 million to support environmental sustainability. This funding included support for research programs in alternative fuels and increases in aircraft energy efficiency. AIP grants were also targeted toward reducing aviation noise near large airports.

Improved Global Performance Through Collaboration. As a whole, we committed approximately $3.5 million to strengthening our international leadership role. These efforts included programs aimed at reducing fatal accidents around the world. Funding for training and technical assistance helped promote safety standards as well.

Passenger jets at the international terminal of the Miami International Airport. Photo: BigStock.com.

FINANCIAL HIGHLIGHTS

DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to ensure that they are free from material misstatement and that they can be used to assess FAA performance.

FY 2013 Financial Statement Audit

The Chief Financial Officers Act of 1990 (Public Law 101–576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the federal government and that the statements be audited in accordance with government auditing standards. FAA is required to prepare its own financial statements under OMB Bulletin No. 14–02, *Audit Requirements for Federal Financial Statements*. DOT's Office of Inspector General (OIG) is statutorily responsible for the manner in which the audit of FAA's financial statements is conducted. The OIG selected KPMG LLP, an independent certified public accounting firm, to audit FAA's FY 2013 financial statements.

In 2002, DOT's OIG and Chief Financial Officer, along with FAA's Chief Financial Officer, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management, and the independent auditors to resolve issues that arise during the audit and to monitor the implementation of audit recommendations. The committee is chaired by the Director of the Office of Financial Management and includes representatives from the OIG; DOT's Office of Financial Management; FAA's Assistant Administrator for Regions and Center Operations; and ATO's Chief Operating Officer. In 2006, committee participation was expanded to include representatives from the Chief Counsel's Office, the Assistant Administrator for Human Resources Management, Information Services, and Airports.

KPMG LLP has rendered an unmodified opinion on FAA's FY 2013 financial statements.

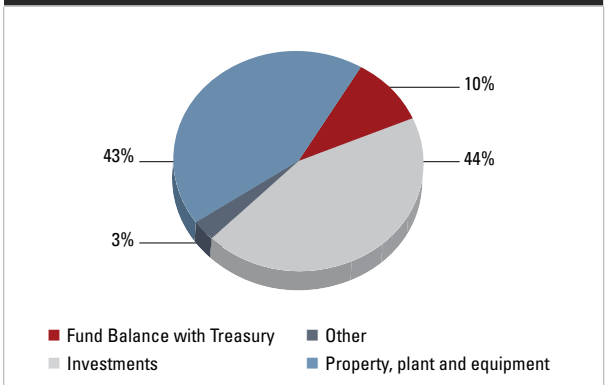
Understanding the Financial Statements

FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources, have been prepared to report the financial position and results of operations of FAA, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of (a) the nature of each financial statement and its relevance to FAA, (b) significant fluctuations from FY 2012 to FY 2013, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

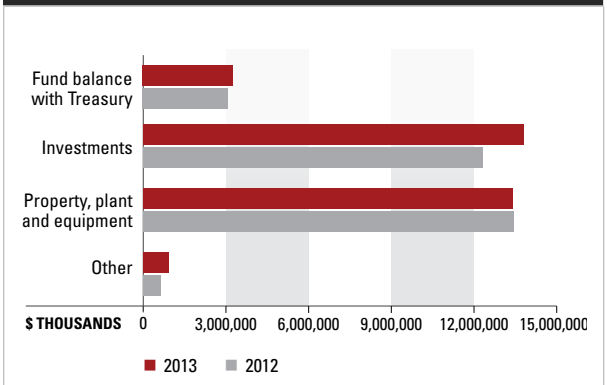
Balance Sheet

The balance sheet presents the amounts available for use by FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

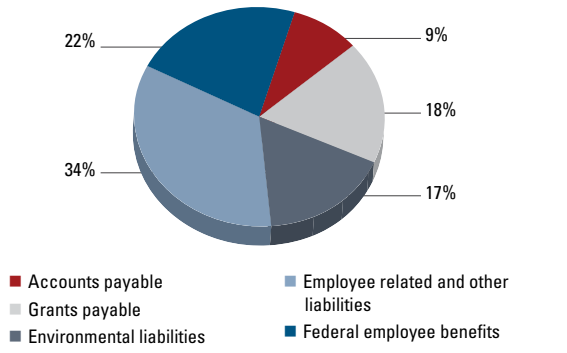
Composition of Assets
as of September 30, 2013



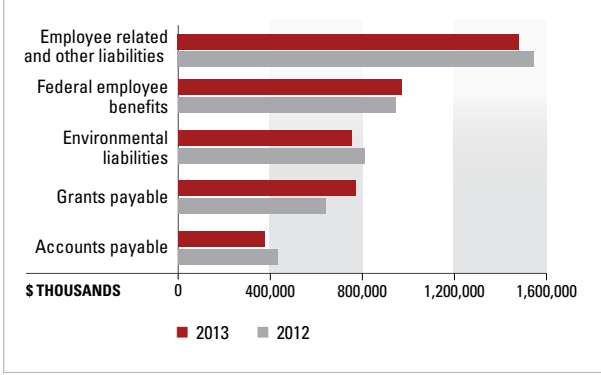
Assets Comparison
(Dollars in Thousands)



Composition of Liabilities
as of September 30, 2013



Liabilities Comparison
(Dollars in Thousands)



Assets

Total assets were $31.4 billion as of September 30, 2013. The FAA's assets are the resources available to pay liabilities or satisfy future service needs. The *Composition of Assets* chart depicts major categories of assets as a percentage of total assets.

The *Assets Comparison* chart presents comparisons of major asset balances as of September 30, 2012 and 2013.

Fund balance with Treasury (FBWT) represents 10 percent of the FAA's current period assets and consists of funding available through the Department of Treasury accounts from which the FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund balance with Treasury increased from $3.1 billion to $3.3 billion.

At $13.8 billion, *Investments* represent 44 percent of the FAA's current period assets, and are derived from passenger ticket and other excise taxes deposited to the AATF and premiums collected from the Aviation Insurance Program. These amounts are used to finance the FAA's operations to the extent authorized by Congress and to pay potential insurance claims. Investments increased by $1.5 billion due to an increase in excise tax revenues of $317.2 million, coupled with yearly War Risk premiums of $164.2 million, and earned interest of $248.0 million. Additionally, investments are not liquidated until needed to fund expenses which accounts for the remaining increase on a comparative basis.

At $13.4 billion, *General property, plant, and equipment, net* (PP&E) represents 43 percent of the FAA's assets as of September 30, 2013, and primarily comprises construction-in-progress related to the development of the national airspace system assets, and capitalized real and personal property. There was a decrease of $21.8 million in the total composition of PP&E as purchases of equipment and additions to construction-in-progress through the normal course of business were less than the offsets by retirements, disposals, and depreciation.

Liabilities

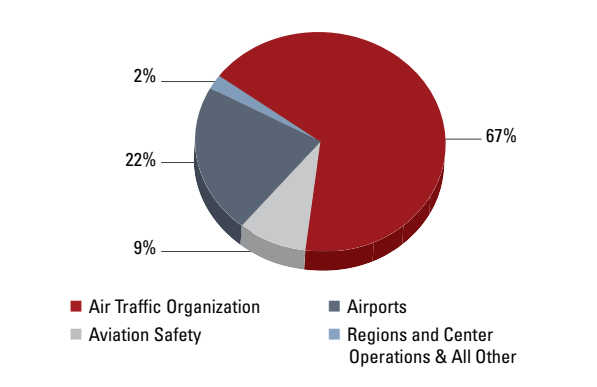
As of September 30, 2013, FAA reported liabilities of $4.4 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2012 and September 30, 2013. Below is a discussion of the major categories.

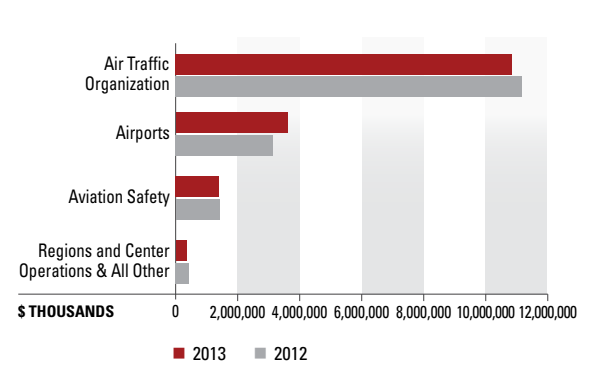
At $1.5 billion, *Employee related and other liabilities* represent 34 percent of FAA's total liabilities. These liabilities decreased by $64.1 million as of September 30, 2013 and are comprised mainly of $175.2 million in advances received, $201.3 million in Federal Employee's Compensation Act payable, $452.2 million in accrued payroll and benefits, $526.6 million in accrued leave and benefits, $2.7 million in legal claims liability and $78.0 million in capital lease liability.

At $973.0 million, *Federal employee benefits* represent 22 percent of the FAA's current year liabilities, and consist of the FAA's expected liability for death, disability, and medical costs for approved workers compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for the DOT, and the DOT attributes a proportionate amount to the FAA based upon actual workers' compensation payments to the FAA employees over the

Composition of Net Cost
as of September 30, 2013



Net Cost Comparison
(Dollars in Thousands)



preceding four years. This liability is updated on an annual basis at year end.

Environmental liabilities represent 17 percent of FAA's total liabilities and were $751.7 million as of September 30, 2013, compared with $810.4 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

The FAA's *Grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 18 percent of liabilities. *Grants payable* increased by $132.2 million. *Accounts payable* decreased $57.8 million and are amounts the FAA owes to other entities for unpaid goods and services.

Statement of Net Cost

The *Statement of Net Cost* presents the cost of operating the FAA programs. The gross expense less any earned revenue for each FAA program represents the net cost of specific program operations. The FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999.

As of September 30, 2013, and September 30, 2012 FAA's net costs were $16.2 billion and $16.1 billion, respectively. The *Composition of Net Cost* chart illustrates the distribution of costs among the FAA's lines of business.

The *Net Cost Comparison* chart compares September 30, 2012, and September 30, 2013 net costs.

With a net cost of $10.9 billion, the *Air Traffic Organization* is FAA's largest line of business, comprising 67 percent of total net costs. The Air Traffic Organization's net costs decreased by $292.2 million, on a comparative basis, primarily from decreases in contractor services, labor costs, and travel expenses offset by increases in property related activities, telecommunications and utilities costs.

The FAA's second largest line of business is *Airports* with a net cost of $3.6 billion as of September 30, 2013, which is 22 percent of the FAA's total net costs. Net costs increased by $463.3 million from the prior year primarily due to an increase in the Airport Improvement Program grant disbursements and accruals on a comparative basis.

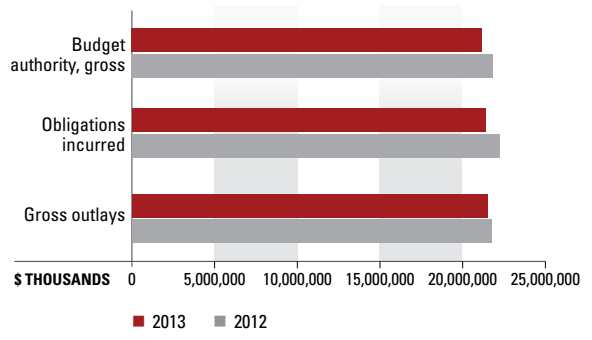
The net cost of *Aviation Safety* represents 9 percent of the FAA's total net costs, while *Regions and Center Operations and All Other* comprise 2 percent of total net costs.

Statement of Changes in Net Position

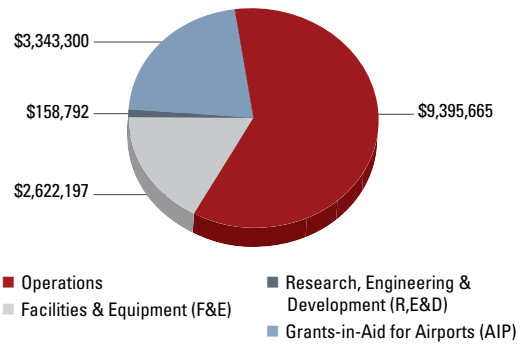
The *Statement of Changes in Net Position* presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenue, such as excise taxes and imputed financing from costs absorbed on the FAA's behalf by other federal agencies. The agency's net cost of operations and net transfers to other federal agencies serve to reduce net position.

The FAA's *Cumulative Results of Operations* for the period ending September 30, 2013, increased by $1.8 billion due primarily to a combination of financing sources of $4.4 billion from appropriations used, non-exchange revenue of $13.1 billion, imputed financing of $571.0 million, and donations of property

Statement of Budgetary Resources Comparison
(Dollars in Thousands)



FAA Enacted Budget – FY 2013
(Dollars in Thousands)



of $78.6 million offset by transfers out of $147.7 million and net costs of $16.2 billion. Unexpended appropriations decreased slightly by $106.6 million.

Statement of Budgetary Resources

This statement provides information on the budgetary resources available to the FAA as of September 30, 2013, and September 30, 2012, and the status of those budgetary resources.

Budget authority, gross is the authority provided to the FAA by law to enter into obligations that will result in outlays of federal funds. *Obligations incurred* result from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. *Obligations incurred* are sourced from current year budget authority and unobligated balances carried forward. *Gross outlays* reflect the actual cash disbursed by the Treasury for the FAA obligations. The FAA reported gross budget authority of $21.2 billion as of September 30, 2013, compared to $21.9 billion as of September 30, 2012. *Obligations incurred* decreased $825.7 million to $21.4 billion. *Gross outlays* decreased by $284.9 million to $21.5 billion.

Stewardship Investments

Stewardship investments are substantial investments made by the FAA for the benefit of the nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information (RSSI) includes disclosure of stewardship investments over the last five years. These are disclosures of Airport Improvement Program grants by State/territory, and research and development investments. The FAA recognizes the grants expense as the recipient accomplishes the improvement work.

The FAA's research and development expenses decreased slightly in FY 2013 by $9.4 million. Two areas of focus this year included lithium battery testing for cargo aircraft to help ensure the safe transport of lithium batteries in quantity and wind study research using NextGen operational performance simulations to help sync the reporting of accurate wind conditions in the NextGen operational environment.

Limitations of the Financial Statements

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

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

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

Budgetary Integrity: FAA Resources and How They Are Used

In FY 2013, the AATF provided approximately 71 percent of our enacted budgetary authority. Created by the Airport and Airway Revenue Act of 1970, the AATF derives its funding from excise taxes and earned interest. It provides a source of revenue to finance investments in the airport and airway system, and covers a portion of the FAA operating costs.

Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel, and international departures and arrivals, are deposited into the AATF. The U.S. Department of the Treasury maintains the AATF and invests in government securities.

Interest earned is deposited into the AATF. Funding is withdrawn as needed and transferred to each FAA appropriation budget line to cover obligations.

We are financed through annual and multiyear appropriations authorized by Congress. The FY 2013 enacted budget of $15.3 billion was a decrease from the FY 2012 enacted level of $15.9 billion. This included $10.9 billion from the AATF and $4.4 billion from the General Fund, as enacted by the Consolidated and Further Continuing Appropriations Act, 2013.

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2013, the AATF provided 53.7 percent of the revenue for Operations. The AATF is the sole revenue source for our three capital investment appropriations:

- Grants-in-Aid for Airports (AIP)
- Facilities and Equipment (F&E)
- Research, Engineering, and Development (R,E,&D).

Operations. The Operations appropriation finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also funds the salaries and costs associated with carrying out our safety inspection and regulatory responsibilities. In addition, the account covers administrative and managerial costs for our international, medical, engineering, and development programs, as well as for policy oversight and overall management functions.

The FY 2013 Operations appropriation was $9.2 billion, which was augmented by a $.2 billion transfer from AIP, for a total funding level of $9.4 billion, approximately 3 percent less than in FY 2012. This decrease is primarily attributable to the sequestration resulting from the Budget Control Act of 2011, offset by the transfer into Operations enabled by the Reducing Flight Delays Act.[1]

AIP. The Secretary of Transportation is authorized to award grants for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one third of all capital development at the nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. The program also supports noise compatibility and planning, the military airport program, reliever airports, and airport program administration.

FY 2013 funding for AIP was $3.343 billion. Funding for the Small Community Air Service Development program was $5.9 million.

F&E. The programs funded by the F&E appropriation are our principal means of modernizing and improving air traffic control and airway facilities, particularly through programs supporting NextGen. The account finances major capital investments to enhance the safety and capacity of the nation's airspace. F&E was funded at $2.62 billion in FY 2013, a 4 percent decrease from FY 2012. This funding included $28.5 million from the Hurricane Sandy Supplemental Bill and a transfer of $5.8 million into F&E enabled by the Reducing Flight Delays Act. Several major systems that contribute to the NextGen effort reached significant milestones in FY 2013.These include: Automatic Dependent Surveillance-Broadcast (ADS-B), Data Communications for Trajectory-Based Operations (Data Comm), and En Route Automation Modernization (ERAM).

R,E,&D. The FY 2013 appropriation for R,E,&D of $158.79 million was about 5 percent lower than the FY 2012 level. The reduction for FY 2013, was again primarily attributable to the sequester.

1 FY 2013's Reducing Flight Delays Act (P.L. 113-9) enabled a $253 million expenditure transfer from Grants-In-Aid for Airports to Operations and Facilities & Equipment.

MANAGEMENT CONTROL HIGHLIGHTS

IMPROVING FINANCIAL MANAGEMENT

Cost-Effectiveness and Efficiency

Our strategic plan includes a strategic objective to improve the financial management of the agency while delivering quality customer service. A cost-control target is tracked each month. By adhering to this target, the agency was able to achieve $102 million in recurring savings in FY 2012 (from efforts put in place between FY 2005 to FY 2011). FAA efforts in this area for FY 2013 are described below.

Service Area Restructuring. By reevaluating and changing the structure of ATO service areas, the FAA sharply reduced staffing requirements. This activity achieved savings of $7 million in FY 2013.

Worker's Compensation Consolidation. The FAA has saved a total of $119 million in workers' compensation claims since FY 2005. Due to the FAA's success in this area, the DOT gave us centralized, department-wide responsibility for managing workers' compensation claims. In FY 2013, we saved $7 million in worker's compensation costs.

Information Technology (IT). IT investments can be expensive while the technology quickly becomes obsolete. To address these issues, the FAA is becoming more strategic about IT decisions through the implementation of agency-wide IT initiatives that consolidate resources and improve efficiency. This yielded a cost savings of more than $36 million in FY 2013.

The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) Program. The SAVES program is an ambitious effort that began in FY 2006 to implement private-sector best practices in the FAA's procurement of administrative supplies, equipment, IT hardware, commercial off-the-shelf (COTS) software, and courier services. The SAVES program oversees eleven national contracts in five different categories. The SAVES program has enabled us to gain better financial oversight in addition to significant cost savings.

Through SAVES contracts, we achieved more than $17 million in cost savings for FY 2013 and a total savings of more than $147 million since program implementation. SAVES contracts produced the following savings rates:

- 21 percent for office supplies
- 32 percent for office equipment
- 12 percent for IT hardware
- 11 percent for COTS software
- 4 percent for ground and overnight delivery.

In addition to cost control, each FAA organization develops, tracks, and reports quarterly on a comprehensive measure of its operating efficiency or financial performance.

Cost per Controlled Flight. This cost-based metric provides a broader historic picture of overall air traffic control cost efficiency at various FAA organizational levels. Cost per FAA-controlled flight is reviewed regularly to determine the efficacy of periodic benchmarking initiatives conducted in the United States and with our international counterparts.

Overhead Rate. We capture overhead rates to provide insight into the cost-effectiveness of overhead resources at the FAA. The resulting performance indicator informs management decisions concerning the allocation of general and administrative services and mission support services.

Regulatory Cost per Launch. This metric provides trend data for the average regulatory cost per launch of commercial space vehicles. This information is used to track how efficiently the AST mission is interacting with the commercial space industry. Trend data are also reviewed to forecast what human resources will be needed to regulate and support launch and reentry operations.

IMPLEMENTING EXPENSE CONTROLS

The FAA has improved its oversight of the acquisition process to help ensure that the agency is a responsible steward of the taxpayers' money. Enhanced processes and controls help us to better manage resources and arrive at sounder business decisions in relation to our external contracts.

Procurements. In 2005, the FAA's Chief Financial Officer (CFO) was directed to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. Since that time, the Office of Financial Controls has evaluated 446 procurement packages with an estimated cost of $52.3 billion. Our ability to better define program requirements, more accurately estimate costs, and substantiate those cost estimates has greatly improved. With these improvements, we have established proper controls and can manage our contract resources more effectively.

The Chief Acquisition Officer established an Acquisition Executive Board during FY 2009 to oversee procurement policy. The Acquisition Executive Board is working to streamline and standardize the processes by which acquisitions are approved and managed. As part of this effort, a separate board (the Support Contracts Review Board) was established to review and approve any proposed support contract with a value of $10 million or more. This board is composed of executives from the CFO's office, the Office of Acquisitions and Contracting, and the Office of the Chief Counsel. It makes recommendations to the CFO for approval or disapproval of each large support contract.

Information Technology. To better coordinate IT efforts, any IT-related spending in excess of $250,000 must be approved by the FAA's Chief Information Officer. This requirement ensures that our IT investments are coordinated and fit into the agency-wide IT strategy. The Information Technology Shared Services Committee serves as a forum to direct the effective, secure, and cost-efficient application of administrative, IT-related personnel resources, and oversees funding to meet our IT needs.

FAA personnel validating equipment installation prior to operational testing. Photo: FAA.

Conferences. In 2009, our CFO and Chief Acquisition Officer issued guidance requiring that all conferences costing $100,000 or more be approved by the CFO before funds were committed. As we have continued to strengthen policies in this area, in 2010, the level of approval was elevated to the Administrator, and in 2012, to the Deputy Secretary of DOT. Also beginning in 2012, the Administrator took on the authority of approving all conferences costing $20,000 or more.

FINANCIAL MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

In a November 18, 2013, memorandum, the FAA Administrator reported to the Secretary of the DOT an unqualified statement of assurance under the Federal Managers' Financial Integrity Act (FMFIA). Every year, FAA program managers assess the vulnerability of their programs in terms of the strength of their activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with Sections 2 and 4 of FMFIA. The head of each office then reports in writing to the Administrator any potential material internal control weakness or system nonconformance. Identified weaknesses deemed material are consolidated in a memorandum with a Statement of Assurance signed by the Administrator and sent to the DOT Secretary. Our response becomes a part of the DOT Statement of Assurance sent to the President. In addition to reporting our compliance with the FMFIA, we report our compliance with the Federal Financial Management Improvement Act (FFMIA). The FFMIA requires an assessment of adherence to standard government financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction-level reporting. For FY 2013, we are reporting overall substantial compliance.

IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 (IPERA)

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, requires federal agencies to annually report to the President and the Congress information on improper payments.

IPERA encompasses a systematic approach that allows the federal government to address a difficult and often complex problem. The federal government loses billions of dollars a year on improper payments. OMB Circular A-123, Appendix C (April 14, 2011), provides government-wide guidance for IPERA.

The purpose of these regulations and guidance is to improve agency efforts to reduce and recover improper payments. Specifically, IPERA requires agencies to identify and estimate improper payments that they have made, conduct payment recovery audits, reuse recovered improper payments, and complete lists of compliance actions per the law.

In simple terms, an improper payment based on IPERA is any payment that should not have been made at all, that was made in the incorrect amount (overpayments or underpayments), or that was made to an ineligible recipient or for an ineligible good or service. Additionally, payments made without complete supporting documentation and duplicate payments are also considered improper payments. This is the level of detail applied by the FAA to monitor payments and assess if an improper payment has occurred.

Based on IPERA, agencies are required to review all programs and financial activities in order to identify those that are most susceptible to improper payments. This risk assessment allows agencies to identify areas that have the potential for "significant" improper payments.

The FAA's FY 2013 IPERA review did not find any programs or activities with "significant erroneous payments," as determined in accordance with the criteria of the Office of Management and Budget (OMB), which identifies erroneous payments as those exceeding both $10 million and 2.5 percent of program payments or exceeding $100 million.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement— Fiscal Year 2013

The FAA is responsible for establishing and maintaining effective internal control and financial management systems that meet the objectives of the FMFIA and OMB Circular A-123, titled Management's Responsibility for Internal Control.

These objectives are to ensure:

- Effective and efficient operations
- Compliance with applicable laws and regulations
- Reliable financial reporting

Internally, we assess the vulnerability of our programs and systems through the FMFIA. We are pleased to report that, taken as whole, the management controls and financial management systems in effect from October 1, 2012, through September 30, 2013, provide reasonable assurance that the objectives of both Sections 2 and 4 of the FMFIA are being met. Management controls are in place and our financial systems conform to government-wide standards.

In addition, the FAA conducted its assessment of the effectiveness of internal control over financial reporting. This includes internal control related to the preparation of our agency's annual financial statements, as well as safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123.

The results of this evaluation provide reasonable assurance that the FAA's internal control over financial reporting is operating effectively as of September 30, 2013. Due to the unlimited scope of processes tested this year and the fact that no material weaknesses were reported on our financial statements, the FAA is issuing an unqualified statement of assurance.

Michael P. Huerta
Administrator
November 18, 2013

FINANCIAL MANAGEMENT SYSTEMS STRATEGY AND ACTIONS

FINANCIAL SYSTEMS STRATEGY

Our agency's financial systems strategy is based on a framework called the Federal Enterprise Architecture (FEA). FEA is recognized across the federal government as the best practice for integrating strategic, business, and technology management as part of organizational design and performance improvement. Our financial management systems strategy can be divided into five categories: Business, Applications, Data, Information, and Services. A summary of each is provided below:

- **Business**—Initiate federated financial IT management as a new business model across the agency, enabling joint strategic planning and project implementation between FAA organizations.
- **Applications**—Reduce the current financial management system portfolio through a financial systems modernization program that addresses redundancies in key financial and mixed financial business areas.
- **Data**—Implement a financial data management roadmap and stewardship council to govern the use and sharing of FAA financial data as a common asset; reduce the redundancy of data; and improve the quality of data to facilitate decision-making.
- **Information**—Build an FAA-wide financial data "warehouse" to increase the consistency of reporting while maintaining each organization's ability to meet individual core mission area business reporting requirements.
- **Services**—Define and deliver shared operational and infrastructure services for the FAA's multiple financial systems.

SYSTEMS CRITICAL TO FINANCIAL MANAGEMENT AND ACTIONS

The FAA is working with the DOT to consolidate and modernize our financial management systems, and streamline our processes and reports. Maintaining fewer systems will enable our agency to operate more efficiently. We will have fewer points of data entry, fewer systems to reconcile with the official sources of the data, and fewer systems to train our employees how to use.

Below is a summary of the systems critical to our financial management and the actions or improvements that are recently completed, underway, or planned for each.

Accounting. Delphi is the DOT's comprehensive financial management system. The FAA uses Delphi to record financial transactions and account balances. Currently, the DOT is working on a major upgrade to Delphi. One benefit of upgrading will be a system design that more fundamentally addresses the unique accounting requirements of federal government entities, thus increasing efficiency and data integrity. Another benefit is that we will be better able to keep pace with security "patches," which are changes to the system issued by the manufacturer to continually address security vulnerabilities.

During FY 2013, we also worked on requirements and an implementation plan for moving vendor payments from paper to electronic invoicing. As of FY 2012, we already implemented electronic invoicing for all grants payments.

Acquisition. PRISM is an internet-based acquisition system that is integrated with Delphi's purchasing functions to provide vendor information and communicate accounting information. In the near term, we will retrofit PRISM to work with the upgraded version of Delphi. In the longer term, we will be migrating toward a business process management suite of tools that will automate

and integrate all activities related to procurement and contracts management. We are continuing to pilot business process automation tools in preparation for fully implementing them.

Budget. During FY 2013, we eliminated duplicative "cuff record" systems, moving to a single system for all Operations account needs. Although cuff record systems are an important supplement to Delphi because they have allowed our organizational units to manage their planned obligations at a much lower level of detail than practical or possible using Delphi alone, a single system increases efficiency and accuracy because there are fewer systems to maintain and reconcile to Delphi.

Financial Reporting. The current FAA financial reporting systems are the Report Analysis and Distribution System (RADS); the Regional Information System; the Financial Management System; and the Research, Engineering & Development Monitoring, Analysis and Control System. RADS is currently being replaced with the Platform for Unified Reporting system, which will provide management with more comprehensive analytic tools to support better planning and decision-making. Looking even further into the future, we are studying options for combining these systems' functionalities into a single data warehouse.

Timekeeping. While timekeeping systems are not technically financial management systems, they are integral to proper reporting of workforce-related costs. CRU-X is a suite of software used by the Air Traffic Organization (ATO) for timekeeping, schedule and position management, and labor distribution reporting. During FY 2013, we decreased the footprint of CRU-X by migrating more than 15,000 ATO employees from CRU-X to Castle, which is now the designated agency-wide timekeeping system.

A component of the CRU-X suite is CRU-ART, which has been used for schedule and position management of air traffic controllers. Now 15 years old, this legacy system is at the end of its useful life. Its operation requires more than 350 servers—one in each location where air traffic controllers work. We are currently evaluating requirements to replace the CRU-ART system with a new, modernized version.

PERFORMANCE RESULTS

PERFORMANCE MEASURES OVERVIEW

In this section, we discuss our progress in achieving our 14 performance measures. The measures are organized by strategic goal and objective. Our agency has five overarching strategic goals:

1. **Next Level of Safety** (page 44)
2. **Workplace of Choice** (page 54)
3. **Delivering Aviation Access through Innovation** (page 57)
4. **Sustaining our Future** (page 62)
5. **Improved Global Performance through Collaboration** (page 66)

We provide the FY 2013 target, a discussion of our FY 2013 performance, and, when available, five years of historical trend data. We have also prepared a graph of performance measures with three or more years of data.

In FY 2013, we achieved 8 of the 12 performance targets for which we had end-of-year data. Two performance measures (FAA Ratings and Outside Ratings) did not have any data results available at the time of this publication. We will report these data in the *Fiscal Year 2014 Performance and Accountability Report* (PAR). We have noted the measures for which the data provided are preliminary. Finally, in this FY 2013 PAR, we provide FY 2012 performance results for the two performance measures (FAA Ratings and Outside Ratings) for which end-of-year data were unavailable when the FY 2012 PAR was published.

Although in some cases the FAA achieved a result significantly better than the target, the FAA did not set the new fiscal year's target to reflect the prior year's result. Annual performance is subject to greater variability than long-term performance. Over time, short-term trends tend to balance out and provide a more accurate picture of the agency's long-term performance. Moreover, some annual targets are baselined using data acquired over a multi-year period. The target has been set to measure the FAA's performance toward a long-term goal.

Our Performance Section concludes on page 69 with discussions of the ways in which our performance data are verified; the completeness and reliability of our performance data; and a program evaluation completed by the Office of Airports in FY 2013.

Top: Pilots in cockpit. Photo: BigStock.com.
Bottom: Flight attendant demonstrating use of oxygen mask. Photo: BigStock.com.

Cargo compartment smoke-detection testing. Photo: FAA.

1 NEXT LEVEL OF SAFETY

By achieving the lowest possible accident rate and always improving safety, all users of our aviation system can arrive safely at their destinations. We will advance aviation safety world-wide.

FY 2013 SAFETY PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
Commercial Air Carrier Fatality Rate* In FY 2013, the commercial air carrier fatality rate will not exceed 7.4 fatalities per 100 million persons on board.	7.4	1.1[1]	✓	7.2
Serious Runway Incursions Rate* Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.395	0.200[2]	✓	0.395
System Risk Event Rate Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.	20	5.66[2]	✓	20
Information Security Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	0	0	✓	0
General Aviation Fatal Accident Rate* Reduce the general aviation fatal accident rate to no more than 1.057 fatal accidents per 100,000 flight hours.	1.057	1.061[3]	✘	1.05
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0

** This performance measure supports a DOT Agency Priority Goal.*

✓ Target met ✘ Target not met

1 Preliminary estimate until final result can be confirmed by the National Transportation Safety Board (NTSB) in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

2 Preliminary estimate until the final result becomes available in January 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

3 Preliminary estimate until the final result becomes available in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target. This target was previously displayed rounded to two decimal places as 1.06. For clarity in demonstrating that the target was not achieved, it is now displayed rounded to three decimal places.

OBJECTIVE: No Accident-Related Fatalities on Commercial Service Aircraft in the U.S.

Commercial Air Carrier Fatality Rate

Reduce the commercial air carrier fatalities per 100 million persons on board by 24 percent over 9-year period (2010-2018). No more than 6.2 in 2018.	
FY 2013 Target	In FY 2013, the commercial air carrier fatality rate will not exceed 7.4 fatalities per 100 million persons on board.
FY 2013 Result	1.1 *(Preliminary estimate until final result can be confirmed by NTSB in March 2015.)*
Public Benefit	As fatal air carrier accidents have declined in terms of average fatalities per accident, this metric will sharpen FAA's focus on helping air travel become even safer.

This performance measure supports a DOT Agency Priority Goal.

This year, with a result of 1.1, we were successful in maintaining the commercial air carrier rate below 7.4 fatalities per 100 million persons on board. The results will not be final until they are confirmed by the National Transportation Safety Board (NTSB) in March 2015.

Commercial aviation includes both scheduled and nonscheduled flights of U.S. passenger and cargo air carriers. Accidents involving passengers, crew, ground personnel, and the public are all included in this fatality rate. Commercial aviation fatalities of non-U.S. passenger carriers are included in our world-wide performance measure, which can be found on page 67.

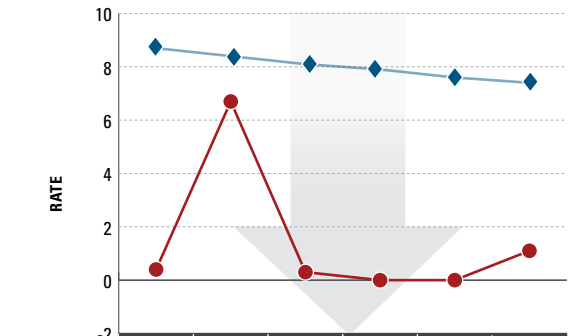
Our continuing role as stewards of aviation safety is a result of our focused, data-driven safety agenda. We use the latest technology and training to break the chain of events that leads to accidents. Our partnership with the aviation industry has allowed us to build a system that has reduced the risks of flying to all-time lows.

The technology used by our pilots, mechanics, flight attendants, and air traffic controllers has evolved a great deal in recent years. In addition, pilots today must possess not only the navigation, stick, and rudder skills that they have always had to learn; they must also be "system managers," who are intimately familiar with the complexity of aviation operations. Our training programs equip our pilots with the skills that they need to deal with any situation.

The FAA continues to be challenged by the number of projects directly tasked to it by Congress in the Airline Safety and Federal Aviation Administration Extension Act of 2010. We were also tasked with additional projects in the FAA Modernization and Reform Act of 2012. Although these laws promote many projects in areas in which we are already engaged, they add projects requiring resources that in some cases were planned for use elsewhere.

Our agency has made progress on several prominent rulemaking projects designed to reduce the risk of commercial air fatalities, including issuing a final rule to meet pilot certification and qualification requirements appearing in Title 14, Aeronautics and Space, Code of Federal Regulations, Part 121, Air Carrier Certification, which establishes the operational rules for air carriers. We continue to work on other projects, including final rules for crewmember training, helicopter air-ambulance

Commercial Air Carrier Fatality Rate
Fatalities per 100 million persons on board



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	0.4	6.7	0.3	0.0	0.0[1]	1.1[2]
Target	8.7	8.4	8.1	7.9	7.6	7.4
Target Achieved?	✓	✓	✓	✓	✓	✓

1 *Preliminary estimate until final result can be confirmed by NTSB in March 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.*

2 *Preliminary estimate until final result can be confirmed by NTSB in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.*

PERFORMANCE RESULTS

Cockpit simulator. Photo: FAA

operations, and safety management systems as required by Part 121. In response to the Modernization and Reform Act, we have begun new rulemaking projects to prohibit the personal use of portable electronic devices on the flight deck, further revise flight and duty regulations, and study the use of cell phones on passenger aircraft. Additionally, we started a rulemaking project to enhance simulator qualification standards for stall and upset recovery. We also issued revised guidance on Fatigue Risk Management Systems, Airline Transport Pilot certification training, and autorotation training.

While our achievements have brought aviation to an unprecedented level of safety, identified sources of risk within aviation show us the way to move forward to the next level of safety. Thus, our work with stakeholders to stimulate cooperation in the open reporting of safety concerns is critical to our ability to further improve safety. In a system dependent upon voluntary reporting, each member of the aviation community plays a vital role in ensuring that we continue to have the safest airspace system in the world.

OBJECTIVE: Aviation Risk Is Reduced through All Phases of Flight (Gate-to-Gate)

Serious Runway Incursions Rate (Category A & B)

Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations, and maintain or improve through FY 2013.	
FY 2013 Target	Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations, and maintain or improve through FY 2013.
FY 2013 Result	.200 *(Preliminary estimate until the final result becomes available in January 2014.)*
Public Benefit	Reduced probability that the public will be injured or killed in an accident resulting from a runway incursion.

This performance measure supports a DOT Agency Priority Goal.

A runway incursion is any occurrence at an airport involving the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. Runway incursions may result from air traffic controller, pilot, vehicle driver, or equipment operator, or from pedestrian deviation. All events are analyzed to identify hazards and develop mitigation procedures to reduce the reported risk of such incidents. Such events can lead to serious accidents, potentially involving fatalities, injuries, and significant property damage.

The FAA tracks two categories of most serious runway incursions:

- **Category A**—a serious incident in which a collision was narrowly avoided.
- **Category B**—an incident in which separation decreases and there is a significant potential for collision, which may result in a time-critical corrective/evasive response to avoid a collision.

Since maintaining the safety of the nation's runways is critical to ensuring safe operations in the nation's airspace, reducing the number and severity of runway incursions is one of the FAA's top priorities. In FY 2013, with a rate of .200, we achieved our goal of reducing Category A & B runway incursions to no more than .395 per million operations.

In recent years, the agency has implemented changes in cockpit procedures, airport signage and markings, air traffic procedures, and technology implementation to improve runway safety at our nation's airports.

Changes took place in the following areas:

- The Air Traffic Safety Action Program (ATSAP) and the Technical Operations Safety Action Program (T-SAP). These are voluntary self-reporting systems that enable FAA employees to openly report concerns about flight safety. ATSAP is a confidential, non-punitive reporting program that empowers FAA employees to play a direct role in safety. Use of this tool has resulted in an increase in safety reporting, which has ironically caused a greater number of such issues to be brought to light in recent years. However, the reporting has helped the FAA identify potential incursion risks in the system and take swift action to address them.
- Initial and periodic safety reviews of airports where incorrect runway departures and runway incursions are of greatest concern.
- Implementation of enhanced taxiway centerline markings at all certificated airports.
- Review of airport vehicular operations and air carrier surface procedures, along with revised employee recurrent training.
- Accelerated deployment of surveillance, detection, and warning systems, such as Airport Surface Detection Equipment, including Model X (ASDE-X), and Runway Status Lights (RWSL) at designated Core 30 Airports. ASDE is a surface-detection technology that integrates data from various sources, including radars and aircraft transponders, to provide controllers with a more robust view of movement on runways and taxiways. RWSL is a situational awareness indication system located on the runway that alerts pilots and ground vehicle operators not to enter or cross a runway when there is conflicting traffic.
- Adoption of International Civil Aviation Organization (ICAO) standardized air traffic controller/pilot runway clearance phraseology ("Line Up and Wait") and runway crossing clearances.

We are also advancing the development and implementation of new technologies to address incursion safety deficiencies. For example, smartphones were not widely used just a few years ago. Today, we are starting to use such devices to help general aviation pilots determine their positions on the airport surface and file reports concerning wildlife hazards. Electronic tablets are replacing pilots' paper charts, offering enhanced situational awareness. Replacing analog voice and paper reports with digital communication and electronic reporting systems is revolutionizing our ability to capture and store airport surface information. Highly capable multilateration systems are augmenting information from radar and satellite infrastructure and providing an array of safety choices for airports. These multilateration systems measure the differences in distance between two or more stations at known locations that broadcast signals at known times to provide more accurate depictions of where objects may be located, such as aircraft or vehicles on the surface of an airport.

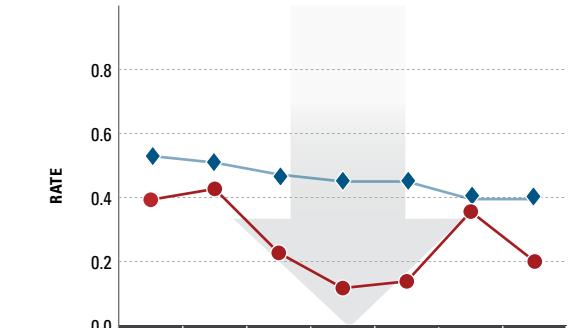
Other examples of technology advances to improve safety include:

- Accelerating and standardizing air traffic facility electronic reporting capabilities through the Comprehensive Electronic Data Analysis Reporting system.
- Creating the ability to baseline, assess, and manage risk in the terminal area, utilizing Traffic Analysis Review Program data and centralized quality assurance protocols.
- Continuing to strengthen the Aviation Safety Information and Analysis Sharing program, which fuses subjective and objective information contributed by airlines to the FAA, supplemented by other publicly available data, to produce comprehensive, graphical depictions of "what happened," and "why it happened."
- Developing innovative tools to identify and assess risk, for example, quick response codes for filing real-time wildlife reports, which are used to formulate wildlife mitigation plans at the nation's airports.
- Installing runway status lights at 17 large airports by 2017.
- Installing Engineering Material Arresting Systems (EMAS) at certain certificated airports that do not have standard runway safety areas. EMAS materials of closely-controlled strength and density placed at the ends of runways can stop or greatly slow any aircraft that may overrun the runway.

The agency is committed to mitigating the risks of runway incursions and continuing its ongoing outreach, education, and awareness programs through mass electronic mail communications and training animations. Maintaining the safe flow of airport traffic constitutes the major runway safety mission of the FAA.

Serious Runway Incursions Rate

Per million operations



	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	0.393	0.427	0.227	0.117	0.138	0.356	0.200[1]
Target	0.530	0.509	0.472	0.450	0.450	0.395	0.395
Target Achieved?	✓	✓	✓	✓	✓	✓	✓

1 *Preliminary estimate until final result becomes available in January 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.*

System Risk Event Rate (SRER)

Reduce risks in flight by limiting the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.	
FY 2013 Target	Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.
FY 2013 Result	5.66 *(Preliminary estimate until final result becomes available in January 2014.)*
Public Benefit	Targeting the resources of the ATO to mitigate the most serious hazards in the national airspace system results in a focused increase in safety. A similar safety enhancement approach process in commercial aviation produced a dramatic decrease in the accident rate during the first part of the 21st century.

One of the fundamental principles of aviation safety is separation. A key FAA duty is to ensure that aircraft flying within the national airspace system maintain the required distance from each other. To control losses of separation, we need an accurate picture of system safety performance. The System Risk Event Rate (STER) enables us to identify losses of separation.

Introduced in FY 2011, the SRER represents a move away from legacy safety indicators toward a metric that illuminates, with far greater precision, the frequency and rate of high-risk events across the national airspace. This is possible because the SRER is supported by the Risk Analysis Process (RAP) tool. The RAP determines causal factors, considers pilot and controller performance on loss of separation events, and assesses the potential repeatability and severity of those events.

The SRER allows us to:

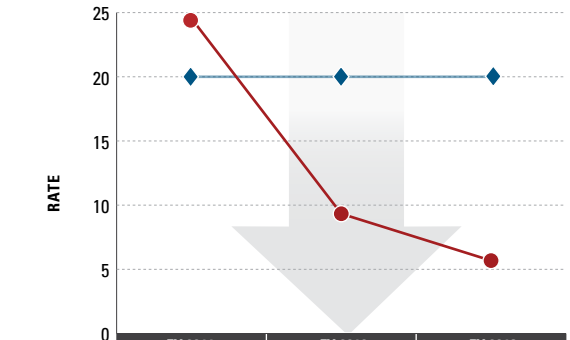
- Increase the amount of data collected and analyzed to achieve better understanding of risk.
- Align our approach to safety with that of our international partners.
- Integrate pilot and air traffic controller performance data on all air traffic incidents.
- Evaluate separation incidents caused by other factors, including pilot deviations.
- Avoid underreporting and misclassification of incidents.

In FY 2013, with a preliminary result of 5.66, we achieved our target of limiting the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the system. The initial target of 20 was based on a projection of the SRER based on historical operational error and pilot deviation data. The target of 20 set for FY 2011 through FY 2014 will establish a baseline while deploying improved analysis and loss-detection equipment. It will set a minimum level of system performance that should be attainable, while we continue to strive for even greater improvements.

Finally, the SRER improves our ability to measure the system-wide safety performance of NextGen implementation. With this additional data, we will be able to determine the safety impact of new NextGen air traffic procedures and technologies and, ultimately, make more knowledgeable decisions about reductions in separation standards.

System Risk Event Rate (SRER)

Rate of serious losses of standard separation per thousand losses



	FY 2011	FY 2012	FY 2013
Actual	24.54	9.33	5.66[1]
Target	20.00	20.00	20.00
Target Achieved?	✗	✓	✓

1 *Preliminary estimate until final result becomes available in January 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.*

PERFORMANCE RESULTS

Information Security

Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	
FY 2013 Target	Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.
FY 2013 Result	0
Public Benefit	The public benefits from an efficient, safe and secure national airspace with no disruption of services.

The FAA operates one of the most complex aviation systems in the world—consisting of thousands of people, procedures, facilities, and equipment—that results in safe and expeditious air travel. Successful operation of the national aviation system depends upon our ability to continuously track the position, routes of flight, and movement of aircraft. Unfortunately, attackers seek to exploit the critical infrastructure behind this capability. Through cyber events (attacks conducted through computers), they persist in attempts to disrupt critical services by exploiting software, hardware, and network infrastructure flaws.

How is the number of events determined? The computation of a cyber event is based on the time the system is not available, minus the maximum tolerance for downtime in the system's information security contingency plan (ISCP). The time for each cyber incident is measured in hours, with each system's ISCP documenting the maximum tolerance for downtime in hours. If this calculation results in a positive number, then the incident is counted as an event.

Today's electronically-networked environment requires that the FAA's more than 300 computer systems be secure. In FY 2013, with zero cyber events that significantly degraded or disabled any mission-critical FAA systems, we resoundingly met our goal. FAA employees were able to continue to provide, and the flying public continued to benefit from, the safest, most efficient aviation system in the world.

Our compliance program meets federal, departmental, and agency policies that require the regular testing and evaluation of information security policies, procedures, and practices. During FY 2013, we completed a comprehensive assessment of our security systems to ensure that policies were being correctly implemented and were providing full protection to all parts of the agency.

The future of information security at the FAA calls for continuous refinement of agency services, clarification and implementation of additional performance measures, and increased use of new technologies to protect the agency and the flying public.

Information Security
Number of cyber security events that significantly degrade or disable a mission-critical FAA system

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	0	0	0	0	0	0	0
Target	0	0	0	0	0	0	0
Target Achieved?	✓	✓	✓	✓	✓	✓	✓

General Aviation (GA) Fatal Accident Rate

Reduce the GA fatal accident rate to no more than 1 fatal accident per 100,000 flight hours by 2018.	
FY 2013 Target	Reduce the GA fatal accident rate to no more than 1.057 fatal accidents per 100,000 flight hours in FY 2013.
FY 2013 Result	1.061 *(Preliminary estimate until final result becomes available in March 2015.)*
Public Benefit	By tracking the rate of fatal accidents per flight hours, FAA can more accurately pinpoint safety concerns or trends indicating potential safety risks.

This performance measure supports a DOT Agency Priority Goal.

While commercial aviation makes more headlines, GA is just as vital to the success of our nation's aviation system. GA is made up of more than 300,000 aircraft, from amateur-built aircraft, rotorcraft, and balloons, to highly sophisticated turbojets (executive jets). Although the GA fatal accident rate has remained relatively flat over the past five years, it remains unacceptably high. This may explain the National Transportation Safety Board (NTSB) leaving "General Aviation Safety" on its "Most Wanted List" of advocacy priorities for another year.

Reducing the rate remains one of the FAA's top priorities. In FY 2013, with a result of 1.061 fatal accidents per 100,000 flight hours, we did not achieve our goal. "Loss of control" continues to be the leading cause of GA fatalities, accounting for approximately 70 percent of all fatal GA accidents. In addition, human factors directly contribute to approximately 80 percent of fatal GA accidents.

Many GA accidents occur in Alaska. More than three-quarters of Alaska's communities have no access to highways or roads and depend upon GA for access to food, mail, jobs, schools, medical services, and travel. The state's topography and extreme weather present unique safety challenges to pilots, resulting in a relatively high number of accidents.

In May of this year, FAA leadership met with leaders from the GA community to agree on actions to enhance safety and reduce accidents. In the short term, the group agreed to raise awareness of the importance of basic airmanship and to promote a positive safety culture. For the longer term, the FAA called upon the GA community to install life-saving equipment in older airplanes, improve general aviation data, and improve airman certification testing and training. To meet these goals, the general aviation community and the FAA agreed to move forward as quickly as possible on three key initiatives:

- Participate and invest in the FAA's General Aviation Joint Steering Committee (GAJSC). Industry participation is key to obtaining data for analysis, which it is hoped will lead to the development of voluntary safety enhancements. The FAA group uses a data-driven process modeled on that of the highly successful Commercial Aviation Safety

Photo: FAA

Team (CAST). Sharing data through the Aviation Safety Information Analysis and Sharing (ASIAS) system and other voluntary programs will help educate the GA community and strengthen its safety culture. The FAA plans to expand ASIAS to general aviation in the next few years. In that time, the FAA and industry will work together to find incentives to increase voluntary reporting of risks and near accidents.

- Support the overhaul of airmen testing and training standards. An industry and government working group is overhauling the standards by incorporating risk management and decision-making into flight training and testing.
- Expedite Title 14, Aeronautics and Space, Code of Federal Regulations, Part 23, Airworthiness Standards certification process for small aircraft to reduce costs and install new technology in airplanes. An industry and government committee completed work on streamlining certification for the installation of certain safety technologies on these aircraft.

In late July, an Aviation Rulemaking Committee (ARC), made up of international industry and government experts, recommended a broad range of GA policy and regulatory changes. The recommendations cover the areas of GA design, production, maintenance, and safety.

Among the ARC recommendations was a suggestion that compliance with Part 23 requirements be made performance-based, focusing on the complexity and performance of an aircraft instead of on its weight and type of propulsion, as is presently the case. Under many of the existing Part 23 requirements, small, relatively simple airplanes have to meet the same regulatory requirements as more complex aircraft.

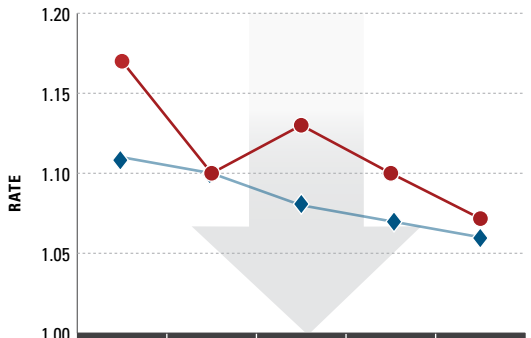
The committee also proposed using industry consensus standards to create a compliance framework that can be more easily amended to keep up with evolving technology. This step would encourage innovation while ensuring that the FAA retains safety oversight. Our agency will be reviewing the ARC recommendations as we continue our efforts to improve general aviation safety.

We remain committed to our partnerships with industry to meet this metric over time.

See page 20 for more information about GA.

GA Fatal Accident Rate

Fatalities per 100,000 flight hours



	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	1.17	1.10	1.13	1.10[1]	1.061[2]
Target	1.11	1.10	1.08	1.07	1.057
Target Achieved?	☒	☒	☒	☒	☒

1 Preliminary estimate until final result becomes available in March 2014. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

2 Preliminary estimate until final result becomes available in March 2015. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target. This target was previously displayed rounded to two decimal places as 1.06. For clarity in demonstrating that the target was not achieved, it is now displayed rounded to three decimal places.

OBJECTIVE: There Are No Fatalities Resulting from Commercial Space Launches

Commercial Space Launch Accidents

No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	
FY 2013 Target	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
FY 2013 Result	0
Public Benefit	FAA's Office of Commercial Space Transportation (AST) oversight of the commercial space launch industry activities resulted in no loss of life or property damage to the uninvolved public.

Commercial space launches are an important and growing part of our aviation system, one in which the sky is the limit—literally. Commercial space transportation carries payloads, such as satellites, supplies, remote sensing devices, and, one day, perhaps, paying customers, into orbit. The innovation of this industry today parallels the challenges, imagination, and courage of the early pioneers of flight more than 100 years ago.

AST regulates all commercial space launch and reentry activities. The mission of AST, which was established nearly two decades ago, is to ensure protection of the public, property, and the national security and foreign policy interests of the United States during commercial launch or reentry activities, as well as to encourage, facilitate, and promote commercial space transportation.

In 2013, AST once again achieved its target of zero fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities. There has not been a single commercial space launch accident since the first DOT-licensed launch took place in 1989.

This record demonstrates both the industry's and the agency's commitment to safety.

Beyond this official record, however, the success of commercial space transportation is becoming more and more visible to the American public. Just last year, Space X launched and berthed a cargo capsule to the International Space Station (ISS). The capsule then safely returned to earth, with cargo intact. This was the first time that private industry resupplied the space station. Since that time, Space X has completed two more cargo missions to the ISS.

Given impressive industry progress, the opportunity for the general public to take a "day trip" into space may become available in the near future. For example, Virgin Galactic and XCOR Aerospace have been actively promoting the future capability of their spacecraft, now in development, to take people and payloads on commercial suborbital flights. In addition, Boeing, Sierra Nevada, and Space X continue to work on their own designs for commercial crew vehicles capable of transporting people to the ISS and other destinations in earth's orbit.

AST continues to experience a significant increase in the number of requests and applications for new licenses or permits. In FY 2013, there were 18 licensed and permitted launches—more than five times the number of launches in FY 2012.

As the commercial space transportation industry continues to grow, AST faces important challenges. One of them will be the continued safe integration of commercial space operations into U.S. national airspace. Usable airspace is a limited resource and safety considerations require the careful coordination of aviation and space activity.

Commercial Space Launch Accidents
Number of fatalities, serious injuries, or significant property damage during space launch and reentry activities

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	0	0	0	0	0	0	0
Target	0	0	0	0	0	0	0
Target Achieved?	✓	✓	✓	✓	✓	✓	✓

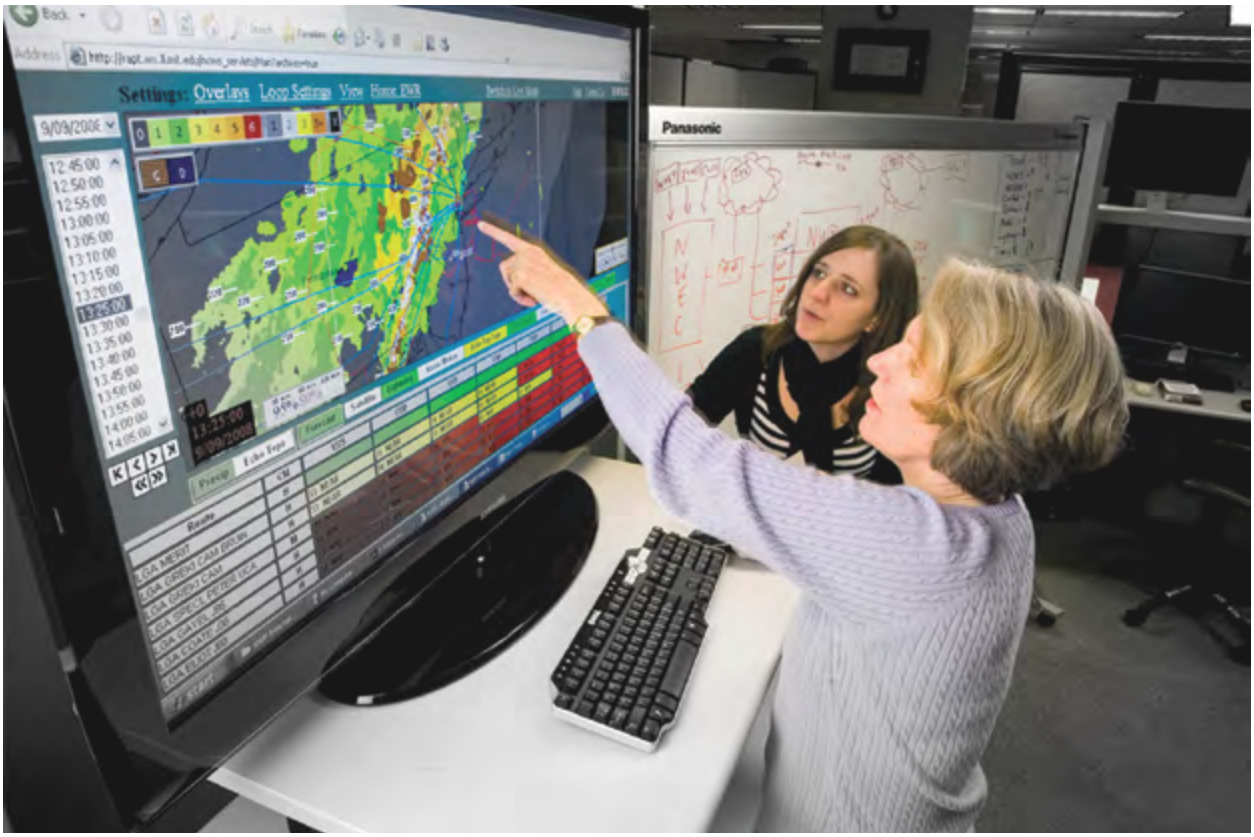
2 WORKPLACE OF CHOICE

We will create a workplace of choice marked by integrity, diversity, accountability, safety and innovation. Our workforce will have the skills, abilities, and support systems required to achieve and sustain NextGen.

FY 2013 WORKPLACE OF CHOICE PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2013 Target	FY 2013 Results[1]	FY 2013 Status	FY 2014 Target
FAA Ratings 75th percentile rank in the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents.	75%	TBD	TBD	61%
Outside Ratings Achieve a 90 percent success rate in the areas of financial management and human resources management.	90% success rate	TBD	TBD	90% success rate

1 Results are not available at this time.



NextGen Weather Evaluation Capabilities Route Availability Planning Tool (RAPT). Photo: FAA.

OBJECTIVE: The FAA Is Widely Recognized as an Employer of Choice

FAA Ratings

The FAA is rated in the top 25 percent of places to work in the federal government by employees by 2018.	
FY 2013 Target	75th percentile rank in the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents.
FY 2013 Result	TBD *(Results are not available at this time.)*
Public Benefit	Improvements in Employee Viewpoint Survey results that are used to calculate the BPTW rankings would indicate that FAA is managing its workforce better. Research indicates that improved employee survey results are associated with higher organizational performance.

Each year, the Office of Personnel Management (OPM) administers the Federal Employee Viewpoint Survey (FedView). The survey is a tool that measures employees' perceptions of the extent to which conditions characterizing successful organizations are present in their agencies. The results of this survey provide valuable insight into the challenges that agency leaders face in ensuring that their agencies are contributing to the effectiveness of the federal government's civilian workforce and the degree to which these leaders are responding to the challenges.

The Partnership for Public Service obtains FedView survey data from the OPM and calculates the Best Places to Work (BPTW) Index. This index is used to rank federal agencies. This ranking is generally the most publicized FedView result. The FAA's long-term goal is to be ranked in the top 25 percent by 2018, with progress towards that goal being demonstrated in two-year increments. The FY 2013 target is to be ranked in the top 75 percent of participating agencies.

Early in FY 2013, we received the results of the FY 2012 survey. Our 2012 ranking was 114th out of 292 organizations rated. This means we ranked in the top 39 percent of all participating agencies in FY 2012, exceeding our FY 2012 target of being ranked in the top 75 percent of participating agencies.

The FY 2013 BPTW rankings are not available at this time. However, earlier this year, the OPM released the final government-wide BPTW response rate to the 2013 FedView Survey. The 2013 government-wide average response rate was 48.2 percent, up from the 46.1 percent in 2012. The final FAA 2013 FedView response rate was 53.3 percent, down from the 59 percent response rate obtained in the agency in 2012. However this was still more than five percentage points higher than the 2013 government-wide rate.

In FY 2013, we began addressing our 2012 results from the FedView Survey with ongoing actions as well as redesigns of critical human capital systems. The FAA's actions are organized in four focus areas:

- Increasing Creativity and Innovation
- Improving Internal Processes
- Addressing Poor Performers
- Holding Leaders Accountable for Employee Engagement

In addition to the actions outlined above, a variety of agency-wide steps have been taken to foster communication, including holding regular executive town hall meetings, enhancing employee websites, publishing lines of business newsletters, and nurturing employee opportunities for collaboration and participation in work groups. These communication innovations have facilitated the sharing of information and improved workforce engagement.

FAA Ratings
FAA is rated in the top 25 percent of places to work in the federal government by employees

	FY 2011	FY 2012	FY 2013
Actual	This was a new measure in FY 2012	39%	TBD[1]
Target		75%	75%
Target Achieved?		✓	TBD[1]

1 The results for this performance measure are not available at this time.

PERFORMANCE RESULTS

Outside Ratings

Achieve a 90 percent success rate in the areas of financial management and human resources management.	
FY 2013 Target	Achieve a 90 percent success rate in the areas of financial management and human resources management: ▪ Receive annual unmodified audit opinions with no material weaknesses. ▪ Maintain the competitive status of all FAA employees within the federal personnel system. ▪ Improve the "effective leadership" index score on the OPM Employee Viewpoint Survey by 8 percent. ▪ Improve the "talent management" index score on the OPM Employee Viewpoint Survey by 8 percent.
FY 2013 Result	TBD *(Results are not available at this time.)*
Public Benefit	The public benefits by being reasonably assured the agency is being operated in a transparent and fiscally responsible manner and that our human resources management system is legally compliant with merit systems principles, adheres to veterans' preference rules and maintains an internal system of accountability. The public also benefits by knowing that our human resource practices, programs and policies position us to compete for the best and brightest talent to ensure a safe, efficient, and responsive air transportation system for the flying public.

This performance measure was established to determine whether the FAA is successful in the areas of financial management and human resource management. Four indicators are used to assess our success rate:

- Receive annual unmodified audit opinions with no material weaknesses.
- Maintain the competitive status of all FAA employees within the federal personnel system. Whether the agency has met this criterion is determined by an independent, biennial OPM assessment and audit of the FAA's personnel management system, policies, and practices.
- Improve the FAA's "effective leadership" index score on the OPM Employee Viewpoint Survey by 8 percent.
- Improve the FAA's "talent management" index score on the OPM Employee Viewpoint Survey by 8 percent.

The "success" computation is a sum of weighted scores for the four components. The unmodified audit opinion with no material weaknesses and the competitive status indicators contribute 40 percent each. The two index scores (effective leadership and talent management) contribute up to 10 percent each. Our goal is to achieve a 90 percent success rate.

In FY 2012, FAA received a two-year extension of the interchange agreement with OPM. In addition, we received an unmodified audit opinion with no material weaknesses. During FY 2012, the Workplace of Choice target indices for Leadership and Talent Management were also measured. The Leadership index target was 55 percent and we received a rating of 58 percent, exceeding the target by 3 percent. The Talent Management index target was 58 percent, and we received a rating of 58 percent, which met our annual target. This yields an overall actual result of 91.6 percent [(100 X .4) + (100 X .4) + (58 X .1) + (58 X .1)].

While we have received an unmodified audit opinion with no material weaknesses for FY 2013, the results of the other components that make up this measure are not available at this time. Therefore, we are unable to report on our overall level of success in achieving this performance measure. The final FY 2013 result will be included in our FY 2014 PAR.

Outside Ratings
90% success rate in the areas of financial management and human resources management achieved

	FY 2011	FY 2012	FY 2013
Actual	This was a new measure in FY 2012	91.6%	TBD[1]
Target		90%	90%
Target Achieved?		✓	TBD[1]

1 The results for this performance measure are not available at this time.

3 DELIVERING AVIATION ACCESS THROUGH INNOVATION

Enhance the flying experience of the traveling public and other users by improved access to and increased capacity of the nation's aviation system. Ensure airport and airspace capacity are more efficient, predictable, cost-effective and matched to public needs.

FY 2013 AVIATION ACCESS PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
Air Traffic Control Systems Improve the Efficiency of Airspace* By September 30, 2013, replace a 40-year old computer system serving 20 air traffic control centers with a modern, automated system that tracks and displays information on high altitude planes.	11	8	✘	N/A
Major System Investments In FY 2013, maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline at completion.	90%	90%	✓	90%
LPV or LP Procedures Publish 500 LPV or LP procedures in FY 2013 to ensure Localizer Performance (LP) or Localizer Performance w/Vertical (LPV) procedures are available at 3,800 runways in the national airspace system.	500	469	✘	400

** This performance measure supports a DOT Agency Priority Goal.*

✓ Target met ✘ Target not met

PERFORMANCE RESULTS

OBJECTIVE: NextGen Capabilities Are Fully Implemented and Utilized Based on U.S. Aviation Community System Needs

Air Traffic Control Systems Improve the Efficiency of Airspace

By September 30, 2013, achieve initial operating capability (IOC) on ERAM at all 20 air route traffic control centers (ARTCCs).	
FY 2013 Target	By September 30, 2013, achieve IOC on ERAM at 11 ARTCCs.
FY 2013 Result	8
Public Benefit	With the establishment of this metric, expanding capacity and reducing costs will play an important role in improving the economic returns from our transportation system. In the decade between 1998 and 2008, total airline passenger traffic rose 13 percent in U.S. domestic markets and 47 percent in the international arena, despite the impacts of the September 11, 2001, terrorist attacks and the more recent global recession. As domestic and world economies recover, U.S. airline passenger demand is expected to increase and approach a growth rate of 3-4 percent annually.

This performance measure supports a DOT Agency Priority Goal.

The En Route Automation Modernization (ERAM) System is central to our ability to transform our nation's airspace from radar-based to satellite-based operations. ERAM replaces the 1970s era "Central Computer Complex HOST" used at ARTCCs around the country to guide airplanes flying at high altitudes. The new system allows us to maximize the use of airspace, substantially increasing the number of flights that can be tracked and displayed. The new system also offers enhanced back-up capability.

Further software development will make ERAM a foundation of important NextGen capabilities, such as Data Communications (Data Comm), a data link system that enables the automated exchange of pre-departure and en route clearance information between aircraft and controllers; and System Wide Information Management (SWIM), an open, flexible, and secure information management architecture using commercial off-the-shelf hardware and software to share national airspace system advisory data and enable increased common situational awareness and improved system agility.

We had originally planned to complete ERAM by December 2010. Due to software development and testing issues and implementation challenges, the program was rebaselined in June 2011. Under this new plan, IOC was achieved at 9 of the 20 ERAM sites prior to 2013. The remaining 11 ERAM sites were scheduled for IOC by the end of FY 2013, but the target was not achieved for a number of reasons.

Since the rebaseline, the ERAM Program Office has undertaken a series of management initiatives to help get the program back on track. These include addressing contractual, strategic, structural, process, personnel, and incentive aspects of the program's overall approach. A centerpiece of these improvement initiatives has been the collaborative approach taken by the ERAM office in working with its union partners, the National Air Traffic Controller Association and the Professional Aviation Safety Specialists.

However, due to sequestration, we were unable to achieve our target. Immediately prior to sequestration, the controllers who serve as subject matter experts on ERAM implementation teams were recalled to their home facilities to ensure their readiness to resume their controller duties prior to the initiation of employee furloughs. During this time, many of the ongoing implementation activities at remaining sites came to a halt as the FAA focused on ensuring the safe and efficient operation of the air traffic control system at facilities around the country.

After Congress enacted legislation that allowed the FAA to transfer funds from its Airport account to its Operations account, the agency was able to quickly end all employee furloughs. A high priority after employee furloughs ended was to reengage the ERAM implementation teams, which FAA accomplished in coordination with the controller's union. However, due to other budget reductions, training was not available and a decision was made to defer initial operations at remaining sites until after the busy summer months. As such, three of the IOCs were not completed in FY 2013 as planned. The program will continue until all sites are fully operational. The delay will cause an increase in the cost of the program.

Before 2013, ERAM was operating at the following centers:

- Salt Lake City, UT
- Seattle, WA
- Denver, CO
- Albuquerque, NM

ERAM (En Route Automation Modernization) system monitor and control consoles. Photo: FAA.

- Minneapolis, MN
- Chicago, IL
- Oakland, CA
- Los Angeles, CA
- Houston, TX

In FY 2013, we achieved IOC at the following centers:

- Kansas City, MO
- Boston, MA
- Indianapolis, IN
- New York, NY
- Cleveland, OH
- Washington, DC
- Memphis, TN
- Ft. Worth, TX

The following centers will achieve IOC in FY 2014:

- Atlanta, GA
- Jacksonville, FL
- Miami, FL

Since December 2011, ERAM has accumulated more than 123,000 hours of operational run time, which amounts to more than 14 years of consecutive operation.

More information on ERAM can be found at **www.faa.gov/air_traffic/technology/eram**.

Air Traffic Control Systems Can Improve the Efficiency of Airspace

Replace a 40-year old computer system serving 20 air traffic control centers

	FY 2011	FY 2012	FY 2013
Actual	2	7	8
Target[1]	2	7	11
Target Achieved?	✓	✓	✘

1 The number represents annual targets needed to achieve a cumulative target of implementing IOC at all 20 ERAM sites by the end of FY 2013. The cumulative target in FY 2012 was 9, and the cumulative target in FY 2013 was 20, which was not achieved. As of September 30, 2013, 17 have been achieved.

Major System Investments

Maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline at completion.	
FY 2013 Target	90 percent of major baselined acquisition programs must be maintained within 10 percent of their current acquisition cost, schedule and technical performance baseline as of the end of fiscal year 2013.
FY 2013 Result	90%
Public Benefit	FAA's ability to keep acquisitions within budget, schedule and performance will allow for a timely transition to NextGen programs. The transition to NextGen involves acquiring numerous systems to support precision satellite navigation; digital, networked communications; integrated weather information; layered, adaptive security; and more.

This target measures the FAA's ability to stay within a 10 percent variance of its budget, schedule, and technical performance with regard to major system investments in support of the ongoing transition to NextGen, a comprehensive overhaul of our nation's airspace system to make air travel more convenient, dependable and safe. It involves the acquisition of numerous systems, tools, and pieces of equipment to support precision-based satellite navigation, networked digital communications, integrated weather information, and improved security. Our ability to make the relevant major system investments in an efficient and cost-effective manner is critical to the implementation of NextGen.

The FAA has established acquisition categories (ACATs) within the Acquisition Management System that governs major system investments. Within these categories, the following criteria are applied to determine the ACAT level of each acquisition: 1) lifecycle costs and annual costs; 2) political sensitivity; 3) risk level; 4) complexity; and 5) likelihood of changes in the safety of the nation's airspace. Programs that have lifecycle costs greater than $100 million or that are classified with a medium or high rating in any of the criteria are assigned an ACAT level of 1, 2, or 3, and are considered major investments. The FAA tracks and reports the status of each program's acquisition program baseline, using an automated database. The data are used to convey program status and performance information to senior executives for purposes of program reporting and periodic reviews.

Choosing to report on this measure ensures continuity and consistency with the Air Traffic Management System Performance Improvement Act of 1996. This act requires the FAA Administrator to terminate programs that are funded from Facilities and Equipment appropriations and that have variances of 50 percent or greater for cost, schedule, or technical performance, unless the Administrator determines that termination would be inconsistent with the development or operation of the national airspace system in a safe and efficient manner. In addition, the law requires the FAA Administrator to consider terminating any substantial acquisition that has cost, schedule, or performance variances of 10 percent or greater.

In FY 2013, we were unable to meet the targets for two programs: Runway Status Lights and Logistics Center Support System. We did, however, achieve the overall target by maintaining 90 percent of the major system investments being tracked (18 of 20 programs) within 10 percent variance of their approved acquisition program baseline total budget, schedule, and technical performance at completion.

Major System Investments *Maintain 90 percent of major system investments within baseline*			
	FY 2011	**FY 2012**	**FY 2013**
Actual	This was a new measure in FY 2012	100%	90%
Target		90%	90%
Target Achieved?		✓	✓

OBJECTIVE: Safety, Airport Infrastructure and Environmental Issues Are Advanced and Leveraged by Full Utilization of NextGen Capabilities

LPV or LP Procedures

Ensure Localizer Performance with Vertical Guidance (LPV) or Localizer Performance (LP) procedures are available at 5,218 runways in the national airspace system by 2018.	
FY 2013 Target	Publish 500 LPV or LP procedures in FY 2013 to ensure Localizer Performance (LP) or Localizer Performance with Vertical (LPV) procedures are available at over 3,800 runways in the national airspace system.
FY 2013 Result	469
Public Benefit	Vertically guided approach procedures provide a safety benefit to all users compared to non-precision approach services. In addition because LPV or LP procedures can be published at any qualifying runway, users obtain a significant access benefit over Instrument Landing System (ILS). As of July 2011, there are twice as many LPV/LP procedures as ILS procedures.

The FAA continues to deploy procedures that improve access to many GA airports in almost all weather conditions. Localizer Performance with Vertical Guidance (LPV) and Localizer Performance (LP) procedures are enhanced performance, precision-guided Global Positioning System (GPS) approaches, made even more accurate by the use of Wide Area Augmentation System (WAAS) signals.

Pilots fly into airports with the guidance of either ground-based navigational aids such as ILS or satellite-based navigation, i.e., GPS. The FAA must develop new approach procedures for an airport before an aircraft can use WAAS. These approach procedures are called LPVs. For the past 60 years, the Category-1 ILS has been used at airports throughout the national airspace system to guide aircraft to as low as 200 feet above the runway surface.

Unlike ILS technology, WAAS provides the same capability but without the need for infrastructure at each runway end. WAAS has enabled a new LP approach which provides the same lateral accuracy as LPV, but without the vertical guidance.

Two of the FAA's top goals are increased aircraft safety and greater air traffic capacity in a defined airspace. WAAS provides for both, along with other significant benefits:

- More vertically-guided approach procedures, which are safer than those without vertical-guidance
- More flexible approach and departure routings, which will cut arrival times as well as enhance safety and noise abatement
- More direct, fuel-efficient and timely routings through the air traffic control system
- Significant government cost savings due to the elimination of maintenance costs associated with older, more expensive ground-based navigation aids
- No additional runway infrastructure required

In FY 2013, with 469 LPV and LP procedures published, we did not meet our goal of publishing 500 procedures in 2013. To date, we have published 3,822 procedures at more than 1,838 airports. Of the procedures published so far, more than half are at GA and regional airports that have no ILS, so the new procedures are a huge boon to these airports. The agency plans to provide for as many as 5,218 LPV-facilitated and LP-facilitated runways in the national airspace system by 2018.

LPV or LP Procedures
Ensure Localizer Performance (LP) procedures are available at runways in the national airspace system

	FY 2011	FY 2012	FY 2013
Actual	This was a new measure in FY 2012	536	469
Target		500	500
Target Achieved?		✓	✘

PERFORMANCE RESULTS

4 SUSTAINING OUR FUTURE

To develop and operate an aviation system that reduces aviation's environmental and energy impacts to a level that does not constrain growth and is a model for sustainability.

FY 2013 SUSTAINING OUR FUTURE PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 371,000 in calendar year 2013.	371,000	321,000	✓	356,000
National Airspace System Energy Efficiency Improve aviation fuel efficiency by 16 percent, as measured by the calendar year 2010 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-16.00%	-15.61%	✘	-18.00%

✓ Target met ✘ Target not met

Travelers make their way through the busy airport security check at Denver International Airport, Denver, Colorado. Photo: Bigstock.com.

OBJECTIVE: Community Noise Concerns Are Not a Significant Constraint on Growth

Noise Exposure

The U.S. population exposed to significant aircraft noise around airports has been reduced to less than 300,000 persons.	
FY 2013 Target	Reduce the number of people exposed to significant aircraft noise to less than 371,000 in calendar year 2013.
FY 2013 Result	321,000
Public Benefit	Public benefit is reduced exposure to unwanted aircraft noise and increased capacity, reducing airport congestion and delays.

Aircraft noise remains one of the most significant environmental challenges facing airlines and airports as they seek to grow their capacity. By mitigating and reducing exposure to noise, the FAA can promote community acceptance of airport expansion and enable capacity growth in an environmentally-responsible manner.

The number of people exposed to significant noise levels was reduced by approximately 96 percent between 1975 and 2012. This was due primarily to the legislatively-mandated transition of airplane fleets to newer generation aircraft that produce less noise. Most of the gains from quieter aircraft were achieved by FY 2000. The remaining problem must be addressed primarily through airport-specific noise compatibility programs along with reduction of aircraft noise at the source. With the use of these strategies, we achieved our FY 2013 noise exposure goal.

The goal of achieving a reduction in the number of people exposed to significant aviation noise requires a robust and multi-faceted environmental program that develops and invests in new technologies, takes advantage of operational advances, and includes effective policies and investments.

By continuing to develop NextGen technologies that offer a broad array of noise mitigation approaches, the FAA can decrease aviation noise exposure.

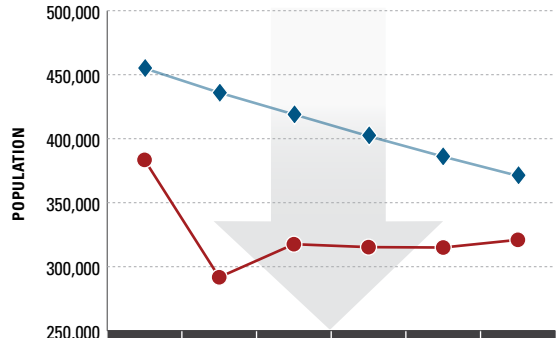
In cooperation with the aviation community and local governments, the FAA pursues such measures as source noise reduction, soundproofing, buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. While the FAA is authorized to provide funds for airport noise compatibility projects, each project must be locally sponsored by the airport responsible for the noise and then approved by the FAA.

In addition, the FAA's Continuous Lower Energy, Emissions, and Noise (CLEEN) program, along with FAA collaborations with the National Aeronautics and Space Administration (NASA) and the Department of Defense, can speed the introduction of new, quieter aircraft technologies into the aircraft fleet.

Continued success in this performance metric will require partnership and the sharing of responsibilities among many stakeholders. Air carriers will need to operate quieter aircraft that run on cleaner fuel; airports will need to provide good planning and local environmental mitigation measures; air traffic management will need to facilitate environmentally-friendly flight procedures; federal programs and investments will need to move in the direction of supporting the necessary environmental mitigation technology and operational improvements; and local governments will need to ensure compatible land use around airports. The FAA is committed to working with all stakeholders to find the right balance to manage capacity growth in an environmentally sound manner.

Noise Exposure

Number of people exposed to significant aircraft noise



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	383,465	291,768	317,596	315,293	315,000	321,000
Target	455,000	436,000	419,000	402,000	386,000	371,000
Target Achieved?	✓	✓	✓	✓	✓	✓

PERFORMANCE RESULTS

OBJECTIVE: Improve the Energy Efficiency of the National Airspace System

National Airspace System Energy Efficiency

Improve national airspace system energy efficiency (fuel burned per miles flown) by at least 2 percent annually.	
FY 2013 Target	Improve aviation fuel efficiency by at least 2 percent per year, through FY 2025, as measured by the calendar year 2012 fuel burned per miles flown, relative to the calendar year 2000 baseline.
FY 2013 Result	-15.61
Public Benefit	Today's aircraft are up to 70 percent more efficient in fuel use than early commercial jet aircraft. However, there is growing concern over aviation's impact on the environment and public health. Aviation is currently viewed as a relatively small contributor to those emissions that have the potential to influence air quality and global climate. Carbon dioxide emissions are a primary greenhouse gas and are directly related to the fuel burned during the aircraft's operation. As air traffic grows, this contribution will increase without improvements in technology, more efficient air traffic operations, and renewable fuels. This measure supports the development of these improvements to reduce aviation's impact on the environment and thereby improve public health and welfare. In addition, more fuel efficient aircraft should contribute to improving the financial well-being of commercial airlines and a growing economy.

As a result of monitoring improvements in aircraft and engine technology, as well as operational procedures and enhancements, the FAA is able to track and measure aircraft fuel efficiency in the national airspace system. In FY 2013, we continued to make progress in maintaining efficient commercial aircraft operations, thereby minimizing environmental and public health impacts. However, the progress was not enough to meet or exceed our FY 2013 energy efficiency target.

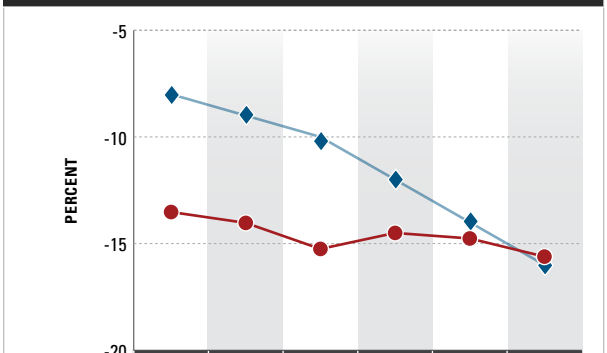
National airspace system energy efficiency is heavily dependent upon commercial airline operating procedures and day-to-day operational conditions. Factors affecting efficiency include the condition of airlines' operating fleets and their route assignments, air traffic conditions, weather, airport operating status, congestion in the system, and any disruptions that introduce delay in scheduled flights. For example, a major sustained disruption, a significant shift in commercial airline operations, such as changes in fleet composition and missions, or even a change in air traffic management could have a profound impact upon our ability to achieve this performance target.

With the continued increase in air traffic that outpaced fleet technological improvements, the system's energy efficiency started leveling off in 2007. This trend has continued to the present. While it is difficult to determine the exact cause of not meeting our FY 2013 energy efficiency target, a combination of factors in the overall system contributed to our inability to meet this annual goal.

The existing metric of fuel burn per distance flown does not take into account the revenue payload moved within the system, an important factor in calculating energy efficiency. A new metric that incorporates this factor is being developed and benchmarked on an annual basis relative to the current FY 2001 baseline. Analysis of historical trends for this new payload-based metric will help determine the continued applicability of the two percent per year energy efficiency improvement target.

In FY 2013, we missed achieving the energy efficiency performance target by 0.39 percent. Our annual target called for achieving a 16 percent cumulative improvement in system energy efficiency over the base FY 2001 period; we only achieved a 15.61 percent improvement. However, over the past 20 years, improvements in aircraft energy efficiency have enabled aviation to outpace other forms of transportation in the United States. The development and deployment of NextGen technologies allow us to continue to make improvements in the national airspace

National Airspace System Energy Efficiency
Cumulative percentage reduction from baseline



	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013
Actual	-13.52	-14.03	-15.25	-14.50	-14.76	-15.61
Target	-8.00	-9.00	-10.00	-12.00	-14.00	-16.00
Target Achieved?	✓	✓	✓	✓	✓	✗

system's energy efficiency. Air traffic modernization is reducing delays and enabling more direct routes, thus saving fuel.

In addition, the FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) program is accelerating the development of energy-efficient technologies. These will be deployed to the commercial fleet sooner than normal market forces would allow. The program aims to introduce CLEEN technologies into production aircraft in the 2015-2017 timeframe.

Advances in the development of sustainable alternative fuels also offer great promise for emissions reduction. Nearly 100 percent of the fuel used in aviation operations is petroleum-based, raising issues of energy supply, energy security, and the effect of fossil fuel emissions on our air quality and climate. In response to these multiple concerns, government and the aviation industry have a strong interest in alternative aviation fuels that can be blended with or replace petroleum jet fuel without changes to existing engines, aircraft, ground infrastructure, or supply equipment.

THE FAA INTENSIFIES ITS STUDY OF ALTERNATIVE FUELS

The FAA intensified its study of less polluting aircraft fuel in FY 2013. Once developed, alternative fuels will reduce airplane carbon emissions and make aviation more economically and environmentally sustainable.

- As part of NextGen's CLEEN program, the FAA is conducting rig and engine tests of promising alternatives to petroleum-based jet fuels. The goal is to develop "drop-in" alternative jet fuels that can be used in existing aircraft, without requiring installation of new engines or creation of new airplane types.
- The General Aviation (GA) community is also searching for an environmentally-friendly fuel alternative. Most of the community runs on avgas (aviation gasoline), an anti-knock mixture whose lead content has raised public health concerns. The FAA's Fuels Program Office, created in 2012, is working with the agency's William J. Hughes Technical Center and industry partners on developing a high-quality, lead-free alternative GA fuel.
- In February 2013, the FAA and the Spanish Aviation Safety and Security Agency (AESA) signed a Declaration of Cooperation to promote the development and use of sustainable alternative aviation fuels in the United States and Spain. The declaration, like others that the United States has signed with Australia, Brazil, and Germany, enables the FAA's Office of Environment and Energy to explore cooperation in areas such as research on the life-cycle effects of alternative fuel emissions on the atmosphere and best practices on alternative jet fuel testing and approvals.
- In April 2013, the U.S. Department of Agriculture extended for five years its "Farm to Fly" agreement to work with the FAA and other partners to develop biofuel from renewable feedstocks. This will create jobs and economic opportunity from the farm to the airport and lessen America's reliance on foreign oil. The goal: production of one billion gallons of drop-in aviation biofuel by 2018.
- In September 2013, the FAA announced formation of its newest center of excellence (COE), devoted to researching the effects of alternative jet fuels on the environment, as part of meeting the environmental and energy goals of NextGen. Headquartered in Richland, WA, the COE will focus on developing drop-in biofuels that meet industry standards and are cost-competitive with petroleum-based fuels. The FAA's COE programs are cost-sharing research partnerships between academia, industry, and the federal government.

Aviation Fuel and Engine Test Facility for the Lycoming Piston Engine. Photo: FAA.

5 IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION

Achieve enhanced safety, efficiency, and sustainability of aviation around the world. Provide leadership in collaborative standard setting and creation of a seamless global aviation system.

FY 2013 GLOBAL PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2013 Target	FY 2013 Results	FY 2013 Status	FY 2014 Target
World-wide Fatal Aviation Accidents In FY 2013, limit world-wide fatal accidents in Part 121-like operations to no more than 20 fatal accidents per million revenue aircraft departures.	20	12[1]	✓	21

1 Preliminary estimate until the final result becomes available when ICAO updates their world-wide departure data in July 2014.

✓ Target met ✘ Target not met

Photo: Bigstock.com.

OBJECTIVE: Reduce Aviation Accidents and Fatalities World-wide

World-wide Fatal Aviation Accidents

By 2018, the world-wide fatal aviation accident rate declines 10 percent compared to 2010.	
FY 2013 Target	Limit the world-wide fatal accident rates in Part 121-like operations to no more than 0.65 fatal accidents per million revenue aircraft departures. This equates to 20 fatal accidents for FY 2013.
FY 2013 Result	12 *Preliminary estimate until the final result becomes available in July 2014 when the ICAO updates their world-wide departure data.*
Public Benefit	The public will benefit from safer travel on foreign air carriers and from the economic contributions of a safe international aviation system.

A safe, efficient, and seamless aviation system is the ultimate goal of international air transportation. Increased public confidence in air transportation world-wide will result in an increase in passenger traffic. The FAA's recognition as a global leader in air safety enables it to influence safety goals in the international arena. In turn, international air safety is a driver of economic growth and expansion, opportunity, and development throughout the world.

This performance metric tracks non-U.S. commercial aviation fatalities around the globe, including any non-U.S. carrier fatalities that occurred on U.S. soil, such as the Asiana Airlines crash in San Francisco in July of this year. In FY 2013, with a preliminary result of 12 fatal accidents, we achieved our target. The final result will not be available until July 2015.

Achieving an increasingly safe global air transportation environment is a challenge. Many countries and regions around the world have competing priorities, insufficient resources, unstable political and economic environments, or diverging approaches to legislative and regulatory requirements. All of these—which are beyond the direct influence of the FAA or the aviation community—can affect global civil aviation safety outcomes.

Increased implementation of advances in avionics, structures, and human factors, as well as continued operational safety initiatives, technical assistance, and safety data sharing with international partners are all positive outcomes of global aviation cooperation. But the current fiscal climate negatively impacting our agency's budget may limit our outreach and interaction with key partners. That could hinder further global harmonization with FAA policies. A continued negative trend could threaten the FAA's international leadership and result in a global aviation environment less aligned with U.S. interests.

At present, we are proud that we continue close and consistent collaboration with other countries. Here are a few examples of our many efforts:

- As part of a continued commitment to further streamline and grow the exchange of aviation products under the European Union Aviation Safety Agreement (EASA), the FAA recently approved revision 3 of the Technical Implementation Procedure to further promote U.S. and EASA coordination of aircraft requirements in the areas of design, production, and airworthiness.
- The FAA initiated a pilot program with Mexico's Directorate General of Civil Aviation involving joint aviation supplier audit exercises. This will eventually lead to Mexican authorities' support of FAA audits of facilities in Mexico, in accordance with our bilateral agreement.
- The FAA is collaborating with the Singapore aviation authorities and an affiliated training academy to offer regional, targeted, aviation-safety training at a central location in the Asia Pacific region.
- The FAA continues to work closely with the ICAO to promote world-wide aviation and airport safety. The FAA participated in ICAO Regional Runway Safety Seminars in Morocco, Antigua, and Malaysia. At the seminars, the FAA provided information on the use of Runway Safety Action Teams (RSATs) to reduce runway incursions, and the need to implement effective airport certification programs, improve runway safety areas, and implement mitigation measures to reduce the risk of bird strikes.

Oversight authorities, including the Office of the Inspector General (OIG) and the Government Accountability Office (GAO), request detailed documentation of FAA performance measure results from our external sources. We provide internal data verification review reports to these authorities to demonstrate that the FAA is committed to aviation excellence and enhanced safety around the world.

World-Wide Fatal Aviation Accidents
World-wide fatal aviation accident rate declines 10 percent

	FY 2011	FY 2012	FY 2013
Actual	This was a new measure in FY 2012	10	12[2]
Target		19[1]	20
Target Achieved?		✓	✓

1 Target recalculated from original target of 20 due to finalization of projected departure data.

2 Preliminary estimate until final result becomes available in July 2014 when ICAO updates their world-wide departure data. We do not expect any change in the result to be significant enough to change the year-end status of achieving the target.

Boeing 777 Asiana Airlines Flight 214 being investigated by the NTSB after crash landing at San Francisco Airport on July 6, 2013. Photo: iStock.com.

QUALITY ASSURANCE

VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

We employ strong management controls to ensure the accuracy, completeness, and timely reporting of performance data. Thanks to rigorous internal and external reviews, the FAA verification and validation process produces performance results that enjoy the confidence of agency managers and the Administrator.

In addition to internal verification and review by the FAA, performance data is independently verified by the Department of Transportation. Moreover, data for the incidents that are included in several FAA safety performance measures, such as the Commercial Air Carrier Fatality Rate and the General Aviation Fatal Accident Rate, require independent verification by the NTSB and the Bureau of Transportation Statistics. Data for these measures are not considered final until the NTSB completes its report on each incident.

COMPLETENESS AND RELIABILITY OF PERFORMANCE DATA

The agency's internal review processes support the integrity of performance data. At the beginning of each fiscal year, we update the performance measure profiles, a clearinghouse for accurate and detailed documentation of our performance measures. An exhaustive report includes technical definitions for each measure, as well as data source information, statistical issues, and completeness and reliability statements. Where the criteria for targets have changed, it is noted and the changes are explained (see www.faa.gov/about/plans_reports/performance_profiles to review the FY 2013 Performance Measure Profiles).

To supplement the performance measure profiles, the agency conducts its own annual internal review of the verification processes used by all FAA organizations responsible for collecting and reporting performance data. The agency's full understanding of these processes allows it to provide complete and definitive documentation of results, as required by auditors at the end of the year.

PROGRAM EVALUATIONS

Program evaluation is a major requirement of the Government Performance and Results Modernization Act of 2010. The statute calls for agencies to use program evaluations to assess the manner and extent to which federal programs achieve intended objectives. While performance measures use statistics to show whether the FAA has achieved its intended outcomes, program evaluations use analytical techniques to assess the extent to which programs contributed to their desired outcomes and trends. Understanding the results of these program evaluations enables us to initiate actions to improve program performance. Program evaluations or assessments are conducted by contractors, academic institutions, the OIG, and the GAO.

In FY 2013, the FAA's Office of Airports completed a program evaluation of the environmental streamlining process implemented by the FAA in response to Title III of the Vision 100—Century of Aviation Reauthorization Act. Title III calls for prioritization of certain airport capacity, airport safety, and airport security projects for expedited and coordinated environmental review in compliance with the National Environmental Policy Act of 1969. Following FAA approval of an evaluation plan, the evaluation was conducted independently by a firm with expertise in environmental streamlining.

The evaluation concluded that the FAA's environmental streamlining process has resulted in the successful prioritization of key airport projects. These actions have included successful stakeholder coordination and an excellent public involvement process. The evaluation also highlighted several opportunities for improvement. This resulted in 17 recommendations that could improve Vision 100 environmental streamlining. Four of these are best practices from other modal administrations that could be successfully applied to the FAA's streamlined environmental reviews. In FY 2014, the FAA will evaluate the recommendations, and identify and implement any actions that could improve the process.

FINANCIAL RESULTS

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Mark House
Chief Financial Officer

This year, the Federal Aviation Administration continued to fulfill its primary mission of running the safest and most efficient airspace in the world, despite an extremely challenging budget environment. The FAA provides a direct service to the public, operating a huge, diverse, and complex system of equipment, facilities, and technologies that we call the national airspace system. Most of our operating costs go toward staffing, operating, and maintaining the system. Budget cuts therefore have a detrimental impact on the efficient operation of that system, while simultaneously hindering our ability to staff for our future growth, invest in new equipment and technology, and repair our existing equipment and facilities. The cuts also jeopardize the $1.3 trillion in economic activity and 10 million jobs that the aviation industry brings to our country.

Sequestration

The sequestration of more than $600 million from our FY 2013 budget, mandated by the Budget Control Act of 2011, necessitated a reevaluation of our critical priorities, difficult cost-cutting measures, and a review of our business model for providing services to the American public.

More than 70 percent of our operating costs are used to cover the salaries of our workforce—those serving the flying public, including, for example, air traffic controllers and aviation inspectors. Thus, it is particularly challenging to reduce Operations spending to the extent required by sequestration without correspondingly impacting the very workforce that serves the flying public. To ensure that our top priority—aviation safety—was not compromised in this environment, we invested a tremendous amount of time and resources in planning for the budget sequester. This included mining historical financial data; developing alternative spending scenarios; and presenting realistic, data-driven options to support difficult decisions about spending.

As a result of these efforts, we implemented severe hiring restrictions and significantly reduced spending in non-pay areas such as contracts, travel, training, and other day-to-day expenses. Considering the decreased purchasing power resulting from inflation, we have substantially reduced our non-pay Operations spending by about 10 percent from FY 2010 levels. In response to sequestration, we also adjusted the schedules of our highest priority capital projects—including the En Route Automation and Modernization (ERAM) platform, foundational for our Next Generation Air Transportation System (NextGen) program—to conserve funding.

Still, those reductions were not sufficient to cover the substantial sequestration cuts. As a last resort, we developed plans to furlough more than 44,000 FAA employees for up to 11 days during the last five months of the fiscal year. Just one week into implementation, however, Congress enacted the Reducing Flight Delays Act of 2013. This legislation enabled the FAA to transfer $253 million in funding from our Airport Improvement Program to two other accounts: Operations, and Facilities and Equipment, thus eliminating the need for furloughs and tower closures that would have caused widespread air traffic delays

across the national airspace system. While the transfer of funding allowed us to discontinue the furloughs, as a consequence the airports that would have received those grants are unable to use the funds for infrastructure improvements.

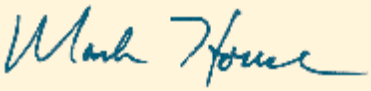
Accomplishments

Despite the substantial funding challenges that we faced, we kept our focus on operating a safe and efficient airspace system. We also continued to make progress on our transition to NextGen; more than 90 percent of our major system investments are still within 10 percent of their cost and schedule baselines. We exhibited strong fiscal and resource management by managing through the sequester. And we also succeeded in keeping our commitment to provide comprehensive fiscal and performance information, as we achieved an unmodified audit opinion with no material weaknesses on our FY 2013 financial statements. In addition, we were recognized with the distinguished Certificate in Excellence in Accountability Reporting award, given by the Association of Government Accountants for our 2012 Performance and Accountability Report. This was the ninth year that we have been a recipient of this award. We also received a "Best in Class" award for editorial excellence—presenting our financial and performance results in an informative, understandable, and transparent way.

Moving Forward

In the near term, we will build on the progress we've made in FY 2013. But a long-term unstable budget environment is unsustainable. The inefficiencies that derive from the continued fiscal uncertainty manifest themselves in start-and-stop operations that frustrate our customers, our stakeholders, and our employees. Given our critical role of operating the largest and most complex airspace in the world, budget uncertainty is not sustainable. Our economy, our customers, and the American public deserve a stable and safe aviation system.

Despite the funding situation, our dedicated team responded to this year's substantial challenges with skill and professionalism. It is an honor and a privilege to be working with such a talented and dedicated workforce that does everything it can each day to keep the aviation system operating safely and efficiently. We are proud of our accomplishments and look forward to continuing to serve the public as cost-effective stewards of their investments. The American people deserve no less.



Mark House
Chief Financial Officer
December 9, 2013

OFFICE OF THE INSPECTOR GENERAL (OIG) QUALITY CONTROL REVIEW

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INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S RESPONSE TO THE FY 2012 INDEPENDENT AUDITORS' REPORT

MANAGEMENT'S RESPONSE TO THE FY 2012 INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

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

Assets	**2013**	**2012**
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,273,753	$ 3,085,202
Investments, net (Note 3)	13,821,513	12,331,464
Accounts receivable, prepayments, and other (Note 4)	205,778	240,254
Total intragovernmental	17,301,044	15,656,920
Accounts receivable, prepayments, and other, net (Note 4)	55,293	47,949
Inventory, operating materials, and supplies, net (Note 5)	656,491	632,320
Property, plant, and equipment, net (Note 6 and 9)	13,420,806	13,442,573
Total assets	$ 31,433,634	$ 29,779,762
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 9,943	$ 15,656
Employee related and other (Note 8)	362,017	425,300
Total intragovernmental liabilities	371,960	440,956
Accounts payable	365,311	417,445
Grants payable	772,822	640,646
Environmental (Note 7, 15, and 16)	751,705	810,399
Employee related and other (Note 8, 9, and 16)	1,120,996	1,121,798
Federal employee benefits (Note 10)	973,055	946,778
Total liabilities	4,355,849	4,378,022
Commitments and contingencies (Note 9 and 16)		
Net position		
Unexpended appropriations—funds from dedicated collections (Note 12)	932,877	1,037,316
Unexpended appropriations—all other funds	29,039	31,225
Subtotal unexpended appropriations	961,916	1,068,541
Cumulative results of operations—funds from dedicated collections (Note 12)	15,513,924	14,859,763
Cumulative results of operations—all other funds	10,601,945	9,473,436
Subtotal cumulative results of operations	26,115,869	24,333,199
Total net position	27,077,785	25,401,740
Total liabilities and net position	$ 31,433,634	$ 29,779,762

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

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30

(Dollars in Thousands)

	2013	2012
Line of Business programs (Note 11)		
Air Traffic Organization		
Expenses	$ 11,142,570	$ 11,439,702
Less earned revenues	(276,406)	(281,226)
Net costs	10,866,164	11,158,476
Aviation Safety		
Expenses	1,417,207	1,422,325
Less earned revenues	(10,683)	(12,016)
Net costs	1,406,524	1,410,309
Airports		
Expenses	3,602,949	3,139,685
Less earned revenues	—	(86)
Net costs	3,602,949	3,139,599
Commercial Space Transportation		
Expenses	19,139	18,400
Net costs	19,139	18,400
Non-Line of Business programs		
Regions and Center Operations and other programs		
Expenses	753,699	783,696
Less earned revenues	(423,137)	(379,320)
Net costs	330,562	404,376
Net cost of operations		
Total expenses	16,935,564	16,803,808
Less earned revenues	(710,226)	(672,648)
Total net cost	$ 16,225,338	$ 16,131,160

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

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30

(Dollars in Thousands)

	UNEXPENDED APPROPRIATIONS					
	2013			2012		
	Funds from dedicated collections	All other funds	Totals	Funds from dedicated collections	All other funds	Totals
Beginning balances	$ 1,037,316	$ 31,225	$ 1,068,541	$ 1,088,171	$ 65,775	$ 1,153,946
Budgetary financing sources						
Appropriations received (Note 14)	4,592,701	—	4,592,701	4,592,701	—	4,592,701
Appropriations transferred-in/out	—	—	—	14,082	—	14,082
Rescissions, cancellations and other	(287,566)	—	(287,566)	(58,748)	—	(58,748)
Appropriations used	(4,409,574)	(2,186)	(4,411,760)	(4,598,890)	(34,550)	(4,633,440)
Total budgetary financing sources	(104,439)	(2,186)	(106,625)	(50,855)	(34,550)	(85,405)
Ending balances	$ 932,877	$ 29,039	$ 961,916	$ 1,037,316	$ 31,225	$ 1,068,541

	CUMULATIVE RESULTS OF OPERATIONS					
	2013			2012		
	Funds from dedicated collections	All other funds	Totals	Funds from dedicated collections	All other funds	Totals
Beginning balances	$14,859,763	$ 9,473,436	$ 24,333,199	$12,873,270	$ 9,606,578	$ 22,479,848
Budgetary financing sources						
Appropriations used	4,409,574	2,186	4,411,760	4,598,890	34,550	4,633,440
Non-exchange revenue—excise taxes and other (Note 12)	13,101,575	20,015	13,121,590	12,777,130	24,456	12,801,586
Transfers-in/out without reimbursement	(236,568)	—	(236,568)	(199,016)	(16)	(199,032)
Other financing sources						
Donations and forfeitures of property	—	78,599	78,599	—	156,817	156,817
Transfers-in/out without reimbursement	(2,314,873)	2,403,773	88,900	(951,817)	1,021,572	69,755
Imputed financing from costs absorbed by others (Note 13)	509,371	61,656	571,027	489,032	63,112	552,144
Other	(405)	(26,895)	(27,300)	(37)	(30,162)	(30,199)
Total financing sources	15,468,674	2,539,334	18,008,008	16,714,182	1,270,329	17,984,511
Net cost of operations	14,814,513	1,410,825	16,225,338	14,727,689	1,403,471	16,131,160
Net change	654,161	1,128,509	1,782,670	1,986,493	(133,142)	1,853,351
Ending balances	$15,513,924	$ 10,601,945	$ 26,115,869	$ 14,859,763	$ 9,473,436	$ 24,333,199

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

U.S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30

(Dollars in Thousands)

	2013	2012
Budgetary resources (Note 14)		
Unobligated balance brought forward, transfers and other	$ 3,519,678	$ 3,556,211
Recoveries of prior year obligations	373,662	413,890
Other changes in unobligated balance	(85,116)	(116,841)
Unobligated balance from prior year budget authority	3,808,224	3,853,260
Appropriations	11,924,500	12,552,370
Contract authority	3,343,300	3,350,000
Spending authority from offsetting collections	5,910,887	5,969,879
Total budgetary resources	$ 24,986,911	$ 25,725,509
Status of budgetary resources		
Obligations incurred	$ 21,380,109	$ 22,205,831
Apportioned	1,388,704	1,430,914
Unapportioned	2,218,098	2,088,764
Total status of budgetary resources	$ 24,986,911	$ 25,725,509
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,938,047	$ $8,955,059
Obligations incurred	21,380,109	22,205,831
Gross outlays	(21,481,412)	(21,766,301)
Recoveries of prior year obligations	(373,662)	(413,890)
Change in uncollected customer payments from federal sources	54,842	(42,652)
Obligated balance, net, end of period	$ 8,517,924	$ $8,938,047
Budget authority and outlays		
Budget authority, gross	$ 21,178,687	$ 21,872,249
Actual offsetting collections	(5,969,567)	(5,927,227)
Change in uncollected customer payments from federal sources	54,842	(42,652)
Budget authority, net	$ 15,263,962	$ 15,902,370
Outlays		
Gross outlays	$ 21,481,412	$ 21,766,301
Collections, net of offsetting receipts	(5,969,567)	(5,927,227)
Distributed offsetting receipts	(2,801)	(11,560)
Net outlays	$ 15,509,044	$ 15,827,514

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the Federal Aviation Administration (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 (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and (3) Department of Transportation (DOT) and the FAA significant accounting policies, the latter of which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

Notes 4 and 8 include the necessary information to present "other assets" and "other liabilities" as defined by OMB Circular No. A-136. This presentation is used to support the preparation of the consolidated financial statements of the U.S. Government.

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

B. Appropriations and Reporting Entity

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

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. In FY 2013 and 2012, the FAA was accountable for amounts made available in appropriations laws from the Airport and Airway Trust Fund (AATF), Revolving Funds, a Special Fund, and General Fund appropriations. The FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through Department of Treasury General Fund warrants, and transfers from the AATF are apportioned by 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) program 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 to fund reimbursable activities performed by the FAA on their behalf.

The FAA reporting entity is comprised of the following major funds:

- Airport and Airway Trust Fund (AATF). The AATF, a fund from dedicated collections (in prior years referred to as an "earmarked fund"), is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. As presented in Note 3, these receipts are held for investment and unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
  - Grants-in-Aid to Airports-AATF. As authorized, grants are awarded with Grants-in-Aid to Airports funding and used for planning and development to maintain a

safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the nation's public airports, and are administered through the Airport Improvement Program.

- Facilities and Equipment-AATF. The Facilities and Equipment funds are the FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other the FAA programs as well as other improvements designed to enhance the safety and capacity of the national airspace system.
- Research, Engineering and Development-AATF. Research, Engineering, and Development funds finance long-term research programs to improve the air traffic control system.

- Operations General Fund and Operations-AATF. Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out the FAA's safety and inspection and regulatory responsibilities. Operations-AATF is financed through transfers from the AATF. For administrative ease in obligating and expending for operational activities, those funds are then in turn transferred to the Operations General Fund, which is supplemented by appropriations from the U.S. Treasury. Expenditures for operational activities, whether originally funded by the AATF or the General Fund of the U.S. Treasury, are generally made from the Operations General Fund.
- Aviation Insurance Revolving Fund. Revolving funds are accounts established by law to finance a continuing cycle of operations with receipts derived from such operations usually available in their entirety for use by the fund without further action by the U.S. Congress. The Aviation Insurance Revolving Fund, a fund from dedicated collections, provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. The FAA is currently providing war risk insurance which includes hull loss and passenger, crew, and third-party liability coverage as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2011 (see Note 16). Current insurance coverage expires on December 31, 2013.
- Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.
- Other Funds. The consolidated financial statements include other funds such as Aviation Overflight User Fees. Aviation Overflight User Fees is a "special" fund from dedicated collections whose receipts come from charges to operators of aircraft that fly in U.S. controlled airspace, but neither take off nor land in the United States. Other funds also include Facilities, Engineering & Development General Fund and General Fund Miscellaneous Receipts accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.

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

C. Basis of Accounting

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. All material intra-agency transactions and balances have been eliminated for presentation on a consolidated basis. However, the Statement of Budgetary Resources is presented on a combined basis, in accordance with OMB Circular No. A-136.

Intra-governmental transactions and balances result from exchange transactions made between the FAA and another federal government reporting entity, while those classified as "with the public" result from exchange transactions between the FAA and non-federal entities. For example, if the FAA purchases goods or services from the public and sells them to another federal entity, the costs would be classified as "with the public," but the related revenues would be classified as "intra-governmental." This could occur, for example, when the FAA provides goods or services to another federal government entity on a reimbursable basis. The purpose of this classification is to enable the federal government to prepare consolidated financial statements, and not to match public and intra-governmental revenue with costs that are incurred to produce public and intra-governmental revenue.

D. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), Aviation Insurance Program premiums (see note 16), and through reimbursements for products and services provided to domestic and foreign governmental entities.

The AATF is sustained by excise taxes that the IRS collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Treasury. The IRS does not receive sufficient information at the time the 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 funds from dedicated collections based on estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. The FAA's September 30, 2013, financial statements reflect excise taxes certified (as actual collections) by IRS through June 30, 2013, and excise taxes estimated by OTA for the period July 1 through September 30, 2013, as specified by Statement of Federal Financial Accounting Standards (SFFAS) Number 7, *Accounting for Revenue and Other Financing Sources*. Actual excise tax collections data for the quarter ended September 30, 2013, will not be available from the IRS until February 2014. When actual amounts are certified by the IRS, generally three to four months after the end of each quarter, adjustments are made to the AATF to account for the difference. Historically, actual excise tax collections certified by the IRS for the fourth quarter of the fiscal year have not been materially different from the OTA's estimate. Additional information on this subject is disclosed in Note 12.

The AATF also earns interest from investments in U.S. Government securities. Interest income on investments is recognized as revenue on the accrual basis.

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. Aviation Insurance Program premiums are recognized as revenue on a straight-line basis over the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights take place.

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

E. 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.

F. Fund Balance with the U.S. Treasury

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

G. Investment in U.S. Government Securities

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

H. Accounts Receivable

Accounts receivable consists of amounts owed to the FAA by other federal agencies and the public. Amounts due from federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

I. Inventory

Within the FAA's 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 the FAA uses to support our nation's airspace system and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the weighted moving average cost method.

The FAA field locations frequently exchange non-operational repairable components with the Franchise Fund. These components are classified as "held for repair." An allowance is established for repairable inventory based on the average historical cost of such repairs.

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

J. Operating Materials and Supplies

In contrast to inventory, which is held for sale by the Franchise Fund, operating materials and supplies are used in the operations of the agency. Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of the FAA owned aircraft. They are valued based on the weighted moving average cost method or on the basis of actual prices paid. Operating materials and supplies are expensed using the consumption method of accounting.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Operating materials and supplies "held for repair" are awaiting service to restore their condition to "held for use."

Operating materials and supplies may be classified as "excess, obsolete, and unserviceable" if, for example, the quantity exceeds projected demand for the foreseeable future, or if the item has been technologically surpassed. An allowance is established for "held for repair" and "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.

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

The FAA capitalizes acquisitions of Property Plant &Equipment (PP&E) when the cost equals or exceeds $100 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, but the aggregate bulk purchase equals or exceeds the capitalization threshold, then these items are capitalized.

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, internal use software, vehicles, and office equipment, are depreciated over a useful life of up to 20 years.

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

Construction in Progress (CIP) is valued at actual direct costs plus applied overhead and other indirect costs.

The FAA occupies certain real property that is leased by the DOT from the General Services Administration. Payments made by the FAA are based on the fair market value for similar rental properties.

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

L. 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.

M. Liabilities

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

N. 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, and estimated amounts incurred but not yet claimed by AIP grant recipients.

O. Annual, Sick, and Other Leave

Annual leave is accrued as it is earned, and the accrual is reduced as leave is taken. For each bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours, restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

P. Accrued Workers' Compensation

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

Q. Retirement Plan

The 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 are beneficiaries of the FAA's matching contribution, equal to 7 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 1 percent of pay and matches any employee contribution up to an additional 4 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 through a combination of costs financed by the FAA's appropriations and imputed costs. The 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 difference between the costs paid by the FAA during the year and the full cost of pensions and other retirement benefits using the OPM's costs factors is the imputed cost. The OPM also provides information regarding the full cost of health and life insurance benefits. The imputed costs are completely offset with revenue which is reported as an imputed financing source to the extent that these costs will be paid by the OPM.

R. 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 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 line of business program "Airports."

S. 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) the allocation of AATF receipts by the OTA, (b) legal, environmental, and contingent liabilities, (c) accruals of accounts and grants payable, (d) accrued workers' compensation, (e) allowance for doubtful accounts receivable, (f) allowances for repairable and obsolete inventory balances, (g) allocations of common costs to Construction in Progress (CIP), (h) the allocation of an average cost of like assets within a program, commonly referred to as unit costing, (i) allocations of costs to programs on the Statement of Net Cost , and (j) accrued benefits and benefits payable.

T. Environmental Liabilities

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

Environmental cleanup and decommissioning is the estimated cost that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset presently in service is shutdown. The FAA estimates the environmental cleanup and decommissioning 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 hazardous materials, and therefore do not have associated environmental liabilities.

FAA environmental liabilities are recorded using un-inflated estimates. There are no known possible changes to these estimates based on inflation, deflation, technology or applicable laws and regulations.

U. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. 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 16) when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

V. Funds from Dedicated Collections

The FAA adopted SFFAS Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005, subsequently amended by SFFAS 43, *Funds from Dedicated Collections*, effective October 1, 2012. SFFAS Numbers 27 and 43 define "funds from dedicated collections" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources 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 financial statements include the following funds, considered to be "funds from dedicated collections":

- Airport and Airway Trust Fund (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

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 Trust Fund, Grants-in-Aid for Airports, Facilities and Equipment, and Research, Engineering and Development, all of which are funded exclusively by the AATF. These funds represent the majority of the FAA 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. Treasury 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 General Fund appropriations, the Operations General Fund is presented as funds from dedicated collections. The funds from dedicated collections in the Facilities and Equipment fund are used to purchase or construct PP&E. When funds from dedicated collections are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and are therefore classified as other funds on the balance sheet and the statement of changes in net position. The intended result of this presentation is to differentiate between funds from dedicated collections available for future expenditure and funds from dedicated collections previously expended on PP&E projects and therefore unavailable for future expenditure.

Additional disclosures concerning funds from dedicated collections can be found in Note 12.

W. Reclassifications

In FY 2013, Note 2, Fund Balance with Treasury was reclassified to conform to the current year presentation requirements of OMB Circular No. A-136.

NOTE 2. Fund Balance with Treasury

Fund balance with Treasury (FBWT) account balances as of September 30, 2013 and 2012 were:

	2013	2012
Trust funds	$ 1,357,195	$ 1,140,692
General funds	1,525,042	1,547,603
Revolving funds	344,620	291,338
Other fund types	46,896	105,569
Total	$ 3,273,753	$ 3,085,202
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 1,388,704	$ 1,430,914
Not available	2,218,098	2,088,764
Obligated balance not yet disbursed	8,517,924	8,938,047
Investments and Contract Authority supporting obligated and unobligated balances	(9,840,701)	(9,904,858)
Non-budgetary FBWT	989,728	532,335
Total	$ 3,273,753	$ 3,085,202

Unobligated fund balances are either available or not available. Amounts are reported as not available when they are no longer legally available to the FAA for obligation. However, balances that are not available can change over time, because 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.

NOTE 3. Investments

As of September 30, 2013 and 2012, the FAA's investment balances were as follows:

	2013			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 11,807,771	$ —	$ 11,807,771	$ 11,807,771
Non-marketable market-based	1,936,922	20,697	1,957,619	1,962,650
Subtotal	13,744,693	20,697	13,765,390	13,770,421
Accrued interest	56,123		56,123	
Total Intragovernmental Securities	$ 13,800,816	$ 20,697	$ 13,821,513	$ $13,770,421

	2012			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 10,424,961	$ —	$ 10,424,961	$ 10,424,961
Non-marketable market-based	1,818,209	28,377	1,846,586	1,860,331
Subtotal	12,243,170	28,377	12,271,547	12,285,292
Accrued interest	59,917		59,917	
Total Intragovernmental Securities	$ 12,303,087	$ 28,377	$ 12,331,464	$ 12,285,292

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 Congress. As of September 30, 2013 and 2012, $11.8 billion and $10.4 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to federal accounts, and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2013, mature on various dates through June 30, 2014, and investments as of September 30, 2012, matured on various dates through June 30, 2013. 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 2013 and FY 2012 was 2.0 percent and 2.2 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, 2013, these nonmarketable, market-based securities have maturity dates ranging from October 2013 to November 2015 and have an average rate of return of approximately 1.5 percent. As of September 30, 2012, these nonmarketable, market-based securities had maturity dates ranging from October 2012 to August 2015 and had an average rate of return of approximately 2.1 percent.

The U.S. Treasury does not set aside assets to pay the future expenditures of the AATF and the Aviation Insurance Fund. 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

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 U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. 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 U.S. Government finances those expenditures out of accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way that the U.S. Government finances all other expenditures.

NOTE 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2013 and 2012 were comprised of the following:

	2013	2012
Intragovernmental		
Accounts receivable	$ 48,477	$ 68,236
Prepayments and other	157,301	172,018
Intragovernmental total	205,778	240,254
With the public		
Accounts receivable, net	53,760	44,739
Prepayments	1,027	2,709
Other assets	506	501
With the public total	55,293	47,949
Total accounts receivable, prepayments, and other	$ 261,071	$ 288,203

Intragovernmental prepayments represent advance payments to other federal government entities for agency expenses not yet incurred or for goods or services not yet received.

Accounts receivable from the public are shown net of allowances for uncollectible amounts of $11.2 million and $16.5 million, as of September 30, 2013 and 2012, respectively.

NOTE 5. Inventory, Operating Materials, and Supplies

As of September 30, 2013 and 2012, inventory, operating materials, and supplies were:

	2013		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 88,851	$ —	$ 88,851
Held for repair	613,198	(140,456)	472,742
Raw materials, finished goods and other	49,976	(10,590)	39,386
Excess, obsolete, and unserviceable	13,945	(13,945)	—
Inventory total	765,970	(164,991)	600,979
Operating materials and supplies			
Held for use	42,198	—	42,198
Held for repair	25,534	(12,767)	12,767
Excess, obsolete, and unserviceable	1,358	(811)	547
Operating materials and supplies total	69,090	(13,578)	55,512
Total inventory, operating materials, and supplies	$ 835,060	$ (178,569)	$ 656,491

	2012		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 90,540	$ —	$ 90,540
Held for repair	582,567	(135,234)	447,333
Raw materials, finished goods and other	51,030	(10,591)	40,439
Excess, obsolete, and unserviceable	8,956	(8,956)	—
Inventory total	733,093	(154,781)	578,312
Operating materials and supplies			
Held for use	40,969	—	40,969
Held for repair	24,387	(12,193)	12,194
Excess, obsolete, and unserviceable	1,888	(1,043)	845
Operating materials and supplies total	67,244	(13,236)	54,008
Total inventory, operating materials, and supplies	$ 800,337	$ (168,017)	$ 632,320

Inventory is considered held for repair based on the condition of the asset or item, and the allowance for repairable inventory is based on the average historical cost of such repairs. The FAA transfers excess items for disposal into the government-wide automated disposal system. Disposal proceeds, recognized upon receipt, may go to the U.S. Treasury's General Fund or to an FAA appropriation, depending on the nature of the item and the disposal method.

NOTE 6. Property, Plant, and Equipment, Net

Property, plant, and equipment balances as of September 30, 2013 and 2012 were:

	2013		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 6,062,911	$ (3,397,715)	$ 2,665,196
Personal property	20,541,827	(12,314,107)	8,227,720
Assets under capital lease (Note 9)	114,063	(42,817)	71,246
Construction in progress (CIP)	2,456,644	—	2,456,644
Total property, plant and equipment	$ 29,175,445	$ (15,754,639)	$ 13,420,806

	2012		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 5,907,540	$ (3,255,262)	$ 2,652,278
Personal property	18,436,951	(11,460,530)	6,976,421
Assets under capital lease (Note 9)	126,629	(49,669)	76,960
Construction in progress	3,736,914	—	3,736,914
Total property, plant and equipment	$ 28,208,034	$ (14,765,461)	$ 13,442,573

The FAA's CIP 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 FAA is currently developing and testing the En Route Automation Modernization (ERAM) system to upgrade the management of air traffic in the en route space and enable the implementation of NextGen capabilities. As of September 30, 2013, construction in progress includes $1,098 million related to the ERAM system.

The FAA has fully deployed ERAM at 11 air route traffic control centers through September 30, 2013. ERAM is scheduled to be deployed at the 9 remaining sites by the end of FY 2015. When fully deployed and operational, the ERAM system will replace four legacy air traffic systems currently being depreciated over service lives ranging from 5–20 years.

The net acquisition cost of the four air traffic legacy systems in use at September 30, 2013, was $1,899 million, down from $2,143 million at September 30, 2012, with a net book value of $439 million and $634 million, respectively. Depreciation on these air traffic legacy systems was $171 million and $111 million in FY 2013 and 2012, respectively. For the legacy assets not already retired or placed in Not in Use status, the FAA adjusted the useful life to end one year from ERAM's site specific operational readiness decision date.

NOTE 7. Environmental Liabilities

The FAA's environmental liabilities as of September 30, 2013 and 2012 were:

	2013	2012
Environmental remediation	$ 454,538	$ 517,273
Environmental cleanup and decommissioning	297,167	293,126
Total environmental liabilities	$ 751,705	$ 810,399

Additional information on contingencies related to environmental projects is disclosed in Note 16.

NOTE 8. Employee Related and Other Liabilities

As of September 30, 2013 and 2012, the FAA's employee related and other liabilities were:

	2013		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ —	$ 60,790	$ 60,790
Accrued payroll & benefits payable to other agencies	—	75,453	75,453
Liabilities covered by budgetary resources	—	136,243	136,243
Federal Employees' Compensation Act payable	114,561	86,761	201,322
Other	—	24,452	24,452
Liabilities not covered by budgetary resources	114,561	111,213	225,774
Intragovernmental total	114,561	247,456	362,017
With the public			
Advances received and other	—	114,436	114,436
Accrued payroll & benefits payable to employees	—	376,722	376,722
Liabilities covered by budgetary resources	—	491,158	491,158
Accrued unfunded annual & other leave & assoc. benefits	—	407,611	407,611
Sick leave compensation benefits for eligible employees	73,820	45,161	118,981
Capital leases (Notes 9 and 15)	69,324	8,681	78,005
Legal claims	—	2,667	2,667
Other accrued liabilities	—	22,574	22,574
Liabilities not covered by budgetary resources	143,144	486,694	629,838
Public total	143,144	977,852	1,120,996
Total employee related and other liabilities	$ 257,705	$ 1,225,308	$ 1,483,013

	2012		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ —	$ 53,654	$ 53,654
Accrued payroll & benefits payable to other agencies	—	90,156	90,156
Liabilities covered by budgetary resources	—	143,810	143,810
Federal Employees' Compensation Act payable	115,495	90,623	206,118
Other	—	75,372	75,372
Liabilities not covered by budgetary resources	115,495	165,995	281,490
Intragovernmental total	115,495	309,805	425,300
With the public			
Advances received and other	—	108,444	108,444
Accrued payroll & benefits payable to employees	—	344,809	344,809
Liabilities covered by budgetary resources	—	453,253	453,253
Accrued unfunded annual & other leave & assoc. benefits	—	404,714	404,714
Sick leave compensation benefits for eligible employees	65,264	61,439	126,703
Capital leases (Notes 9 and 15)	73,452	8,852	82,304
Legal claims	—	34,300	34,300
Other accrued liabilities	—	20,524	20,524
Liabilities not covered by budgetary resources	138,716	529,829	668,545
Public total	138,716	983,082	1,121,798
Total employee related and other liabilities	$ 254,211	$ $1,292,887	$ 1,547,098

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

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Because the DOL bills the FAA two years after it pays such claims, the FAA's accrued liability as of September 30, 2013, includes workers' compensation benefits paid by DOL during the periods July 1, 2011, through June 30, 2013, and accrued liabilities for the quarter July 1, 2013, through September 30, 2013. The FAA's liability accrued as of September 30, 2012, included workers' compensation benefits paid by the DOL during the period July 1, 2010, through June 30, 2012, and accrued liabilities for the quarter July 1, 2012, through September 30, 2012.

The estimated liability for accrued unfunded leave and associated benefits includes annual and other types of vested leave. Additionally, 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. Based on sick leave balances, this estimated liability was $119.0 million and $126.7 million as of September 30, 2013 and 2012, respectively.

The FAA estimated that 100 percent of its $2.7 million and $34.3 million legal claims liabilities as of September 30, 2013 and 2012, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

Other Accrued Liabilities with the Public is composed primarily of accruals for utilities, leases, and travel. Total liabilities not covered by budgetary resources are presented in Note 15.

NOTE 9. Leases

Capital Leases

Following is a summary of the FAA's assets under capital lease as of September 30, 2013 and 2012:

	2013	2012
Land, Buildings, and Machinery	$ 114,063	$ 126,629
Accumulated Depreciation	(42,817)	(49,669)
Assets Under Capital Lease, net	$ 71,246	$ 76,960

As of September 30, 2013, the FAA's future payments due on assets under capital lease were:

Future payments due by fiscal year (Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2014)	$ 8,681
Year 2 (FY 2015)	8,648
Year 3 (FY 2016)	8,639
Year 4 (FY 2017)	8,639
Year 5 (FY 2018)	8,640
After 5 Years	62,013
Less: Imputed interest	(27,255)
Total capital lease liability	$ 78,005

The FAA's capital lease payments are authorized to be funded annually as codified in the United States Code–Title 49–Section 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.

Operating Leases

The FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2013, are as follows:

Fiscal year	
Year 1 (FY 2014)	$ 196,616
Year 2 (FY 2015)	179,156
Year 3 (FY 2016)	147,930
Year 4 (FY 2017)	118,447
Year 5 (FY 2018)	68,537
After 5 Years	144,543
Total future operating lease payments	$ 855,229

Operating lease expense incurred during the years ended September 30, 2013 and 2012 was $224.4 million and $231.9 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege. However, the FAA intends to remain in the lease. The operating lease amounts due after five years do not include estimated payments for leases with annual renewal options. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

NOTE 10. Federal Employee Benefits Payable

As of September 30, 2013 and 2012, FECA actuarial liabilities were $973.1 million and $946.8 million, respectively. 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. FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

NOTE 11. Net Cost by Program and Other Statement of Net Cost Disclosures

The FAA's four lines of business represent the programs reported on the Statement of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated.

The following are net costs for the years ended September 30, 2013 and 2012 by strategic goal:

	For the Year Ended September 30, 2013 Strategic Goal Areas					
	Next level of Safety	Workplace of Choice	Aviation Access	Sustain our Future	Global Collaboration	Total
Line of Business programs						
Air Traffic Organization	$ 6,272,408	$ 472,175	$ 4,073,238	$ 44,930	$ 3,413	$ 10,866,164
Aviation Safety	1,395,511	9,114	526	1,357	16	1,406,524
Airports	1,884,688	421	1,705,396	12,444	—	3,602,949
Commercial Space Transportation	13,709	23	4,985	375	47	19,139
Non-Line of Business programs						
Regions and Center Operations and other	347,098	102,862	(126,982)	7,584	—	330,562
Net cost	$ 9,913,414	$ 584,595	$ 5,657,163	$ 66,690	$ 3,476	$ 16,225,338

	For the Year Ended September 30, 2012 Strategic Goal Areas					
	Next level of Safety	Workplace of Choice	Aviation Access	Sustain our Future	Global Collaboration	Total
Line of Business programs						
Air Traffic Organization	$ 6,283,426	$ 473,312	$ 4,332,169	$ 63,006	$ 6,563	$ 11,158,476
Aviation Safety	1,401,860	6,747	456	1,213	33	1,410,309
Airports	1,641,995	429	1,485,436	11,739	—	3,139,599
Commercial Space Transportation	11,204	182	6,740	197	77	18,400
Non-Line of Business programs						
Regions and Center Operations and other	346,398	206,232	(163,341)	15,083	4	404,376
Net cost	$ 9,684,883	$ 686,902	$ 5,661,460	$ 91,238	$ 6,677	$ 16,131,160

The following is the FAA's distribution of FY 2013 and FY 2012 net costs by intra-governmental related activity versus with the public:

	For the Year Ended September 30, 2013		
	Intra-governmental	With the Public	Total
Line of Business programs			
Air Traffic Organization			
Expenses	$ 2,237,425	$ 8,905,145	$ 11,142,570
Less earned revenues	(236,416)	(39,990)	(276,406)
Net costs	2,001,009	8,865,155	10,866,164
Aviation Safety			
Expenses	358,890	1,058,317	1,417,207
Less earned revenues	(2,475)	(8,208)	(10,683)
Net costs	356,415	1,050,109	1,406,524
Airports			
Expenses	61,984	3,540,965	3,602,949
Net costs	61,984	3,540,965	3,602,949
Commercial Space Transportation			
Expenses	3,647	15,492	19,139
Net costs	3,687	15,492	19,139
Non-Line of Business programs			
Regions and Center Operations and other programs			
Expenses	150,143	603,556	753,699
Less earned revenues	(67,753)	(355,384)	(423,137)
Net costs	82,390	248,172	330,562
Net cost of operations			
Total expenses	2,812,089	14,123,475	16,935,564
Less earned revenues	(306,644)	(403,582)	(710,226)
Total net costs	$ 2,505,445	$ 13,719,893	$ 16,225,338

	For the Year Ended September 30, 2012		
	Intra-governmental	With the Public	Total
Line of Business programs			
Air Traffic Organization			
Expenses	$ 2,252,662	$ 9,187,040	$ 11,439,702
Less earned revenues	(228,401)	(52,825)	(281,226)
Net costs	2,024,261	9,134,215	11,158,476
Aviation Safety			
Expenses	348,062	1,074,263	1,422,325
Less earned revenues	(2,551)	(9,465)	(12,016)
Net costs	345,511	1,064,798	1,410,309
Airports			
Expenses	36,451	3,103,234	3,139,685
Less earned revenues	—	(86)	(86)
Net costs	36,451	3,103,148	3,139,599
Commercial Space Transportation			
Expenses	3,474	14,926	18,400
Net costs	3,474	14,926	18,400
Non-Line of Business programs			
Regions and Center Operations and other programs			
Expenses	136,181	647,515	783,696
Less earned revenues	(72,401)	(306,919)	(379,320)
Net costs	63,780	340,596	404,376
Net cost of operations			
Total expenses	2,776,830	14,026,978	16,803,808
Less earned revenues	(303,353)	(369,295)	(672,648)
Total net costs	$ 2,473,477	$ 13,657,683	$ 16,131,160

NOTE 12. Funds from Dedicated Collections

The FAA's funds from dedicated collections are presented among two classifications. The first classification is comprised of the financial statement balances in AATF as of the end of each fiscal year.

The second classification of 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, Facilities and Equipment, and Research Engineering and Development, all of which are funded exclusively by the AATF. The other funds from dedicated collections classification also includes the Operations General Fund, which is primarily funded through transfers from Operations–AATF, but is additionally supplemented by the General Fund of the U.S. Treasury through annual appropriations. However, since the Operations account is primarily funded from the AATF, it is properly presented as a fund from dedicated collections. The second classification of other funds from dedicated collections also includes the Aviation Insurance Revolving Fund and Aviation User Fees.

In addition, this note presents only the funds from dedicated collections that retain available financing sources for future expenses. As such, the balances in the PP&E fund, though funded from Facilities and Equipment, are excluded from this note.

Airport and Airway Trust Fund

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

The 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 estimates the amount collected and subsequently adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2013 included OTA's estimate of $2.8 billion for the quarter ended September 30, 2013 and $2.7 billion for the quarter ended September 30, 2012.

As discussed in Note 1 E., FY 2013 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters and amounts estimated by OTA for the fourth quarter. Excise taxes estimated by OTA in the 1st quarter overstated the amount subsequently certified as actual by the IRS by $451.7 million, overstated the amount certified in the 2nd quarter by $69.5 million and understated the amount certified in the 3rd quarter by $194.5 million.

The following table summarizes the 4th quarter excise taxes accrued in the FAA's FY 2012 and 2011 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	4th Quarter 2012	4th Quarter 2011
Estimates	$ 2,855,461	$ 2,423,294
Actuals	3,194,131	2,652,178
Under (Over) Accrual	$ 338,670	$ 228,884

Other Funds from Dedicated Collections

- The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions. The insurance issued, commonly referred to as war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. The FAA reported premium insurance revenues of $164.2 million and $160.6 million for the periods ended September 30, 2013 and 2012, respectively. The Aviation Insurance Program activity is reported below in all other funds from dedicated collections. The Aviation Insurance Program is discussed further at Notes 1.V. and 16.
- Overflight 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 overflight fees of $73.5 million and $64.9 million for the periods ended September 30, 2013 and 2012, respectively. Overflight fees activity is reported below in all other funds from dedicated collections.

Fiscal data as of, and for the years ended September 30, 2013 and 2012 are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

	2013		
	AATF	All other funds from dedicated collections	Total funds from dedicated collections
Balance Sheet			
Assets			
Fund balance with Treasury	$ 964,255	$ 2,012,978	$ 2,977,233
Investments, net	11,855,481	1,966,032	13,821,513
Accounts receivable, net	—	4,522,390	4,522,390
Other assets	—	2,915,604	2,915,604
Total assets	$ 12,819,736	$ 11,417,004	$ 24,236,740
Liabilities and net position			
AATF amounts due to the FAA	$ 4,444,060	$ —	$ 4,444,060
Other liabilities	—	3,345,879	3,345,879
Unexpended appropriations	—	932,877	932,877
Cumulative results of operations	8,375,676	7,138,248	15,513,924
Total liabilities and net position	$ 12,819,736	$ 11,417,004	$ 24,236,740
Statement of net cost			
Program costs	$ —	$ 15,324,734	$ 15,324,734
Less earned revenue:			
Aviation insurance premiums	—	(164,170)	(164,170)
Overflight user fees	—	(73,507)	(73,507)
Other revenue	—	(272,544)	(272,544)
Net cost of operations	$ —	$ 14,814,513	$ 14,814,513
Statement of changes in net position			
Cumulative results beginning of period	$ 6,384,206	$ 8,475,557	$ 14,859,763
Non-exchange revenue:			
Passenger ticket tax	8,769,362	—	8,769,362
International departure tax	2,911,287	—	2,911,287
Investment income	233,555	—	233,555
Fuel taxes	572,289	—	572,289
Waybill tax	618,896	—	618,896
Tax refunds and credits	(18,274)	—	(18,274)
Other revenue	—	14,460	14,460
Budgetary financing sources	(11,095,645)	15,268,651	4,173,006
Other financing sources	—	(1,805,907)	(1,805,907)
Net cost of operations	—	(14,814,513)	(14,814,513)
Cumulative results end of period	8,375,676	7,138,248	15,513,924
Unexpended appropriations	—	932,877	932,877
Net position end of period	$ 8,375,676	$ 8,071,125	$ 16,446,801

	2012		
	AATF	All other funds from dedicated collections	Total funds from dedicated collections
Balance Sheet			
Assets			
Fund balance with Treasury	$ 442,966	$ 2,222,507	$ 2,665,473
Investments, net	10,473,786	1,857,678	12,331,464
Accounts receivable, net	—	4,622,538	4,622,538
Other assets	—	3,996,271	3,996,271
Total assets	$ 10,916,752	$ 12,698,994	$ 23,615,746
Liabilities and net position			
AATF amounts due to the FAA	$ 4,532,546	$ —	$ 4,532,546
Other liabilities	—	3,186,121	3,186,121
Unexpended appropriations	—	1,037,316	1,037,316
Cumulative results of operations	6,384,206	8,475,557	14,859,763
Total liabilities and net position	$ 10,916,752	$ 12,698,994	$ 23,615,746
Statement of net cost			
Program costs	$ —	$ 15,181,396	$ 15,181,396
Less earned revenue:			
Aviation insurance premiums	—	(160,558)	(160,558)
Overflight user fees	—	(64,861)	(64,861)
Other revenue	—	(228,288)	(228,288)
Net cost of operations	$ —	$ 14,727,689	$ 14,727,689
Statement of changes in net position			
Cumulative results beginning of period	$ 5,092,201	$ 7,781,069	$ 12,873,270
Non-exchange revenue:			
Passenger ticket tax	8,711,445	—	8,711,445
International departure tax	2,728,594	—	2,728,594
Investment income	224,628	—	224,628
Fuel taxes	622,794	—	622,794
Waybill tax	491,845	—	491,845
Tax refunds and credits	(22,464)	—	(22,464)
Other revenue	—	20,288	20,288
Budgetary financing sources	(11,464,837)	15,864,711	4,399,874
Other financing sources	—	(462,822)	(462,822)
Net cost of operations	—	(14,727,689)	(14,727,689)
Cumulative results end of period	6,384,206	8,475,557	14,859,763
Unexpended appropriations	—	1,037,316	1,037,316
Net position end of period	$ 6,384,206	$ 9,512,873	$ 15,897,079

NOTE 13. Imputed Financing Sources

The FAA recognizes as imputed financing the amount of accrued pension and post-retirement benefit expenses for current employees. The assets and liabilities associated with such benefits are the responsibility of the administering agency, the OPM. Amounts paid from the U.S. Treasury's Judgment Fund in settlement of claims or court assessments against the FAA are also recognized as imputed financing. For the fiscal years ended September 30, 2013 and 2012, imputed financing was as follows:

	2013	2012
Office of Personnel Management	$ 533,686	$ 504,516
Treasury Judgment Fund	37,341	47,628
Total imputed financing sources	$ 571,027	$ 552,144

NOTE 14. Statement of Budgetary Resources Disclosures

The Required Supplementary Information section of this report includes a schedule of budgetary resources by each of the FAA's major fund types. Budget authority 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:

	2013	2012
Combined Statement of Budgetary Resources–budget authority, net	$ 15,263,962	$ 15,902,370
Less amounts made available to the FAA from AATF dedicated collections	(10,670,415)	(11,308,981)
Less other dedicated resources	(846)	(688)
Consolidated Statement of Changes in Net Position–appropriations received	$ 4,592,701	$ 4,592,701

The FAA had rescissions of $240 million of budgetary resources in FY 2013 due to sequestration; there were no rescissions in FY 2012.

As of September 30, 2013 and 2012, the amount of budgetary resources obligated for undelivered orders was $7.2 billion and $7.8 billion, respectively.

There is no difference between Budgetary Authority as reported in FAA's FY 2012 Combined Statement of Budgetary Resources and the Budget of the United States Government.

Obligations incurred on the FY 2012 Combined Statement of Budgetary Resources includes $62 million of expired funds and $758 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, the FAA's FY 2012 Combined Statement of Budgetary Resources differs from the FY 2012 "actuals" reported in the appendix of the *FY 2013 Budget of the United States Government*. (The Budget of the United States Government is available on the Internet at **www.whitehouse.gov/omb**.) As of the date of issuance of the FAA's FY 2013 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2015, which will contain "actual" FY 2013 amounts, was not yet published. The OMB is expected to publish this information early in calendar year 2014.

Statement of Budgetary Resources vs. Budget of the United States Government:

	Budgetary Authority	Obligations Incurred	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 15,902,000	$ 21,377,000	$ 15,828,000
Reconciliation to Budget of the United States Government:			
Obligation from Trust Funds	—	(5,051,000)	—
Distributed Offsetting Receipts	—	—	12,000
Budget of the United States Government	$ 15,902,000	$ 16,326,000	$ 15,840,000

OMB Circular No. A-136 requires the following additional Combined Statement of Budgetary Resources disclosure:

- The FAA does not have obligations classified as "exempt from apportionment." However, during FY 2013 and FY 2012, direct and reimbursable obligations incurred against amounts apportioned under categories A and B, as defined in OMB Circular No. A-11, Part 4, *Instructions on Budget Execution*, were as follows:

	2013		2012	
	Direct	Reimbursable	Direct	Reimbursable
Category A	$ 5,359,826	$ 447,896	$ 5,636,863	$ 488,819
Category B	15,321,999	250,388	15,810,304	269,845
Total	$ 20,681,825	$ 698,284	$ 21,447,167	$ 758,664

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from the OMB. Unobligated balances of expired accounts are not available. At the end of FY 2012, $29.4 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2013. Additionally, transfers in FY 2013 to the DOT for Essential Air Services also reduced balances available for obligation.

NOTE 15. Financing Sources Yet to Be Provided

The following table shows the relationship between liabilities not covered by budgetary or other resources as reported on the balance sheets as of September 30, 2013 and 2012, and the change in components of net cost of operations that will require or generate resources in future periods.

	2013	2012	Change
FECA actuarial (Note 10)	$ 973,055	$ 946,778	$ 26,277
Unfunded annual & other leave & assoc. benefits (Note 8)	407,611	404,714	2,897
Increases – components of net cost of operations requiring or generating resources in future periods (Note 17)			29,174
FECA payable (Note 8)	201,322	206,118	(4,796)
Sick leave compensation benefits for eligible employees (Note 8)	118,981	126,703	(7,722)
Legal claims (Note 8 and 16)	2,667	34,300	(31,633)
Environmental liabilities (Note 7 and 16)	751,705	810,399	(58,694)
Capital Leases (Note 8 and 9)	78,005	82,304	(4,299)
Other accrued liabilities (Note 8)	47,026	95,896	(48,870)
Decreases – resources that fund expenses recognized in prior periods (Note 17)			(156,014)
Total liabilities not covered by budgetary resources	2,580,372	2,707,212	(126,840)
Total liabilities covered by budgetary resources	1,775,477	1,670,810	104,667
Total liabilities	$ 4,355,849	$ 4,378,022	$ (22,173)

NOTE 16. Commitments, Contingencies, and Other Disclosures

Subsequent Event. Due to a lapse in annual appropriations from October 1, 2013, through October 16, 2013, the FAA ceased all non-excepted activities pursuant to the Antideficiency Act, U.S.C. Section 1341 et seq, and all non-exempt activities. This partial shutdown included issuing stop work orders for approximately 1,000 contracts. The financial impact of these stop work orders is undetermined at this time.

Reauthorization. Effective October 17, 2013, the FAA is operating under a continuing resolution (CR), Public Law 113-46 for its FY 2014 appropriation and many of its programmatic and financing authorities. The CR will be in effect through January 15, 2014, and includes a provision that allows the FAA to collect aviation-related excise taxes and to continue spending at FY 2013 rates. It also provides sufficient contract authority to the Airport Improvement Program.

In addition, the passage of the FAA Modernization and Reform Act of 2012, Public Law 112-95, 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 September 30, 2015.

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 95 percent.

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, 2013, the FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2013, the FAA had obligated $6.0 billion of this total amount, leaving $1.4 billion unobligated.

As of September 30, 2012, the FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2012, the FAA had obligated $5.8 billion of this total amount, leaving $1.6 billion unobligated.

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

During FY 2013, the FAA provided premium war-risk insurance to 49 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from $100 million to $4 billion. The FAA also provided non-premium war-risk insurance to 37 carriers with 2,068 aircraft for U.S. Department of Defense charter operations for Central Command.

As of September 30, 2013, there are pending aviation insurance claims in the amount of $7.0 million. There is approximately $2.0 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and the State Department have agreed to pay claims to the carriers covered by non-premium insurance.

Legal Claims. As of September 30, 2013 and 2012, the FAA's contingent liabilities for asserted and pending legal claims probable and reasonably possible of loss were estimated at $76 million and $93 million, respectively. 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 Liabilities. As of September 30, 2013, the FAA estimated contingent liabilities, categorized as reasonably possible at $165.2 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope. Note 7 discloses the environmental liability accrual.

NOTE 17. Reconciliation of Net Cost of Operations to Budget

This note reconciles the resources available to the FAA to finance operations and the net cost of operating the FAA's programs.

	2013	2012
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 21,380,109	$ 22,205,831
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	6,339,143	6,460,246
Obligations, net of offsetting collections	15,040,966	15,745,585
Other resources		
Donations and forfeitures of property	78,599	156,817
Transfers in/(out) without reimbursement	88,900	69,755
Imputed financing from costs absorbed by others	571,027	552,144
Other	(27,301)	(30,199)
Net other resources used to finance activities	711,225	748,517
Total resources used to finance activities	15,752,191	16,494,102
Resources used to finance items not part of the net cost of operations		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received	(598,115)	141,135
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	156,014	58,308
Resources that finance the acquisition of assets	1,251,875	1,464,254
Other resources or adjustments to net obligated resources that do not affect net cost of operations	120,275	195,449
Total resources used to finance items not part of net cost of operations	930,049	1,859,146
Total resources used to finance net cost of operations	14,822,142	14,634,956
Components of net cost of operations that will not require or generate resources in the current period		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities (Note 15)	29,174	152,877
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,270,958	1,136,914
Other	103,064	206,413
Total components of net cost of operations that will not require or generate resources	1,374,022	1,343,327
Total components of net cost of operations that will not require or generate resources in the current period	1,403,196	1,496,204
Net cost of operations	**$ 16,225,338**	$ 16,131,160

The accompanying notes are an integral part of these statements.

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
STEWARDSHIP INVESTMENT
NON FEDERAL PHYSICAL PROPERTY
AIRPORT IMPROVEMENT PROGRAM
For the Fiscal Years Ended September 30
Unaudited

State/Territory	2013	2012	2011	2010	2009
Alabama	$ 69,580	$ 54,765	$ 41,267	$ 70,995	$ 88,006
Alaska	211,385	234,242	185,504	217,745	258,493
Arizona	59,764	73,272	81,577	74,873	81,016
Arkansas	54,673	35,746	58,152	44,485	41,746
California	231,174	212,080	242,701	330,976	257,045
Colorado	95,027	74,102	115,029	112,610	127,959
Connecticut	21,374	16,637	20,654	29,152	36,016
Delaware	15,745	5,352	8,240	11,841	15,112
District of Columbia	5,354	44,565	7,862	20,336	19,052
Florida	159,803	160,509	143,266	198,920	209,747
Georgia	69,999	90,864	84,877	62,908	112,453
Hawaii	29,153	29,024	29,391	32,954	81,303
Idaho	23,593	18,813	21,529	19,925	26,444
Illinois	178,873	161,320	120,826	123,683	126,249
Indiana	79,478	42,460	68,204	65,839	63,444
Iowa	58,577	41,221	31,191	40,461	30,776
Kansas	51,988	31,476	24,293	55,251	43,475
Kentucky	37,744	24,432	25,941	43,532	47,411
Louisiana	50,276	55,676	63,079	94,206	66,617
Maine	35,512	18,257	26,882	29,465	21,130
Maryland	32,286	15,011	21,000	23,741	26,262
Massachusetts	53,349	66,044	55,491	77,362	77,193
Michigan	72,910	76,900	85,698	126,271	95,534
Minnesota	53,843	48,313	54,819	81,733	62,844
Mississippi	41,555	35,713	60,065	47,301	43,608
Missouri	55,522	46,445	38,719	105,807	79,620
Montana	44,474	48,128	36,530	41,271	44,214
Nebraska	31,781	34,711	50,130	28,140	46,884
Nevada	36,441	50,051	45,926	60,035	62,106
New Hampshire	17,623	21,070	14,752	15,634	21,930
New Jersey	99,443	47,444	75,939	121,679	81,388
New Mexico	27,787	26,163	26,387	30,488	25,966

(continued on next page)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

STEWARDSHIP INVESTMENT
NON FEDERAL PHYSICAL PROPERTY
AIRPORT IMPROVEMENT PROGRAM

For the Fiscal Years Ended September 30
Unaudited

State/Territory	2013	2012	2011	2010	2009
New York	$ 98,699	$ 94,424	$ 93,252	$ 111,390	$ 111,873
North Carolina	101,080	51,337	77,725	109,685	105,959
North Dakota	53,066	28,723	23,127	26,195	21,948
Ohio	81,205	79,962	97,423	83,681	106,927
Oklahoma	59,213	37,892	41,488	46,774	49,832
Oregon	58,929	36,671	56,134	80,910	62,678
Pennsylvania	53,146	82,029	91,215	106,319	112,739
Rhode Island	11,939	3,675	8,059	20,554	7,441
South Carolina	54,621	49,512	56,367	45,763	42,403
South Dakota	39,320	32,712	29,846	32,330	32,142
Tennessee	84,893	59,545	75,136	101,234	96,655
Texas	235,366	195,321	240,380	249,084	289,801
Utah	59,188	42,705	49,029	34,482	39,329
Vermont	8,661	9,998	26,103	21,628	8,179
Virginia	60,272	42,571	32,379	57,930	81,283
Washington	79,861	89,797	120,976	98,228	133,508
West Virginia	24,015	26,544	27,167	27,634	28,280
Wisconsin	75,601	51,167	65,061	78,599	61,043
Wyoming	30,746	20,108	22,845	34,190	25,486
American Samoa	2,795	4,952	12,315	6,650	9,273
Guam	10,324	3,238	11,952	19,574	38,245
Northern Mariana Islands	17,070	5,714	10,502	14,420	8,678
Puerto Rico	18,303	11,492	6,569	12,019	20,625
Virgin Islands	31,012	2,545	16,076	7,602	3,698
Marshall Islands	4,226	2,669	4,463	24,514	
Administration	143,312	133,576	127,202	124,454	115,902
Totals	$ 3,602,949	$ 3,139,685	$ 3,388,712	$ 4,015,462	$ 4,034,970

The FAA makes project grants for airport planning and development under the Airport Improvement Program to maintain a safe and efficient nationwide system of public-use airports that meets both the present and future needs of civil aeronautics.

The FAA works to improve the infrastructure of the nation's airports, in cooperation with airport authorities, local and state governments, and metropolitan planning authorities.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

STEWARDSHIP INVESTMENT RESEARCH AND DEVELOPMENT

For the Fiscal Years Ended September 30
Unaudited

Expenses	2013	2012	2011	2010	2009
Applied Research	$ 119,952	$ 133,932	$ 129,954	$ 103,042	$ 95,764
Development	312	1,311	2,238	2,008	1,102
Administration	35,929	37,482	35,875	36,723	35,055
R&D Plant	26,086	18,974	5,848	5,590	3,381
Total	$ 182,279	$ 191,699	$ 173,915	$ 147,363	$ 135,302

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

Research priorities include aircraft structures and materials; fire and cabin safety; crash injury protection; explosive detection systems; ground de-icing operations and decreased in-flight ice buildup; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and human factors. Human factors refer to research on how people (e.g., air traffic controllers and pilots) perform when interacting with, for example, technology and equipment, under various conditions. Optimizing this interaction contributes to safer air travel.

Lithium Battery Testing for Cargo Aircraft

In FY 2013, FAA completed full-scale fire tests on bulk shipments of large numbers of lithium batteries in a fully operational but non-flyable 727 freighter. The bulk shipment consisted of 5000 lithium batteries, either lithium primary (non-rechargeable) or rechargeable lithium ion batteries, commonly employed in lap top computers, I pads, and other portable electronic devices. The 727 was fire hardened and a water spray system was employed to protect the test article to allow for repeated tests. Non-lithium batteries were also tested for comparison. Tests were conducted in the main deck Class E cargo compartment, which requires a fire detection system and ventilation controls to minimize air flow into the compartment and prevent smoke build-up in the flight deck. Tests were also conducted in the lower Class C cargo compartment, which had a halon fire suppression system in the 727. FAA requires that all large passenger carrying airplanes have Class C cargo compartments. The test results demonstrated the ability of a large transport airplane-under the most realistic conditions possible-to withstand a fire involving a large number of lithium batteries.

In FY 2014, the 727 freighter will be used to examine the effectiveness of fire containment covers (used on cargo pallets) and hardened fire containers for protecting against lithium battery fires. Moreover, a zoned water spray system will be developed and evaluated for lithium battery fire suppression in the main deck (Class E) cargo compartment.

In-Flight Icing Product Enhancement

In-flight icing causes more than 25 accidents annually, with more than half resulting in fatalities and destroyed aircraft according to National Transportation Safety Board data. This equates to more than $100 million in injuries, fatalities, and aircraft damage annually. To address this problem, the FAA's Aviation Weather Research Program developed the Current and Forecast Icing Products (CIP and FIP) which provide more accurate and timely diagnoses and forecasts of atmospheric conditions leading to ice accretion on aircraft during flight. CIP and FIP were implemented operationally on the web-based Aviation Digital Data Service at the National Oceanic and Atmospheric Administration's Aviation Weather Center in Kansas City.

In FY 2013, the Weather Program upgraded the CIP and FIP algorithms to meet requirements of a High Resolution diagnoses and forecast of atmospheric conditions conducive to aircraft icing. These upgraded algorithms, also known as CIP/FIP High Resolution improve the horizontal and vertical resolution and extend the forecast from 12 hours out to 18 hours.

Wind Information Quality Standards Development

Accurate wind information is critical to the development and delivery of Next Generation Air Transportation System (NextGen) system enhancements. Wind information requirements include the need for accurate wind forecasts, consistent winds between various ground and airborne systems, and consideration of how those winds are being used by ground and airborne system algorithms. The FAA Weather Technology in the Cockpit (WTIC) program performed research to determine the relationships between wind information quality and the performance of the NextGen operational improvements they enable. The overall goal of this research was to support the development of quantitative requirements for wind diagnosis and forecast capabilities that enable NextGen operations that are impacted by winds to deliver their desired level of benefits.

The wind study research developed a Wind Information Analysis Framework that provided a capability to simulate NextGen operational performance using selected scenarios (e.g. aircraft type, phase of flight, flight scenario) in varying wind conditions (i.e. vertical wind shears). Using the Wind Information Analysis Framework, simulations were run by modeling various levels of wind information quality in the cockpit, the Flight Management System (FMS), and on the ground, and various aircraft capabilities, to determine the resulting performance of the NextGen operation and scenario being evaluated. The results of the simulations will be used by stakeholders to identify quantitative requirements for a minimum level of wind quality in cockpits and FMS to enable the desired level of performance of a specific NextGen operation.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY INFORMATION
DEFERRED MAINTENANCE
As of September 30, 2013
Unaudited

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	$ 89,183
Other structures and facilities	Condition assessment	4&5	$ 413,297

* Condition Rating Scale: 4–Poor; 5–Very Poor

Deferred maintenance and repair is maintenance or repair that was not performed when it should have been, or was scheduled to be performed but was delayed until a future period due to a lack of resources or funding. The FAA reports deferred maintenance and repair only on assets with condition ratings of 4 and 5, in compliance with the SFFAS Number 6, "*Accounting for Property, Plant, and Equipment,*" SFFAS Number 8, *"Supplemental Stewardship Reporting,"* SFFAS Number 14, *"Amendments to Deferred Maintenance Reporting"* (amends SFFAS's 6 and 8), and SFFAS Number 40, *"Definitional Changes Related to Deferred Maintenance and Repairs"* (amends SFFAS 6).

Deferred maintenance and repair is estimated using condition assessment surveys and includes the following FAA buildings, structures, and facilities: En Route, Terminal, the William J. Hughes Technical Center, the Mike Monroney Aeronautical Center and unstaffed facilities. The FAA recognizes maintenance and repair expense as incurred.

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2013

Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
BUDGETARY RESOURCES								
Unobligated balance brought forward, transfers and other	$ 14,221	$ 1,265,817	$ 80,769	$ 1,834,339	$ 109,077	$ 172,855	$ 42,600	$ 3,519,678
Recoveries of prior year obligations	133,136	100,788	6,363	—	35,127	96,295	1,953	373,662
Other changes in unobligated balance	—	(43,508)	(2,545)	384	—	(43,840)	4,393	(85,116)
Appropriations	—	2,616,397	158,798	—	—	4,352,475	4,796,830	11,924,500
Contract authority	3,343,300	—	—	—	—	—	—	3,343,300
Spending authority from offsetting collections	771	98,923	1,520	190,656	424,820	5,193,231	966	5,910,887
Total Budgetary Resources	$ 3,491,428	$ 4,038,417	$ 244,905	$ 2,025,379	$ 569,024	$ 9,771,016	$ $,846,742	$ 24,986,911
STATUS OF BUDGETARY RESOURCES								
Obligations incurred	$ 3,476,065	$ 2,869,633	$ 154,563	$ 13,632	$ 447,895	$ 9,622,011	$ 4,796,310	$ 21,380,109
Apportioned	1,446	1,096,339	85,295	43,496	113,785	47,669	674	1,388,704
Unapportioned	13,917	72,445	5,047	1,968,251	7,344	101,336	49,758	2,218,098
Total Status of Budgetary Resources	$ 3,491,428	$ 4,038,417	$ 244,905	$ 2,025,379	$ 569,024	$ 9,771,016	$ 4,846,742	$ 24,986,911
CHANGE IN OBLIGATED BALANCES								
Obligated balance, net, beginning of period	$ 5,427,782	$ 1,861,296	$ 136,424	$ 1,747	$ 162,443	$ 1,343,022	$ 5,333	$ 8,938,047
Obligations incurred	3,476,065	2,869,633	154,563	13,632	447,895	9,622,011	4,796,310	21,380,109
Gross outlays	(3,653,396)	(2,848,772)	(158,301)	(13,779)	(423,697)	(9,585,108)	(4,798,359)	(21,481,412)
Recoveries of prior year obligations	(133,136)	(100,788)	(6,363)	—	(35,127)	(96,295)	(1,953)	(373,662)
Change in uncollected customer payments from Federal sources	—	(6,165)	4,760	—	(5,308)	61,555	—	54,842
Obligated Balance, net, end of period	$ 5,117,315	$ 1,775,204	$ 131,083	$ 1,600	$ 146,206	$ 1,345,185	$ 1,331	$ 8,517,924
BUDGET AUTHORITY AND OUTLAYS								
Budget authority, gross	$ 3,344,071	$ 2,715,320	$ 160,318	$ 190,656	$ 424,820	$ 9,545,706	$ 4,797,796	$ 21,178,687
Actual offsetting collections	(849)	(95,918)	(6,280)	(190,727)	(419,512)	(5,255,314)	(967)	(5,969,567)
Change in uncollected customer payments from Federal sources	—	(6,165)	4,760	—	(5,308)	61,555	—	54,842
Budget Authority, net	$ 3,343,222	$ 2,613,237	$ 158,798	$ (71)	$ —	$ 4,351,947	$ 4,796,829	$ 15,263,962
NET OUTLAYS								
Gross outlays	$ 3,653,396	$ 2,848,772	$ 158,301	$ 13,779	$ 423,697	$ 9,585,108	$ 4,798,359	$ 21,481,412
Collections, net of offsetting receipts	(849)	(95,918)	(6,280)	(190,727)	(419,512)	(5,255,314)	(967)	(5,969,567)
Distributed offsetting receipts	—	—	—	—	—	—	(2,801)	(2,801)
Net Outlays	$ 3,652,547	$ 2,752,854	$ 152,021	$ (176,948)	$ 4,185	$ 4,329,794	$ 4,794,591	$ 15,509,044

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2012

Unaudited

	Trust Fund Grants-in-Aid to Airports	Trust Fund Facilities & Equipment	Trust Fund Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Other Funds	Combined Total
BUDGETARY RESOURCES								
Unobligated balance brought forward, transfers and other	$ 12,531	$ 1,479,618	$ 82,707	$ 1,671,936	$ 127,592	$ 162,187	$ 19,640	$ 3,556,211
Recoveries of prior year obligations	145,952	122,692	6,676	53	18,850	112,754	6,913	413,890
Other changes in unobligated balance	—	(70,177)	(1,966)	—	—	(60,234)	15,536	(116,841)
Appropriations	—	2,730,732	167,572	—	—	4,592,701	5,061,365	12,552,370
Contract authority	3,350,000	—	—	—	—	—	—	3,350,000
Spending authority from offsetting collections	230	56,548	6,154	161,763	451,454	5,293,517	213	5,969,879
Total Budgetary Resources	$ 3,508,713	$ 4,319,413	$ 261,143	$ 1,833,752	$ 597,896	$ 10,100,925	$ 5,103,667	$ 25,725,509
STATUS OF BUDGETARY RESOURCES								
Obligations incurred	$ 3,494,492	$ 3,053,596	$ 180,374	$ (587)	$ 488,819	$ 9,928,070	$ 5,061,067	$ 22,205,831
Apportioned	2,473	1,172,189	49,167	43,634	98,125	65,325	1	1,430,914
Unapportioned	11,748	93,628	31,602	1,790,705	10,952	107,530	42,599	2,088,764
Total Status of Budgetary Resources	$ 3,508,713	$ 4,319,413	$ 261,143	$ 1,833,752	$ 597,896	$ 10,100,925	$ 5,103,667	$ 25,725,509
CHANGE IN OBLIGATED BALANCES								
Obligated balance, net, beginning of period	$ 5,223,111	$ 1,905,142	$ 152,482	$ 5,546	$ 129,561	$ 1,491,128	$ 48,089	$ 8,955,059
Obligations incurred	3,494,492	3,053,596	180,374	(587)	488,819	9,928,070	5,061,067	22,205,831
Gross outlays	(3,143,869)	(2,968,584)	(187,866)	(3,159)	(443,427)	(9,922,552)	(5,096,844)	(21,766,301)
Recoveries of prior year obligations	(145,952)	(122,692)	(6,676)	(53)	(18,850)	(112,754)	(6,913)	(413,890)
Change in uncollected customer payments from Federal sources	—	(6,166)	(1,890)	—	6,340	(40,870)	(66)	(42,652)
Obligated Balance, net, end of period	$ 5,427,782	$ 1,861,296	$ 136,424	$ 1,747	$ 162,443	$ 1,343,022	$ 5,333	$ 8,938,047
BUDGET AUTHORITY AND OUTLAYS								
Budget authority, gross	$ 3,350,230	$ 2,787,280	$ 173,726	$ 161,763	$ 451,454	$ 9,886,218	$ 5,061,578	$ 21,872,249
Actual offsetting collections	(230)	(50,382)	(4,264)	(161,763)	(457,794)	(5,252,647)	(147)	(5,927,227)
Change in uncollected customer payments from Federal sources	—	(6,166)	(1,890)	—	6,340	(40,870)	(66)	(42,652)
Budget Authority, net	$ 3,350,000	$ 2,730,732	$ 167,572	$ —	$ —	$ 4,592,701	$ 5,061,365	$ 15,902,370
NET OUTLAYS								
Gross outlays	$ 3,143,869	$ 2,968,584	$ 187,866	$ 3,159	$ 443,427	$ 9,922,552	$ 5,096,844	$ 21,766,301
Collections, net of offsetting receipts	(230)	(50,382)	(4,264)	(161,763)	(457,794)	(5,252,647)	(147)	(5,927,227)
Distributed offsetting receipts	—	—	—	—	—	—	(11,560)	(11,560)
Net Outlays	$ 3,143,639	$ 2,918,202	$ 183,602	$ (158,604)	$ (14,367)	$ 4,669,905	$ 5,085,137	$ 15,827,514

OTHER INFORMATION

SUMMARY OF INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

The Reports Consolidation Act of 2000 requires the Inspector General (IG) to identify and report annually on the most serious management and performance challenges that federal agencies face. The Department of Transportation (DOT) IG's report, which is issued soon after the beginning of the fiscal year, highlights urgent issues for the Department as a whole. On November 15, 2012, the IG issued the following memorandum identifying the Department-wide top management challenges for FY 2013:

Memorandum

U.S. Department of Transportation
Office of the Secretary of Transportation
Office of Inspector General

Subject: INFORMATION: DOT's Fiscal Year 2013 Top Management Challenges Department of Transportation Report Number PT-2013-011

Date: November 15, 2012

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

As required by law, we have identified the Department of Transportation's (DOT) top management challenges for fiscal year 2013. A safe and well-managed transportation system is key for the U.S. economy and the quality of life for the traveling public. To maintain and modernize all modes of transportation, the Department spends over $70 billion annually on a wide range of programs. Consequently, it is critical for the Department to carry out its mission within a framework of rigorous stewardship of taxpayer funds, and we continue to support the Department's efforts through our audits and investigations.

Global and domestic travel are projected to significantly increase the demand on our transportation system, and the Department faces considerable challenges in improving the Nation's surface infrastructure and airspace. A key issue is the Next Generation Air Transportation System—a multibillion-dollar effort to modernize the U.S. air traffic control system. The Department is working diligently to address numerous challenges we have identified over the years with this highly complex undertaking. However, much work remains to move from planning to implementation, tighten cost and schedule controls, and better define benefits and an end state for users.

It is also critical that the Department take every opportunity to make efficient use of funds through improved acquisition and grant management—an ongoing challenge with multi-modal impact. This past year, our work also highlighted the need for the Department to better safeguard its investments in key assets to support or expand transportation. These challenges include enforcing reforms to business practices, closely overseeing financing plans, and protecting critical information systems.

2013 Top Management Challenges, Department of Transportation

Improving air and surface safety continues to be the Department's overarching priority. This past year, the Department has made important progress toward meeting new airline safety regulations to advance voluntary safety programs at air carriers and improve pilot rest requirements. To maintain the Nation's excellent aviation safety record, the Department must address a number of challenges. These include maximizing existing data to identify trends and root causes of safety issues, enhancing risk-based oversight at carriers and repair stations, and mitigating air traffic controller fatigue.

In terms of surface safety, fatalities on the Nation's highways have generally declined over the last several years; however, the safety of the Nation's highways, railroads, and pipelines remains an ongoing concern. The Department must implement a number of safety requirements enacted in 2012 to identify defective vehicles, better protect motor coach passengers, enhance mass transit safety, and develop a national tunnel inspection program.

We continue to build a body of work to assist the Department with its critical mission; improve the management and execution of programs; and protect the Department's resources from fraud, waste, abuse, and violations of law. We considered several criteria in identifying the following nine challenges, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel
- Enhancing FAA's Oversight and Use of Data To Identify and Mitigate Safety Risks
- Overseeing Administration of Key Transportation Assets To Ensure Their Success and Sustainability
- Strengthening Existing Surface Safety Programs and Effectively Implementing New Safety Requirements
- Maximizing Surface Infrastructure Investments With Effective Program Oversight and Execution of New Legislative Requirements
- Adequately Overseeing Administration of High Speed Intercity Passenger Rail Grant Funds
- Strengthening Financial Management Over Grants To Better Use Funds, Create Jobs, and Improve Infrastructure

- Ensuring Effective Management of DOT's Acquisitions To Maximize Value and Program Performance

- Managing and Securing Information Systems To Efficiently Modernize Technology Infrastructure and Protect Sensitive Data From Compromise

We are committed to keeping decision makers informed of issues identified through our audits and investigations. We appreciate the Department's commitment to taking prompt corrective action in response to our findings and recommendations. This report and the Department's response will be included in the Department's Annual Financial Report, as required by law. The Department's response is included in its entirety in the appendix to this report. If you have any questions regarding this report, please contact me at (202) 366-1959. You may also contact Lou E. Dixon, Principal Assistant Inspector General for Audits and Evaluation, at (202) 366-1427.

#

cc: DOT Audit Liaison, M-1

In FY 2013, the FAA was tasked by DOT with addressing three of the nine broad challenges identified by the IG. Those three broad categories and eleven key subcomponent challenges within them, are summarized below:

- **Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel**
  - Realizing Benefits from NextGen Capabilities at Congested Airports in the Near Term
  - Mitigating Risks that Delays with the En Route Automation Modernization Program Pose to Critical NextGen Initiatives
  - Making Decisions on Facility Consolidation and Modernization
  - Completing an Integrated Master Schedule for NextGen Transformational Programs
  - Achieving Expected Outcomes from Reorganization to Improve NextGen Management
  - Integrating Unmanned Aircraft Systems into the National Airspace System
- **Enhancing FAA's Oversight and Use of Data to Identify and Mitigate Safety Risks**
  - Identifying Trends in Operational Errors and Determining Their Root Causes
  - Advancing Oversight by Implementing the Airline Safety Act of 2010
  - Providing More Rigorous Risk-Based Oversight of Repair Stations and Identifying Inspector Staffing Requirements
  - Identifying the Effects of Air Traffic Controller Scheduling on Safety, Cost Efficiency, and Controller Performance
- **Strengthening Financial Management Over Grants to Better Use Funds, Create Jobs and Improve Infrastructure**
  - Strengthening DOT's Acquisition Planning, Oversight, and Workforce

Soon after the IG report was issued, the FAA developed an action plan for each of the 11 key issues. Included in these action plans were detailed steps and timelines for addressing the challenge. At the end of FY 2013, the FAA submitted "actions taken" reports to DOT. These reports provided our progress made throughout FY 2013 in addressing each of the key challenges. These year-end actions taken reports, our action plans and the comprehensive report identifying the IG Top Management Challenges for Fiscal Year 2013 are posted on FAA's website at http://www.faa.gov/about/plans_reports/ under the DOT IG Top Management Challenges section.

ENSURING THE NEXT GENERATION AIR TRANSPORTATION SYSTEM ADVANCES SAFETY AND AIR TRAVEL

KEY CHALLENGE:

Realizing Benefits from NextGen Capabilities at Congested Airports in the Near Term

ISSUE:

In response to recommendations from the 2009 NextGen Mid-Term Implementation Task Force report, the FAA undertook an effort to pursue advances at the most congested "metroplexes"—large metropolitan areas served by multiple airports, sharing the same congested airspace—that could be implemented within a few years. The Task Force recommended that the FAA implement airspace redesign and Performance Based Navigation (PBN) procedures which could be achieved quickly, without the need for extensive environmental review and without requiring costly new equipage. The FAA thus began in 2010 the Optimization of Airspace and Procedures in the Metroplex program (OAPM). The idea behind OAPM is that while the FAA continues to pursue cutting-edge NextGen solutions, these OAPM improvements could be made quickly and with more immediate benefits.

The IG states that there is concern among stakeholders that OAPM may be late, and may not deliver all desired benefits, "since FAA has focused on limited airspace and procedure improvements rather than maximizing new technologies and advanced procedures." FAA does not agree with IG's assessment of benefits since the original purpose of the task force recommendations was to redesign navigation procedures without an extensive process or need for equipage.

ACTIONS TAKEN IN FY 2013:

The enactment of the FY 2013 budget sequester and associated furlough in spring 2013 required the return of National Air Traffic Controllers Association (NATCA) Article 48 local and national subject matter experts to their facilities. Although the actual FAA furlough was brief, these controllers had been integrated into facility schedules and returning them to OAPM duties took

up to six weeks. Because the success of Metroplex depends on collaboration, the OAPM projects were effectively on hold from mid-April through May.

This delay was compounded in August/September when the implementation schedule for the En Route Automation Modernization (ERAM) system was readjusted, and again came into conflict with the established OAPM Program Schedule at Ft. Worth, Washington, Charlotte, and Atlanta. OAPM originally deconflicted its schedule from ERAM's schedule in 2011. The FAA deemed ERAM to be the higher priority program and OAPM procedure implementation was delayed so as not to increase implementation risk for ERAM. This deconfliction of programs resulted in the schedules at the Washington DC, North Texas, Charlotte, and Atlanta Metroplexes being delayed for up to 18 months.

The Washington and North Texas Metroplexes were well into implementation phase activities when the schedules were adjusted in September 2013. Washington procedures that were to begin implementation in December 2013 were delayed until 2015 and implementation will not be complete until September 2015. North Texas will not complete implementation until October 2014. The Houston Metroplex is also in the implementation phase, with procedures to be implemented in May 2014. The Phoenix Metroplex completed the study phase. The Southern California Metroplex is mid-way through its design phase. The Atlanta and Charlotte Metroplexes are concluding the evaluation phase, but completion of the implementation phase will be delayed until August 2016 due to Atlanta air route traffic control center ERAM implementation. Northern California Metroplex is mid-way through the evaluation phase. In Washington DC, user benefits are increasing through the utilization of PBN procedures implemented as part of the Metroplex Tri-Flow Project.

Metroplex initiated the deliberative process to address the *NextGen Advisory Committee (NAC) June 2013 Recommendations for Increased Utilization of PBN in the National Airspace System* report. This process will also address issues regarding PBN field implementation that have been identified by interval FAA processes.

KEY CHALLENGE:

Mitigating Risks that Delays with the En Route Automation Modernization Program Pose to Critical NextGen Initiatives

ISSUE:

Increasing airspace capacity and reducing flight delays depend on the successful implementation of ERAM—a $2.1 billion system to replace hardware and software at FAA's facilities that manage high-altitude traffic. FAA originally planned to complete ERAM by the end of 2010. However, software problems have impacted the system's ability to safely manage and separate aircraft and raised questions as to what capabilities ERAM will ultimately deliver. FAA rebaselined the program in 2011, which pushed its expected completion to 2014 and increased cost estimates by $330 million. FAA is taking steps to get ERAM on track and is using the system on a full-time basis at several sites—a significant step forward given the extensive software problems during testing at the two initial sites. Recent progress at those two sites has allowed FAA to phase out their legacy air traffic control systems. However, other facilities continue to identify software problems, and FAA will likely encounter these and other issues when it implements ERAM at some of the nation's busiest facilities. If software problems persist, the program's cost growth could exceed $500 million, and delays could stretch out to 2016. Prolonged delays with ERAM will directly impact the overall cost and pace of NextGen. Without ERAM, the benefits of several other programs, such as a new satellite-based surveillance system and data communications for controllers and pilots, will not be possible.

ACTIONS TAKEN IN FY 2013:

The program office has implemented a deep-dive architecture review of the system. This work focuses on areas of system stability, reliability, and interoperability with other NextGen systems. The recommendations and monitoring data from the ERAM architecture review demonstrate the system is either meeting or exceeding performance levels for availability in its system and sub-system components.

The program office continues to apply its processes and standards for packaging and deploying builds using a collaboratively-managed process between the program office, second level engineering, NATCA, and site teams to deploy software. This process ensures upstream planning beginning more than three months in advance of software test dates to ensure that the necessary plans, resources, and sites are aligned to ensure robust verification and validation of software in 'like-operational' conditions.

The program office initiated recurring pre-operational review meetings with the sites that have not yet begun initial operations with ERAM. While this process is typical of any site that would be planning to transition to ERAM-based operations, starting it this far in advance is not typical. This early start is aimed at better understanding any potentially new and specific downstream needs and proactively addressing them.

The ERAM program continues to use the standing work group within the construct of the contract between the FAA and NATCA, as well as Professional Aviation Safety Specialists (PASS), to collaborate on program strategy, software content, site implementation needs, and a range of other activities. This improves transparency and communication for developing buy-in to the program, and has enhanced the ability of the program to successfully achieve key programmatic milestones.

The ERAM program has renegotiated the ERAM contract with the prime vendor for FY 2012 efforts and beyond. This renegotiation included a reexamination of multiple components including contractor incentive structure(s), the relationship between software milestones and the triggering of those incentive(s), and Agency controls to strengthen processes around software acceptance.

The initial analysis and recommendations stemming from the ERAM independent verification and validation project have confirmed the adequacy and stability of the underlying code base to support the anticipated needs of NextGen programs. In addition, the analysis and recommendations from the ERAM software planning and issues analysis process improvement project have yielded communication, data flow, and integration improvements to better ensure that the program's software planning forums are efficiently and effectively aligned.

Finally, FY 2013 implementation plans were impacted by the sequestration, especially at the five sites that achieved initial operations immediately prior to sequestration (Cleveland, Boston, Memphis, Washington, DC, and New York). At the three sites in continuous operational runs in FY 2013, the necessary re-training was started to support operational runs later in this fiscal year. The Washington and New York Centers, whose re-training requirements were more severe, could not begin any level of re-training prior to September of 2013 (a seven month delay from their prior operational runs in March 2013). The remaining 4 sites (Fort Worth, Miami, Atlanta and Jacksonville) will now initiate operations later than originally planned. As a result, the program must be extended longer than was originally anticipated, with a planned last-site operational readiness date in the second quarter of FY 2015. This creates a seven month delay in the program. This increases the total cost to deliver ERAM because of the overhead associated with the program office, Lockheed Martin Corporation, and service life extension, to deploy ERAM at sites extends 7 months as well, on the order of approximately $42 million.

KEY CHALLENGE:
Making Decisions on Facility Consolidation and Modernization

ISSUE:
FAA has not made key decisions on the number and locations of air traffic facilities needed to support NextGen or on the level of automation that can be realistically and safely achieved to manage traffic. In November 2011, FAA formalized an initial plan for consolidating en route centers and Terminal Radar Approach Control (TRACON) facilities into large, integrated facilities in six geographic segments across the country. Since then, the Agency has focused on plans in the New York area but has delayed a final decision until May 2013 on where to build the integrated facility. Ultimately, successfully implementing FAA's plans will require the Agency to address challenges with cost estimates, funding sources, and workforce issues.

Consolidation will likely be a long-term challenge for FAA, as its NextGen modernization plans were based on the traditional facility set-up of en route centers and TRACONs—not integrated facilities. Integrating facilities will also require cost and schedule changes to modernization programs that already have established baselines. The Terminal Automation Modernization and Replacement program alone involves about $1 billion through 2018 to replace aging displays and processors that controllers rely on to manage takeoffs and landings, the most critical phases of flight. FAA recently approved plans to begin transitioning to a new terminal automation system at 11 large TRACON facilities through 2017. However, the Agency has yet to determine whether its consolidation efforts will impact these facilities."

ACTIONS TAKEN IN FY 2013:
FAA's NY Integrated Control Facility (ICF) Initiative: The FAA established the goal to issue a land Request for Information (RFI) of properties in NY State for the NY ICF. The FAA issued an RFI for sites for the NY ICF in December 2012. The RFI closed Jan 31, 2013. The FAA is in the process of evaluating the offers received, including low-cost and no-cost sites. While the long-term plan is to proceed with a full ICF, due to financial constraints, the full ICF option is not viable at this time. In the near-term, the FAA

is conducting an Options Analysis to inform FAA leadership on possible NY facility solutions.

FAA's Section 804 Collaborative Workgroup: The FAA's workgroup finalized the process for evaluating facility realignments. FAA leadership planned to brief Congress on the workgroup's progress and activities in the spring of 2013. However, due to sequestration, FAA leadership has not yet briefed Congress on the process for facility realignments. Additionally, the workgroup activities are aligned with ATC facilities sustainment, replacement, and modernization efforts, as well as the Terminal Automation Modernization and Replacement program schedule.

KEY CHALLENGE:
Completing an Integrated Master Schedule for NextGen Transformational Programs

ISSUE:
The FAA has not yet developed an Integrated Master Schedule for implementing NextGen transformational programs, or established total program costs, schedules or performance baselines. Decision makers in Congress and the Department lack sufficient information to assess progress as requirements evolve. Without a master schedule the FAA will continue to be challenged to assess progress with NextGen efforts, establish priorities, and make necessary trade-offs between programs.

ACTIONS TAKEN IN FY 2013:
The FAA's NextGen Management Board ratified the final version of the National Airspace System Segment Implementation Plan (NSIP), Version 5, on December 3, 2012. The updated version of NextGen Implementation Plan was published on June 13, 2013.

During 2013, the NSIP was virtualized and integrated into the national airspace system enterprise architecture enabling a more efficient three phase update process that includes: Service Roadmap revalidation; Infrastructure Roadmap revalidation; and Portfolio Revalidation. With the completion of the service and infrastructure roadmap reviews, the initial draft of NSIP 2014 (formerly NSIP 6.0) was completed on September 30, 2013. The NSIP Portfolio Revalidation began on August 8, and resolution and adjudication of comments started on September 9, 2013.

The FAA continues to align the Integrated Master Schedule with the NSIP. High level Segment Bravo schedules are currently being incorporated.

NextGen increments are currently being linked to their respective programs/systems. On September 30, 2013, the FAA completed linking for the Separation Management Portfolio: Advanced Technologies and Oceanic Procedures and Data Comm.

Quarterly Portfolio Management Reviews (PfMRs) for each NSIP Portfolio were conducted starting the first month after the end of the fiscal quarter: in January 2013 (1st QTR FY 2013); April 2013 (2nd QTR FY 2013); and July 2013 (3rd QTR FY 2013). Milestone dates, key activities, accomplishments and challenges such as sequestration impacts were discussed and statused. Mitigation strategies were identified/ implemented.

KEY CHALLENGE:
Achieving Expected Outcomes from Reorganization to Improve NextGen Management

ISSUE:
Many of FAA's difficulties with implementing NextGen stem from underlying management challenges, such as assigning responsibility, accountability, and authority. In 2011, FAA commissioned an internal study to examine how the Agency's internal structure, processes, and management culture could be improved to support NextGen. Based on the study's recommendations, FAA announced a major reorganization in 2011 to better position NextGen for success. FAA elevated the former NextGen office—creating an Assistant Administrator for NextGen who reports directly to the FAA Deputy Administrator—and established a new Program Management Office. This new office will also work to bridge the gap between strategic requirements and program implementation. FAA is still in the early stages of this reorganization, and work remains to establish best practices and institutionalize changes.

ACTIONS TAKEN IN FY 2013:
Program Management Office (PMO) Charter and Strategic Plan: Both a charter and a strategic plan were developed in 2013. The charter defines the PMO's mission, responsibilities, supplemental relationships, and lines of succession within the PMO. The charter complements the PMO strategic plan which encompasses four focus areas: organizational alignment and leadership, policies and processes, human capital, and information management and stewardship.

Define Workplan for Future NSIP: NSIP workplans are now being integrated into the national airspace system enterprise architecture framework. In doing so, the NSIP was virtualized,

making it accessible in a web-based environment. This resulted in the merger of three independent re-validation processes: Infrastructure Roadmap, Service Roadmap, and NSIP.

Institutionalizing Idea to In-service (i2i): The Idea to In-service (i2i) process defines the collaboration, structure, and coordination required of FAA lines of business and staff offices to ensure the successful implementation of NextGen, while simultaneously maintaining the current national airspace system. i2i was approved by the agency and its key components were integrated into the Acquisition Management System (AMS) to ensure that Operational Concepts are fully vetted before they are included in the national airspace system Concept of Operations.

PMO Program Reviews: The Air Traffic Organization (ATO) conducts bi-weekly program reviews to ensure critical information relative to program status and related activities are provided to program management executives, NextGen, Air Traffic Operations, and shared service stakeholders. The review sessions cover topics such as, risks issues and mitigation strategies, program status, major accomplishments, key assumptions, goals, objectives, and interdependencies.

Portfolio Management Reviews (PfMRs): The PfMRs are a process the agency uses to help manage and implement the contents of the NSIP. Significant changes in the content and execution of the PfMRs over the course of the last year are as follows: inclusion of risk management material, assessing increment performance based on cost schedule and technical assessments. These reviews also include pre-implementation work, such as, descriptions, schedules, funding, and linkage to portfolio increments resulting in a well-defined line of sight between pre-implementation activities and implementation work in progress.

NextGen Management Board Reporting of NSIP Progress: NextGen Management Board reporting has evolved over the past year from being a quarterly report which focused solely on the status of targeted milestones to the most current format, which is a monthly review of all milestones, planning activities, cross-cutting issues and implementation results.

NextGen Performance Snapshots Website: The NextGen performance snapshots website was launched in March 2012. It is a reporting tool designed to show performance at locations where NextGen programs and initiatives have been implemented. It is updated quarterly, with six releases published as of July 2013. The website provides information on NextGen efforts and accomplishments, as well as data on performance at the 30 Core airports, the city pairs recommended by the NextGen Advisory Committee, and on airspace such as the Gulf of Mexico.

KEY CHALLENGE:

Integrating Unmanned Aircraft Systems (UAS) in the National Airspace System

ISSUE:

The application of UAS in the United States for research, law enforcement, private sector, and State government needs continues to grow. FAA predicts there will be roughly 10,000 active commercial UAS in 5 years, with industry investing over $89.1 billion in UAS technology over the next 10 years. The FAA Modernization and Reform Act of 2012 (FMRA) requires the Secretary of Transportation to develop a comprehensive plan that will safely and fully integrate UAS into the national airspace system no later than September 30, 2015.

The FMRA also requires FAA to establish a program to integrate UAS into our nation's airspace at six test ranges by late summer 2012. The selection for these test sites was scheduled to begin in July 2012, but there have been delays due to privacy concerns. The FAA has charted a path forward and the selection process commenced on February 14. It is anticipated that the test site selection process will conclude by the end of 2013.

In addition, the FAA and DOT are currently coordinating language for the small UAS Notice of Proposed Rulemaking (NPRM) which is targeted for release later this year. There are significant integration-related questions that must be answered through research and development. The FAA's UAS research program is targeted at those specific integration-related issues, such as sense and avoid, and is aligned with partner agency (NASA) research efforts.

While the expanded use of UAS presents great opportunities, it also presents significant challenges (safety, privacy) as unmanned aircraft are inherently different from manned aircraft. The impact of integrating UAS is similar to the integration of jet powered aircraft that occurred during the 1950's and 1960's. The FAA will meet the challenge of UAS as we did the challenge of jet powered aircraft. It is important to note that the integration of UAS is not a destination but a continuous journey. As the NextGen systems come on-line in the national airspace system, higher and higher levels of UAS integration will be possible. The airspace system is constantly evolving and changing and with

those changes aircraft will also evolve, allowing even greater integration and utilization.

ACTIONS TAKEN IN FY 2013:

Publication of UAS Roadmap: This action has been completed. The first edition of the UAS Roadmap was released and published on November 7, 2013. The UAS Roadmap will provide (initial) necessary stakeholder guidance for the path to UAS integration. The Roadmap will be updated and published annually, and will include lessons learned, progress and accomplishments from the previous year. As part of the development of the UAS Roadmap, the FAA received detailed recommendations on integration related tasking from the UAS Aviation Rulemaking Committee (ARC). The FAA considered these UAS ARC recommendations in the development of the UAS Roadmap.

Execution of Research Activities as Defined by the UAS Integration Office: This action is ongoing. The FAA has been executing on planned research requirements and is coordinating research activities with other Federal agencies, including National Aeronautics and Space Administration and the Department of Defense. Research focus areas include Sense and Avoid (SAA) and Command and Control (C2). In conjunction with RTCA Inc., the FAA launched a new Special Committee (SC-228) which will focus on standards development for SAA and C2 systems.

Commencement of the six UAS Test Site selection process: This action has been completed. The solicitation (Screening Information Request) for the test site selection process was publically released on February 14, 2013.

Actual selection of the six UAS Test Sites: This action is in progress. The selection of the six test sites by the FAA Administrator is expected by the end of 2013.

Initial flight testing activities in support of the expansion of small UAS in the Arctic: This action has been completed. Initial flight tests were conducted in the Arctic using small UAS on September 12, 2013.

Release of the small UAS Notice of Public Rulemaking: This action is pending. The FAA continued work with the Department of Transportation on development of language to be included in the small UAS Rule. The release of the Small UAS Notice of Proposed Rulemaking (NPRM) for public comment is planned for 2014.

ENHANCING FAA'S OVERSIGHT AND USE OF DATA TO IDENTIFY AND MITIGATE SAFETY RISKS

KEY CHALLENGE:

Identifying Trends in Operational Errors and Determining Their Root Causes

ISSUE:

The FAA must make better use of data on operational errors to investigate incidents, identify trends and mitigate their risks.

To identify root causes of safety problems and mitigate their risk, the FAA needs to fine tune its approach to how it collects, verifies, and uses safety data.

To realize the full potential of hte Air Traffic Safety Action Program (ATSAP), the FAA must close program gaps: such as a lack of a formal process to review committee decisions on errors and enforce key ATSAP guidelines and requirements.

FAA lacks an accurate baseline on the number of separation losses due to its limited use and review of the Traffic Analysis and Review program data, gaps in ATSAP reporting, and inconsistent classification of separations losses.

FAA's new policies transfer the function of investigating operational errors from the facilities where they occur to the air traffic service areas. Facility managers raised concerns about whether the Service Areas have enough staff and knowledge of local flight procedures to successfully carry out this responsibility.

The mitigation strategy for operational errors included in the new policies lack a previously identified causal factors, trends, and follow-up actions to address the—considered to be key elements for mitigating the highest safety risks.

ACTIONS TAKEN IN FY 2013:

The FAA ATO is conducting its largest and most significant safety improvements regarding the way air traffic control risk, safety performance, and analysis of safety risks are managed in the United States. From implementation of voluntary reporting, to new electronic separation loss detection programs, the development of standardized risk assessment and validation processes and the establishment of a proactive safety management system, the FAA has greatly enhanced its ability to identify precursors, root causes, and trends of safety risks system-wide rather than reacting to single incidents. Following our Safety Management System which requires continuous improvement of our processes, the ATO is making improvements

to our safety programs, such as Quality Assurance (QA) and Quality Control (QC), as well as sharing the ATO's safety data with Aviation Safety Information Analysis and Sharing (ASIAS) for analysis of air traffic control and aircraft safety data. Combining air traffic and aircraft data offers opportunities, never available before, to improve aviation safety.

The ATO Quality Assurance Group has developed Standard Operations Procedures (SOP) and validation training for QA Specialists who review Mandatory Occurrence Report /Electronic Occurrence Report at the ATO Safety and Technical Training service area offices. The QA SOP became effective in January 2013 and was revised in May 2013. A QA SOP training course was developed to standardized methods for identifying high risk hazards, trends, and systemic issues within the national airspace system. The initial training course was delivered to the service area leads and specialists between February 26 and March 29, 2013. Individual assessments and certification recommendations were completed by each service area manager and approved by the group manager during February and March. As a follow up, a QA management team led onsite internal reviews to assess SOP guidance effectiveness during April and May. An SOP revision was completed in May and subsequent training was held in June.

In order to comply with IG recommendations, the FAA fully implemented the Traffic Analysis and Review Program which electronically captures quantitative data relating to the vast majority of occurrences involving losses of separation. The program was fully implemented in terminal radar facilities in September 2012 and in en route facilities in May 2013. Full program implementation has proven effective by generating a greater amount of separation data than previously available and consolidating valuable safety information into a common database available to all facilities.

Standardized Safety Guidance (ATO–SG-12-05), dated January 7, 2013, clarified frequently asked questions related to the implementation of new quality assurance, quality control, safety occurrence reporting, and Individual Performance Management processes. A collaborative Quality Assurance Validation Board, which meets quarterly, was established to improve application of safety standards, risk analyses, and identification of root causes. The ATO continues to analyze aggregate data and identify significant and common hazards through its Risk Analysis Program (RAP). RAP identifies contributing factors where less than 2/3 of standard separation was maintained. RAP findings contribute to mitigation efforts as part of the ATO Top 5 initiatives to improve overall safety in air traffic service delivery.

Fair and objective principles, efficient processes, and logical/timely responses to voluntary safety reports are emphasized in training for ATO employees. In April 2013, the ATSAP Office developed audit guidance and checklists to establish critical process checkpoints and evaluation steps. ATSAP will conduct internal audits and has realigned its workflows to facilitate quality reviews within the program, including the effectiveness of the Event Review Committee. This effort promotes continuous improvement as part of implementing quality management systems.

KEY CHALLENGE:

Advancing Oversight by Implementing the Airline Safety Act of 2010

ISSUE:

In August 2010, Congress passed the Airline Safety and Federal Aviation Administration Extension Act of 2010 (the Act), which directed the FAA through legislation to change requirements to improve pilot rest requirements, establishing better processes for managing safety risks and advancing voluntary safety programs. Although the IG acknowledges the progress that the FAA has made, it noted missed deadlines and overdue milestones. While the Act directed the FAA's rulemaking activities, it did not exempt it from the statutory requirements of rulemaking such as regulatory evaluation, economic analysis and approval by other federal agencies. The FAA is making steady progress towards completion and enhancement of safety through improved qualification standards and training for pilots in part 121.

The Act also directs FAA to establish a "FAA Pilot Records Database" that must contain information collected by the FAA, air carriers and other employers of pilots, and the national driver register records. Air carriers will be required to access and evaluate a pilot's record before allowing an individual to begin service as a pilot. This will improve upon the timeliness of the existing paper based share data instituted by the Pilot Records Improvement Act of 1996.

ACTIONS TAKEN IN FY 2013:

The FAA has utilized multiple tools to accomplish several requirements of the Act, including rulemaking and the publication of guidance to inspectors and operators in the form of Notices,

Information for Operators, Safety Alerts for Operators, and Advisory Circulars (ACs).

Specifically, the FAA published Advisory Circular 120-109, *Stall and Stick Pusher Training*, which details best practices and guidance for training, testing, and checking for pilots to ensure correct and consistent responses to unexpected stall warnings and stick pusher activations; and a final rule on Pilot Certification and Qualification Requirements which created new minimum requirements for pilots in air carrier operations;

Additionally the FAA continued to work on the final rule for *Qualification, Service and Use of Crewmember and Aircraft Dispatchers*. The final rule entered executive review in June 2013. This rule is designed to enhance training requirements for all air carrier pilots.

The FAA continues to make progress on the Pilot Records Database (PRD) despite the complexity associated with this project (as noted in DOT IG Report AV-2013-037 dated January 31, 2013). In March 2013, a Rulemaking Action Plan was approved, which outlines key issues associated with implementation of this rule. The PRD rulemaking team is currently drafting the NPRM document.

Current rulemaking projects are in various stages of the process. The rulemaking process is complex and lengthy as the FAA considers all aspects of impact and the input of stakeholders. The FAA was challenged in completing the requirements of the Act by short timelines, requirements between sections, and the need for coordination with industry and other agencies before proposing a final rule.

KEY CHALLENGE:

Providing More Rigorous Risk-Based Oversight of Repair Stations and Identifying Inspector Staffing Requirements

ISSUE:

Since 2003, the IG has issued reports critical of FAA's surveillance of aircraft repair stations. The most recent one, released in January 2013, states that FAA's risk based oversight system to help inspectors target surveillance to areas of higher risk is ineffective. Also, it does not provide inspectors with comprehensive data needed for analytical reviews of a repair station's performance.

Also, the DOT's IG does not think that FAA's inspector staffing model effectively projects staffing needs due to incomplete and inaccurate data. The IG has stated that FAA must further refine this tool so that it more effectively allocates inspector resources.

ACTIONS TAKEN IN FY 2013:

The FAA recognizes IG concerns and is taking action to rectify performance gaps that contributed to the issues identified in the IG report. In the interim of implementing the new certification and surveillance system called Safety Assurance System, FAA established a team to review and focus on improvements to the current FAA risk-based oversight system, and inspector guidance and training, based on the IG recommendations. In August 2013, FAA personnel conducted a briefing to the Flight Standards Regional branch managers on IG concerns and each recommendation detailed in their report. FAA's oversight system and its application in FAA's oversight of part 145 repair stations was briefed to re-familiarize the use of FAA oversight system as it was intended and to completely convey the expectations that all international field offices are required to use the protocols. The problems and causes of each issue along with the next steps to occur were discussed in the briefing. The regional branch managers briefed all the field office managers and inspectors in September 2013. The team began drafting revisions to FAA Order 8900.1 and repair station course to include the changes necessary that will provide more comprehensive and standardized procedures for conducting inspections and reporting findings. A recurrent training course is under development requiring airworthiness inspectors to complete annually, titled "Assessment and Planning Tools Transition Training for Airworthiness Inspectors". The course provides instructions on the use of the risk-based oversight system tools and processes currently in place. It emphasizes the necessity to act upon identified risks until mitigation is complete. A standardized checklist has been developed for inspectors to use and ensure a complete inspection is performed.

KEY CHALLENGE:

Identifying the Effects of Air Traffic Controller Scheduling on Safety, Cost Efficiency, and Controller Performance

ISSUE:

A series of high-profile incidents in early 2011 involving controllers who were sleeping on duty sparked public concern about controller fatigue. In April 2011, FAA instituted a series of policy changes including placing an additional air traffic controller on the midnight shift at certain facilities and mandating a minimum of 9 hours off between evening and day shifts.

ACTIONS TAKEN IN FY 2013:
ATO formally established a Fatigue Risk Management System to identify potential controller cognitive performance and safety related effects due to human fatigue. The Fatigue Risk Management Team provides fatigue research, comparative analyses, and other educational material to the Fatigue Safety Steering Committee, consisting of senior ATO, NATCA, and PASS representatives, on a quarterly basis for their consideration.

In mid-2012, FAA implemented quality controls to ensure a minimum of 9 hours between the evening and day shift: (1) periodic quality control checks to identify facilities and individuals that are not in compliance; (2) facility management follow-up to ensure compliance; and, (3) any obstacles to compliance are briefed to senior ATO leadership for resolution. The quality control checks implemented were effective and remained in place through FY 2013. FAA continued to track compliance with periodic compliance checks accomplished quarterly during FY 2013. ATO reached total compliance by the end of FY 2013.

STRENGTHENING FINANCIAL MANAGEMENT OVER GRANTS TO BETTER USE FUNDS, CREATE JOBS AND IMPROVE INFRASTRUCTURE

KEY CHALLENGE:
Strengthening DOT's Acquisition Planning, Oversight, and Workforce

ISSUE:
Modernizing the complex, highly sophisticated national airspace system depends on FAA's acquisition workforce professionals and requires that they be of the highest caliber. FAA's 2012 acquisition workforce plan provides the blueprint for developing a high-performing acquisition workforce capable of successfully managing the FAA's major systems acquisitions, including the Systems Engineering 2020 contracts and the ERAM program. The 2012 plan emphasizes the need for and the specific steps being taken to train and develop the existing workforce, reflecting the realities of a federal budget climate that constrains the agency's ability to hire additional resources. Looming retirements, competition for acquisition talent inside and outside of government, and the growing complexity of technology and related system requirements all contribute to the challenge of maintaining an adequately staffed, highly capable acquisition workforce.

ACTIONS TAKEN IN FY 2013:
The agency published the FY 2013 update to the Acquisition Workforce Plan. The plan is the primary tool for identifying, implementing and report the initiatives and accomplishments FAA has taken and made to address this management challenge.

FAA collected and tracked information about the professionals who comprise the acquisition workforce, including gains and losses. FAA uses this information to develop and maintain profession-specific competency models and track progress toward the achievement of mandatory and voluntary certification levels. We collected this information on an ongoing basis.

FAA initiated two new certification programs—for Test & Evaluation professionals and for Systems Engineering professionals—in FY 2013.

FAA met all of its business plan goals for the certification of professionals in the workforce, including program managers, contracting officer/specialists and contracting officer's representatives.

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Financial Audit Summary

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements by the agency's auditors in connection with the FY 2013 audit.

TABLE 1: SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	FY 2013-unmodified*				
	FY 2012-unqualified				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

* Beginning in FY 2013, terminology was changed from "unqualified" to "unmodified."

Management Assurances Summary

Table 2 is a summary of management assurances related to the effectiveness of internal control over the FAA's financial reporting and operations, and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The last portion of Table 2 summarizes the FAA's compliance with the Federal Financial Management Improvement Act (FFMIA).

TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)

Statement of Assurance	**Unqualified statement of assurance**					
	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)

Statement of Assurance	**Unqualified statement of assurance**					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0	0

Conformance with financial management system requirements (FMFIA § 4)

Statement of Assurance	**Systems conformance to financial management system requirements**					
NonConformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Conformance of the FAA's core financial management system, Delphi, is assessed and reported by the Department of Transportation.	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)

	Agency	**Auditor**
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

SUMMARY OF IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002 requires agencies to review their programs and activities to identify those susceptible to significant improper payments. IPIA was amended on July 22, 2010, by the Improper Payments Elimination and Recovery Act (IPERA) of 2010. IPERA strengthens the requirements for government agencies to carry out cost-effective programs for identifying and recovering overpayments, also known as "recapture auditing."

The Office of Management and Budget (OMB) Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments provides guidance on the implementation of IPERA. OMB A-123, Appendix C defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

FEDERAL AVIATION ADMINISTRATION (FAA) PROCESS

The FAA's process for complying with IPERA and OMB Circular A-123, Appendix C, consists of the following steps:

1) Review program and activities to identify those susceptible to significant improper payments
2) Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified as susceptible to significant improper payments
3) Implement a plan to reduce erroneous payments
4) Report estimates of the annual amounts of improper payments in programs and activities and progress in reducing them

For FY 2013 reporting, the FAA conducted the above four-step process for the 12-month period of April 1, 2012 to March 31, 2013. For FY 2013, we also developed a Do Not Pay Implementation Plan to be in compliance with the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 and provided a high-dollar quarterly report to the U.S. Department of Transportation (DOT) Office of the Inspector General (OIG), OMB, and displayed on DOT website.

I. Risk Assessment

The FAA's Programmatic Improper Payment Risk Assessment leverages the Assessable Units (AU) Risk Profiles compiled as part of the ongoing compliance with the FMFIA. This assessment identified the Airport Improvement Program (AIP) as high-risk for FY 2013 due to the volume of payments made annually, approximately $3.5 billion for AIP, coupled with the fact that federal funds within these programs are further administrated outside the agency by local governments or airport sponsors. The FAA's programmatic improper payment risk assessment leverages the AU risk profiles compiled as part of ongoing compliance with the FMFIA of 1982.

Table 1 lists the high-risk program name and the disbursements population selected for FY 2013 testing.

TABLE 1. HIGH-RISK PROGRAM SELECTED FOR TESTING

Operating Administration	Program Name	FY 2013 Disbursements (Based on Actual Data)
FAA	Airport Improvement Program (AIP)	$3,517,553,509.73

The DOT is in the process of completing a revised Department-wide risk assessment for reporting in FY 2014, which will include FAA programs and funding activities. Based on the results of this risk assessment, the FAA will determine if AIP is still considered a high-risk program or if there are additional programs that should also be included in the reporting. In FY 2014, under OMB Circular A-123, Appendix C, the threshold for determining whether a program is at high risk for improper payments is reduced from 2.5 percent to 1.5 percent and $10 million or $100 million in improper payments (regardless of the error rate). The susceptibility of programs making significant improper payments will be determined by qualitative and quantitative factors.

II. Statistical Sampling

The AIP sampling approach has not changed from the prior year. The FAA obtained the data extracts from a single source, the DOT's financial system of record, Delphi. Additionally, to verify both sample integrity and the accuracy of extrapolated programmatic improper payment estimates, we collaborated closely with the OIG's IPERA statistician to develop sampling and extrapolation methodologies mutually agreed upon by both parties.

Sample results provided an overall improper payment point estimate of the percentage of improper payment dollars at the 90 percent confidence level within precision requirement of 2.5 percent.

Table 2 lists the results of the testing.

TABLE 2. SAMPLE TEST RESULTS

Program	FY 2013 Payment Population	FY 2013 Sample Size – Stage 1	FY 2013 Sample Size – Stage 2	FY 2013 Estimated Error Amount	FY 2013 Estimated Error %
AIP	$3,517,553,509.73	$118,049,087.84	$17,827,397.54	$2,417,895.87	.07%

III. Corrective Actions

The following table lists corrective actions for the AIP program. These corrective actions are targeted at addressing the root causes behind administrative and documentation errors caused by processing the payments incorrectly by the grantees.

Table 3 lists the corrective actions.

TABLE 3. CORRECTIVE ACTIONS

Risk Factor	Corrective Action	Target Completion Date
Application of the Incorrect Federal Share: The FAA identified three occurrences from one grantee applying the incorrect federal share. The grantee agreement for the project indicated a reimbursement of 90 percent. However, the grantee applied a 95 percent reimbursement rate.	The FAA will provide additional guidance to grantees regarding grant drawdowns at the correct federal share. In addition, as part of FY 2014 grant offers, the FAA will highlight the importance of sponsors' reimbursement requests at the proper federal share over the life of the grant. The FAA management will continue to conduct invoice reviews under its current grant payment policy.	May 31, 2014

IV. Fund Stewardship

The FAA stresses the importance of proper fund stewardship with its grant recipients via various grantee review programs and receives reports for each grant to assess sponsor performance. On a broader level, the FAA utilizes a risk-based approach that increases the level of review of sponsor documentation depending on the calculated risk level and prior performance of the grantee.

V. Improper Payment Reporting

Table 4A summarizes improper payment amounts for the FAA's high-risk program, AIP. Improper payment percent (IP%) and improper dollar (IP$) results are provided from last year's and this year's testing of payments. Data for projected future year improvements are based on the timing and significance of completing corrective actions.

TABLE 4A. IMPROPER PAYMENT REDUCTION OUTLOOK

Program	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays ($M)	CY IP%	CY IP$ ($M)	CY+1 Est. Outlays ($M)	CY+1 IP%	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP%	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP%	CY+3 IP$ ($M)
FAA Airport Improvement Program	$3,459	0.065%	$2.2	$3,520	0.070%	$2.4	$3,485	0.50%	$17.4	$3,179	0.50%	$15.9	$2,988	0.50%	$14.9

Key: PY = Prior Year
CY = Current Year
IP = Improper Payment

Overpayments and Underpayments Details

Table 4B provides overpayment and underpayment breakout for FAA's high-risk program AIP.

TABLE 4B. EXTRAPOLATED FAA OVERPAYMENT UNDERPAYMENT PROGRAMMATIC ESTIMATE

	Improper Payment Dollar Amount	Improper Payment Percent
FAA Overpayment Estimate	$2,417,895.87	0.07%
FAA Underpayment Estimate	N/A	N/A

VI. Recapture of Improper Payments Reporting

The DOT's contract recovery auditors worked to recover any FAA overpayments and identify payment process weaknesses. The recovery auditors did not, however, identify any systemic payment process weaknesses. The overpayments were of such immaterial amounts that it was not considered cost-effective to break them down by agency and therefore they were reported at the departmental level (in the DOT's Performance and Accountability Report).

VII. Ensuring Management Accountability

The FAA's goals and requirements of IPERA were communicated to personnel at all levels of the organization that are held responsible and accountable for reducing and recovering improper payments.

- The FAA has an existing control process with the OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, which requires the FAA to review internal control over financial reporting and systems. This review includes determining if the systems are well documented, sufficiently tested, and properly assessed. The scope of these reviews includes reviewing and testing the key internal controls surrounding the payment disbursements for grant and contractual payments.
- The FAA uses a vast network of regional offices to ensure that the FAA maintains regular communication with grantees as well as state and local officials. The FAA ensures that grantees understand the purpose of grant reviews during each step of the review process. This constant communication, along with the aid of grantee staff, has allowed the FAA to not only maintain a low rate of improper payments, but also achieve success in recapturing payments identified as both improper and recoverable.

VIII. Agency Information Systems and Other Infrastructure

The FAA currently possesses the internal controls, human capital, and information systems necessary to maintain improper payments levels at the targeted programmatic rates.

IX. Statutory or Regulatory Barriers

None.

X. Overall Agency Efforts

The FAA is implementing lessons learned from the past five years of testing AIP improper payments. For example, we continue to communicate and train grantees on areas of improvement to prevent improper payments. These efforts have resulted in a lower improper payment percentage rate and dollar amount for the current year. The FAA will continue to put into place preventive measures on an ongoing basis.

ADMINISTRATIVE SERVICES FRANCHISE FUND

BACKGROUND

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

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance, international training and management training. The Franchise Fund's major customers are the FAA lines of business programs. Other customers include Department of Transportation (DOT) entities, non-DOT government agencies, and international government entities.

DESCRIPTION OF PROGRAMS AND SERVICES

Several programs within the Franchise Fund are organized around an **Enterprise Services Center** (ESC) concept, designed to integrate the key components necessary to be a full service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. There are three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System-configuration and support of application software and databases
- Financial Operations-transaction processing, financial reporting, and analysis services
- Information Technology-hosting, telecommunications, information system security, and end user support services

During FY 2005, the OMB selected ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC has the ability to compete to provide financial management services for other government agencies. The ESC currently provides financial management services to all the DOT agencies, and a number of other non-DOT Executive Branch agencies, including the Securities Exchange Commission, the National Endowment for the Arts, the Commodity Futures Trading Commission, the Institute of Museum and Library Services, and the United States Government Accountability Office (Legislative Branch). The ESC continues to forward proposals to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all the FAA organizations. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program (JFMIP) requirements.

The Franchise Fund also includes the following program areas:

The **FAA Logistics Center** is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City, Oklahoma, and provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the national airspace system and related requirements. Services include materiel management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of national airspace and related equipment. The Logistics Center also maintains the Department of Homeland Security's Customs and Border Patrol border surveillance systems, including more

than 80 mobile surveillance systems and fixed towers. It provides supply chain support, depot maintenance support, engineering, and other systems support.

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is also located at the Aeronautical Center. It provides total aircraft support including maintenance, quality assurance, and overall program management for the FAA's uniquely equipped flight inspection aircraft fleet as well as other customer aircraft, including the U.S. Marshals Service and U.S. Army. This service includes preventative as well as repair/overhaul and/or modification requirements and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventative maintenance or one time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **International Training Division** (ITD), an element of the FAA Academy, at the Aeronautical Center in Oklahoma City, OK, delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers.

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND

Condensed Information

ASSETS, LIABILITIES, AND NET POSITION

(Dollars in Thousands)

Unaudited

	As of September 30	
	2013	**2012**
Assets		
Fund balance with Treasury	$ 267,335	$ 271,519
Accounts receivable, net	81	316
Inventory and related property, net	596,658	568,077
General property, plant, and equipment, net	22,891	22,950
Other	1,394	1,477
Total assets	$ 888,359	$ 864,339
Liabilities		
Accounts payable	$ 19,597	$ 30,478
Advances from others	151,459	155,770
Employee related	21,590	20,785
Other	1,458	1,294
Total liabilities	194,104	208,327
Net position		
Cumulative results of operations	694,255	656,012
Total net position	694,255	656,012
Total liabilities and net position	$ 888,359	$ 864,339

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND

Condensed Information

REVENUES AND EXPENSES

(Dollars in Thousands)

Unaudited

	For the years ended September 30	
	2013	**2012**
Enterprise Services Center		
Revenues	$ 149,108	$ 147,323
Expenses	169,059	169,353
Profit (loss)	(19,951)	(22,030)
Corp Services		
Revenues	1,302	1,634
Expenses	1,555	1,490
Profit (loss)	(253)	144
Aircraft Maintenance and Engineering Group		
Revenues	52,413	53,288
Expenses	57,908	57,939
Profit (loss)	(5,495)	(4,651)
FAA University		
Revenues	4,011	9,227
Expenses	5,680	11,037
Profit (loss)	(1,669)	(1,810)
International		
Revenues	4,077	4,087
Expenses	4,614	4,429
Profit (loss)	(537)	(342)
FAA Logistics Center		
Revenues	279,695	289,570
Expenses	257,839	273,458
Profit (loss)	21,856	16,112
Acquisitions		
Revenues	8,393	8,063
Expenses	12,205	11,704
Profit (loss)	(3,812)	(3,641)
Total Consolidated		
Revenues	498,999	513,192
Expenses	508,860	529,410
Profit (loss)	$ (9,861)	$ (16,218)

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

FRANCHISE FUND

Condensed Information

FINANCING SOURCES AND NET POSITION

(Dollars in Thousands)

Unaudited

	Cumulative results of operations	
	2013	**2012**
Beginning balance, net position	$ 656,012	$ 620,946
Financing sources		
Transfers-in/out without reimbursement	(13,552)	(11,850)
Imputed financing from costs absorbed by others	61,656	63,134
Total financing sources	48,104	51,284
Profit (loss)	(9,861)	(16,218)
Ending balance, net position	$ 694,255	$ 656,012

OTHER INFORMATION

The Schedule of Spending presents an overview of the FAA's major spending categories during FY 2013. The data used to populate this schedule are the same underlying data reported in the Statement of Budgetary Resources.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
OTHER INFORMATION
SCHEDULE OF SPENDING
As of September 30, 2013
Unaudited

Total resources available to spend	$	24,986,911
Less amount available but not agreed to be spent		1,388,704
Less amount not available to be spent		2,218,098
Total amounts agreed to be spent	$	21,380,109
Major spending categories		
Personnel compensation and benefits	$	7,499,645
Contractual services and supplies		5,338,487
Acquisition of assets		350,852
Grants and fixed charges		3,124,681
Other		5,066,444
Total amounts agreed to be spent	$	21,380,109

GLOSSARY

ACRONYM	NAME
AAE	Audit and Evaluation (FAA staff office)
AATF	Airport and Airway Trust Fund
ACAT	Acquisition categories
ACR	Civil Rights (FAA staff office)
ADS-B	Automatic Dependent Surveillance-Broadcast
AESA	Aviation Safety and Security Agency (Spanish)
AFN	Finance and Management Staff Office (FAA staff office)
AGA	Association of Government Accountants
AGC	Chief Counsel (FAA staff office)
AGI	Government and Industry Affairs (FAA staff office)
AHR	Human Resource Management (FAA staff office)
AIP	Airport Improvement Program
AMS	Acquisition Management System
ANG	NextGen Staff Office (FAA staff office)
AOC	Communications (FAA staff office)
APL	Policy, International Affairs, and Environment (FAA staff office)
AR	Authorization Required
ARC	Aviation Rulemaking Committee
ARP	Airports (FAA line of business)
ARTCC	Air Route Traffic Control Center
ASAP	Aviation Safety Action Partnership
ASH	Security and Hazardous Materials Safety (FAA staff office)
ASIAS	Aviation Safety Information Analysis and Sharing
ASDE	Airport Surface Detection Equipment
ASDE-X	ASDE including Model X
AST	Commercial Space Transportation (FAA line of business)
ATO	Air Traffic Organization (FAA line of business)
ATP	Airline Transport Pilot
ATSAP	Air Traffic Safety Action Program

ACRONYM	NAME
AU	Assessable Unit
AVS	Aviation Safety (FAA line of business)
BPTW	Best Places to Work
C2	Command and Control
CAST	Commercial Aviation Safety Team
CFO	Chief Financial Officer
CFO Act	Chief Financial Officers Act of 1990
CIP	Construction in Progress, Current Icing Products
CLEEN	Continuous Lower Energy, Emissions and Noise
COE	Center of Excellence
COTS	Commercial off-the-shelf
CSRS	Civil Service Retirement System
Data Comm	Data Communications
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
EASA	European Union Aviation Safety Agreement
ELSO	Equivalent Lateral Spacing Operations
EMAS	Engineering Material Arresting Systems
ERAM	En Route Automation Modernization
ESC	Enterprise Services Center
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FEA	Federal Enterprise Architecture
FECA	Federal Employees' Compensation Act
FedView	Federal Employee Viewpoint Survey
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FIP	Forecast Icing Products
FISB	Flight Information System-Broadcast

ACRONYM	NAME
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMRA	Flight Modernization and Reform Act
FMS	Flight Management System
FOQA	Flight Operations Quality Assurance
FY	Fiscal Year
GA	General Aviation
GAJSC	General Aviation Joint Steering Committee
GAO	Government Accountability Office
GPS	Global Positioning System
GSA	General Services Administration
i2i	Institutionalizing Idea to In-Service
ICAO	International Civil Aviation Organization
ICF	Integrated Control Facility
IG	Inspector General
ILS	Instrument Landing System
IOC	Initial Operating Capability
IP$	Improper dollar
IP%	Improper payment percent
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
ISCP	Information Security Contingency Plan
ISS	International Space Station
IT	Information Technology
ITD	International Training Division
JFMIP	Joint Financial Management Improvement Program
LP	Localizer Performance
LPV	Localizer Performance with Vertical Navigation
MMAC	Mike Monroney Aeronautical Center

ACRONYM	NAME
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NextGen	Next Generation Air Transportation System
NOAA	National Oceanic and Atmospheric Administration
NPRM	Notice of Proposed Rulemaking
NSIP	National Airspace System Segment Implementation Plan
NTSB	National Transportation Safety Board
OAPM	Optimization of Airspace and Procedures in the Metroplex
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPD	Optimized Profile Descents
OPM	Office of Personnel Management
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PASS	Professional Aviation Safety Specialists
PBN	Performance-Based Navigation
PfMR	Portfolio Management Review
PMO	Program Management Office
PP&E	Property, Plant, and Equipment
PRD	Pilot Records Database
QA	Quality Assurance
QC	Quality Control
R&D	Research and Development
R,E,&D	Research, Engineering, and Development
RFI	Request for Information
RADS	Report Analysis and Distribution System
RAP	Risk Analysis Process, Risk Analysis Program
RAPT	Route Availability Planning Tool
RECAT	Recategorization
RF	Radius-to-Fix

ACRONYM	NAME
RNAV	Area Navigation
RNP	Required Navigation Performance
RNP AR	Area Navigation Procedures with Authorization Required
RSAT	Runway Safety Action Teams
RSSI	Required Supplementary Stewardship Information
RWSL	Runway Status Lights
SAA	Sense and Avoid
SASO	System Approach to Safety Oversight
SBP	Strategy, Budget and Performance
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SFFAS	Statement of Federal Financial Accounting Standards
SOP	Standard Operations Procedures

ACRONYM	NAME
SpaceX	Space Exploration Technologies
SRER	System Risk Event Rate
SWIM	System Wide Information Management
TBFM	Time-Based Flow Management
T-SAP	Technical Operations Safety Action Program
TRACON	Terminal Radar Approach Control
TBD	To Be Determined
UAS	Unmanned Aircraft Systems
WAAS	Wide-Area Augmentation System
WJHTC	William J. Hughes Technical Center
WTIC	Weather Technology in the Cockpit

WE WELCOME YOUR COMMENTS

Thank you for your interest in the FAA's *FY 2013 Performance and Accountability Report*. We welcome your comments on how we can make this report more informative for our readers.

Please send your comments to

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Washington, DC 20591

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This report and reports from prior years are available on the FAA website at www.faa.gov/about/plans_reports.

U.S. Department of Transportation
Federal Aviation Administration

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