

A person wearing a white cap is looking out an airplane window. The image is in a light, desaturated color palette. The person's face is in profile, looking towards the left. The window frame is visible on the left side of the image.

C H A R T I N G
T H E N E X T
C E N T U R Y
O F F L I G H T

F E D E R A L A V I A T I O N A D M I N I S T R A T I O N

P E R F O R M A N C E A N D
A C C O U N T A B I L I T Y H I G H L I G H T S

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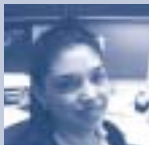
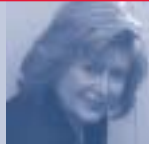


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FAA-AT-A-GLANCE



ESTABLISHED

1958

HEADQUARTERS

800 Independence Avenue, SW
Washington, DC 20591
www.faa.gov

FY 2003 BUDGET

\$13.506 billion

TOTAL NUMBER OF EMPLOYEES

49,274

HEADQUARTERS EMPLOYEES

4,148

REGIONAL OFFICES

9

TECHNICAL CENTER ATLANTIC CITY, NJ

1,319 employees

AERONAUTICAL CENTER OKLAHOMA CITY, OK

2,975 employees

FACILITIES STAFFED BY AIR TRAFFIC CONTROLLERS

395

CERTIFICATED AIRPORTS IN THE UNITED STATES

633

A MESSAGE FROM THE ADMINISTRATOR

December 18, 2003

FAA employees give America wings to fly. We maintain, operate, and oversee the largest and most complex aviation system in the world, with a safety record that is second to none. We not only set the regulatory and operational standards for the United States, we strive to enhance aviation safety around the world. International cooperation leads to international safety.

Aviation faces many new challenges in the years ahead. To help us meet these challenges and to ensure that aviation remains an engine of economic growth, we developed a new strategic plan to guide FAA into the next century of flight. FAA's *Flight Plan 2004-2008*, which was created around four ambitious goals, details how we will move forward into the future. Our goals for the coming years are:

- **Increased Safety.** Safety is not only a top public-interest priority; it is also an economic necessity. People will fly if they feel safe and will return to the skies if they trust the system.
- **Greater Capacity.** Aviation capacity is the backbone of air travel. Aviation can grow only if capacity grows. As we increase capacity, we will make sure we do so in an environmentally sound manner.
- **International Leadership.** Aviation safety is a vital national export. We will enhance America's leadership role by sharing our expertise and new technologies with our international partners.
- **Organizational Excellence.** To fulfill our mission, the FAA must operate as a world-class organization. This requires greater fiscal responsibility, stronger leadership, more cooperation, and performance-based management. With the right tools and training, our employees will bring this *Flight Plan* to life.

This Highlights report is a summary of the Federal Aviation Administration's fiscal year (FY) 2003 *Performance and Accountability Report* (PAR), which is a detailed accounting of our service to the flying public. This year we met 9 out of 12 performance goals in the areas of safety, system efficiency, and organizational excellence. We also achieved an unqualified audit opinion on our financial statements and installed a new core financial system as of the beginning of FY 2004.

Improving our overall financial management performance is an element of our organizational excellence goal. Our independent auditors reported no material internal control weaknesses at FAA.

Internally, we assess management risk through the Federal Managers' Financial Integrity Act (FMFIA) of 1982 process. I am pleased to report that the management controls and financial management systems, taken as a whole, in effect during the period October 1, 2002, through September 30, 2003, provide reasonable assurance that the objectives of both Sections 2 and 4 of the FMFIA are being met, with one internal control weakness and one financial systems nonconformance. This internal review, using broader management-risk criteria, identified our oversight of cost reimbursable contracts as a material weakness, and property accounting, where our financial systems were not integrated to meet Office of Management and Budget (OMB) requirements, as a financial systems nonconformance. Improvements to the oversight of cost reimbursable contracts are being aggressively pursued. Specific oversight goals have been incorporated into FAA's *Flight Plan* and will drive further progress in this area. With the implementation of our new financial management system last November, FAA's property accounting and financial systems meet OMB requirements. The new financial management system also brought FAA into compliance with the Federal Financial Management Improvement Act of 1996 requirements. Our previous accounting system did not meet these requirements.

Our efforts to provide a safe, secure, and efficient global aerospace system, together with our commitment to the highest standards of efficiency and integrity, will ensure that FAA continues to deliver an exceptional return on the investment by the American taxpayer.



Marion C. Blakey
Administrator

"FAA EMPLOYEES
GIVE AMERICA
WINGS TO FLY."

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE NEXT CENTURY OF FLIGHT BEGINS

The Federal Aviation Administration (FAA) is responsible for overseeing the largest, most complex, and safest aviation system in the world. It not only sets the regulatory and operational standards for the United States, but also effectively sets the bar for aviation around the world—and has for almost a half-century.

In the first decade of the 20th century, only visionaries could imagine that air travel would be a driving force behind the phenomenal growth of the American economy. But as we enter the 21st century, the future of aviation is just as hard to see. Aviation finds itself facing terrorism, structural change, and a weak global economy.

From 1926, when President Calvin Coolidge initiated Federal oversight of air safety in the United States by signing the Air Commerce Act, to the creation of the Federal Aviation Agency in 1958, to our modern-day incarnation, FAA and the aviation community have grown and worked together. We have shaped an industry that—like shipping and rail before it—conquered distance in a new way, lowered transportation costs, and created new opportunities that transformed the commercial landscape.

FAA fulfills our mission through five lines of business that work together to create and maintain the world's preeminent national airspace system. These lines of business are:

- **Air Traffic Services:** Manages civil and military air traffic by developing and recommending national policies and establishing national programs, regulations, standards, and procedures for management of the airspace; operates air navigation and communications systems and facilities; maintains separation and control of aircraft; and provides flight assistance to aircraft.
- **Airports:** Provides leadership in planning and developing a safe, secure, and efficient airport system; manages the Airport Improvement Program and the Passenger Facility Charge Program; enhances environmental quality and avoids or minimizes adverse environmental impacts that might result from a proposed FAA action in support of airport development; develops standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers; and establishes regulations for safe operation of commercial service airports and regularly inspects certificated airports for compliance.



■ **Regulation and Certification:** Oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.

■ **Research and Acquisitions:** Supports and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency; and plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.

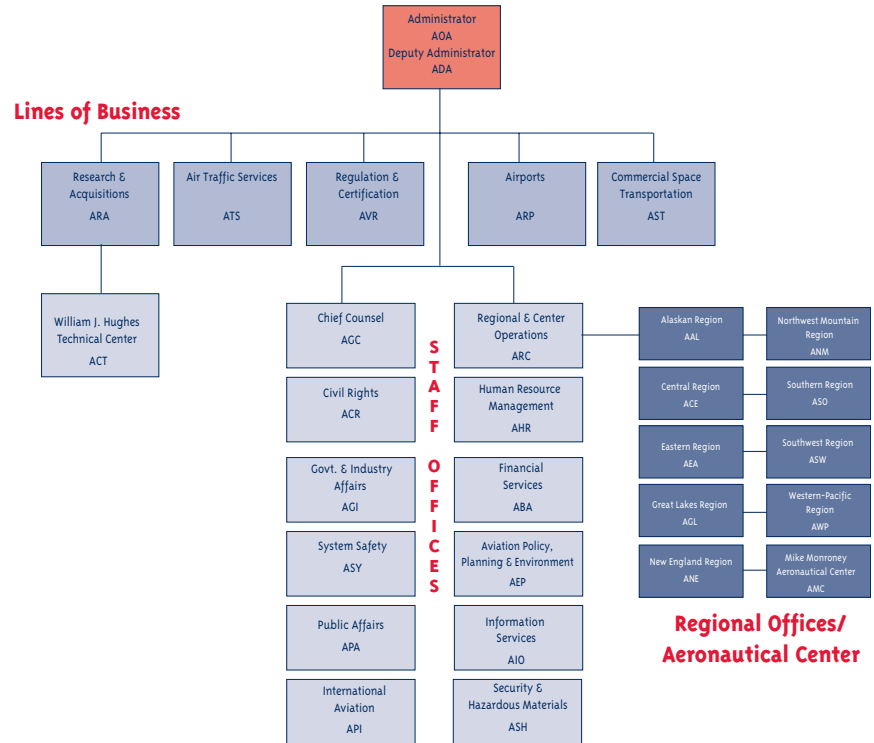
■ **Commercial Space Transportation:** Oversees the safety of commercial space launches and regulates the commercial space industry.

A YEAR IN HIGHLIGHTS

FAA, an agency of the U.S. Department of Transportation (DOT), is charged with promoting the safety and efficiency of our national airspace system. We establish and enforce regulations and oversee inspections that maintain the integrity and reliability of that system, which has fueled our economy and helped ensure our Nation's prosperity for more than 50 years.

With a workforce of 49,274 professionals and an annual budget of approximately \$13.5 billion, FAA operates and maintains the complex air traffic control system and the facilities and equipment that support it. Over 17,000 controllers manage more than half of the world's air traffic, helping to ensure

FEDERAL AVIATION ADMINISTRATION ORGANIZATIONAL CHART



Note: The Chief Operating Officer (COO) reports to Administrator; Air Traffic Organization (ATO) structure was announced in the first quarter of FY 2004.

Today's FAA faces the challenges of the next century of flight with the help of more than 49,000 employees at its headquarters in Washington, DC, in regional offices, and in facilities around the country.

ever-increasing levels of safety. The agency also conducts research to improve aviation safety and efficiency and provides grants to improve 3,400 public-use airports in the United States.

FAA Administrator Marion C. Blakey, who marked her first anniversary in office on September 15, 2003, led the agency to a number of significant milestones during FY 2003. Last year was one of continued improvement in aviation safety, with a rate of only .024 fatal commercial aviation accidents per 100,000 departures. This achievement represents a continued reduction in the commercial fatal accident rate, which keeps FAA on track to meet our ambitious goal of reducing these types of accidents by 80 percent from the 1994–1996 baseline. A number of FAA initiatives also contributed to a significant decrease in serious runway incursions—any occurrence at an airport involving an aircraft, vehicle, person, or object on the ground that creates a collision hazard—which were down more than 14 percent from last year.

During FY 2003, we also:

- Commissioned the Wide Area Augmentation System (WAAS) in July 2003. WAAS is a global-positioning system (GPS)-based navigation and landing system that provides precision guidance to aircraft at thousands of airports and airstrips that currently have no precision landing capability. WAAS is a critical component of the seamless satellite navigation system for civil aviation. This system improves the accuracy, availability, and integrity of GPS, thereby improving safety and capacity.

AN AIR TRAFFIC ORGANIZATION FOR THE FUTURE

During FY 2003, FAA Administrator Marion C. Blakey filled the position of Chief Operating Officer by appointing Russell Chew to lead a new Air Traffic Organization (ATO). Prior to joining FAA, Chew was in charge of system operations at American Airlines. His job there was to move thousands of aircraft every day. Throughout his career, from when he flew light twin engine aircraft and Lear jets and talked with controllers, to when he headed American's operations control center, he has worked closely with FAA, which makes him exceptionally well qualified to build an ATO for the future.

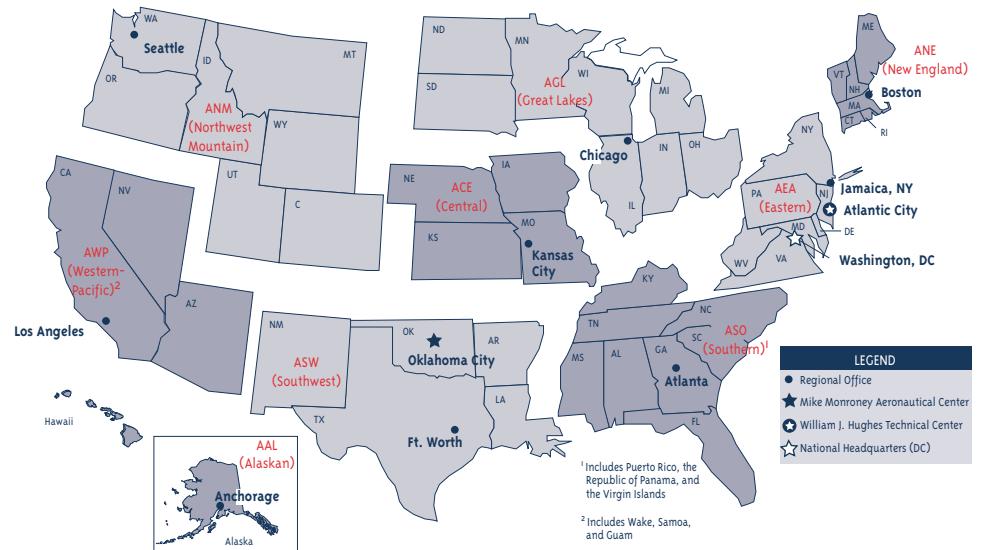
His responsibility for ensuring that hundreds of thousands of passengers reached their destinations each day at American Airlines made Chew realize that the future of the airline industry—and all of aviation—depends on what happens with our Nation's air traffic system. Both Chew and Blakey believe that only FAA can provide the environment for aviation to flourish.

Chew is now in the process of realigning FAA lines of business, including Air Traffic Services, Research and Acquisitions, and the Free Flight Program Office to create a performance-based organization that supports the aviation system of the future.

- Enabled airlines to meet the April 9, 2003, deadline for installing reinforced (hardened) cockpit doors in more than 10,000 aircraft serving the United States, making air travel safer for passengers and crews. This achievement was the result of extraordinary cooperation among FAA, its industry partners, and the international aviation community.
- Worked closely with the Transportation Security Administration (TSA) and pilots to publicize and enforce stricter temporary flight restrictions in the wake of the September 11, 2001, terrorist attacks on the United States.

- Transferred \$623.6 million of civil aviation security-related property and equipment to TSA. This follows TSA's assumption of civil aviation security functions from FAA, effective February 13, 2002, in accordance with the Aviation and Transportation Security Act.
- Worked closely with TSA to provide \$447 million in Airport Improvement Program (AIP) grants for projects to enhance security at our Nation's airports. Much of the AIP security funding approved in FY 2003 went toward terminal modifications and retrofitting baggage conveyor systems to support in-line explosive detection systems that screen baggage.
- Recruited a Chief Operating Officer to help FAA continue its progress in improving system efficiency, increasing capacity, and achieving organizational excellence.
- Released FAA's *Flight Plan 2004–2008*—a visionary strategic plan that engaged industry and stakeholders in setting FAA's future course. The plan, which is closely aligned with DOT's Strategic Plan, includes four ambitious goal areas and detailed performance targets for measuring achievement.
- Commissioned new air carrier runways at Miami International, Cleveland Hopkins International, and Denver International airports. These three runways were included in FAA's Operational Evolution Plan (OEP), which aided in ensuring that instrumentation and procedures were in place when the construction of the runways was complete.

FAA REGIONS



FAA has more than 4,000 employees at our headquarters in Washington, DC, and more than 45,000 employees located in nine regional offices around the country. Our two largest field facilities are the Mike Monroney Aeronautical Center at Oklahoma City, OK, and the William J. Hughes Technical Center at Atlantic City, NJ.

- Issued an Information Operations Condition (INFOCON) order that outlines those actions FAA will take to respond to threats to our information systems security. This order outlines an agencywide approach to defend against system attacks, to mitigate damage to the extensive information infrastructure, and to guard against the misuse of the agency's information technology infrastructure. This coordinated approach, combined with significant efforts to ensure that our information systems are properly certificated and accredited, helps to ensure that the agency's critical information systems are protected from cyber attack.

FAA continued to focus on aviation as a global system and worked closely with international organizations to seek global solutions to safety, routing, procedural, equipment, and environmental issues. In addition, FAA established a Joint Planning Office with the Departments of Defense, Homeland Security, Commerce, and the National Aeronautics and Space Administration to create a long-term strategic vision for our air transportation system.

Throughout FY 2003, FAA commemorated the Wright brothers' magnificent achievement through numerous events across the country and around the world. We now look forward to charting the next century of flight, which will be characterized by even higher levels of safety, system efficiency, innovation, and international cooperation.

RESEARCH AND DEVELOPMENT HIGHLIGHTS

FAA's Research, Engineering and Development (R,E&D) program is developing the technologies, tools, and procedures to ensure critical safety, efficiency, and environmental goals. In FY 2003, our R,E&D program made significant contributions to achieving the agency's mission and goals, including:

- Developing and successfully testing a fuel tank inerting system designed to prevent fuel tank explosions, such as the one that destroyed TWA Flight 800 in 1996. As a result of this accident, in which the center fuel tank caught fire, fuel tanks became a critical safety issue. The system, based on fuel-inerting technology devised by an FAA employee, uses an inert gas to displace oxygen in the fuel tank and thus reduces the risk of

sparks that could ignite the fuel. This prototype is a low cost alternative to past, experimental inerting systems.

- Conducting the fourth in a series of commuter airplane drop tests. Through projects such as the drop test, FAA is working to establish cabin interior standards that will protect passengers and crew in the unlikely event of an accident.
- Establishing the Air Transportation Center for Excellence for Aircraft Noise and Emissions Mitigation. Through a collaborative, cost-sharing effort among Federal, industry, and university researchers, this new Center is concentrating efforts on mitigating the impact of aviation noise and emissions, which represent major constraints on the growth of aviation.
- Issuing the Human Factors Design Standard. This comprehensive human factors reference provides a common source for FAA-specific design standards for air traffic and airway facilities systems.
- Deploying the Graphical Turbulence Guidance. This product provides a color forecast of upper level clear-air turbulence.
- Developing and validating a new method for determining the origin of post-mortem ethanol in the body. This method can now predict pre-death alcohol consumption. Until this groundbreaking work, accident investigators had difficulty determining if the ethanol present in the body was the result of alcoholic beverages or the result of normal post-mortem ethanol formation in the body.

ACHIEVING RESULTS

PERFORMANCE-AT-A-GLANCE

FAA is charged with promoting the safety and efficiency of the Nation's aviation system. With broad authority to enforce safety regulations and conduct oversight of the civil aviation industry, FAA maintains the integrity and reliability of the system. A strategic plan, annual business plans, human capital plans, and our annual *Performance and Accountability Report* help FAA create a recurring cycle of planning, program execution, measurement, verification, and reporting. This strong link between resources and performance allows FAA to show what is being accomplished and reinforces accountability for the money being spent.

FAA's Strategic Plan provides the framework to match resources with initiatives for long-term change. It focuses on FAA activities, but also sets direction for FAA and the national air and space community in a global transportation environment. It sets forth the agency's goals and the performance measures to assess FAA's progress in meeting them. These are the goals that FAA must meet to address the challenges facing aviation as well as to maintain U.S. leadership in aviation. Our Strategic Plan is tightly aligned with the Department of Transportation's mission, vision, goals, and performance measures.

In 2003, FAA established 12 performance measures and targets that enabled us to measure results in achieving enhanced aviation safety, increased system efficiency, and organizational excellence. These measures support FAA's mission of providing

citizens with a safe, secure, and efficient global aviation system. They also support our primary goals:

- **Safety.** Safety is not only a top public-interest priority, but is also an economic necessity. People will fly only if they feel safe and will return to the skies only if they trust the system. A number of coordinated programs and safety initiatives enabled us to further reduce the commercial fatal aviation accident rate (from the already low rate reported last year), the number of general aviation accidents, and the number of runway incursions. We did not achieve our goal of reducing operational errors.
- **Efficiency.** Increased system efficiency is the backbone of air travel, and aviation can grow only if capacity grows. As we increase capacity, we will make sure we do so in an environmentally sound manner. Initiatives designed to boost system efficiency were successful in improving on-time arrival and airport capacity and efficiency while reducing exposure to aircraft noise and emissions.



10

■ **Organizational Excellence.** To fulfill our mission, FAA must be a world-class organization. This requires greater fiscal responsibility, stronger leadership, more cooperation, and performance-based management. Although FAA made great strides in improving the business processes that support efforts to improve aviation safety and system efficiency, we did not meet all of our organizational excellence goals in FY 2003. We were successful in meeting our customer satisfaction goal. We missed some key milestones on our major acquisition projects and did not implement DELPHI, our new core accounting system, as originally scheduled. However, with the full implementation of DELPHI in November 2003, FAA is significantly closer to achieving success in this area. DOT also did not achieve “green” on all five initiatives of the President’s Management Agenda (PMA).

Despite the challenges, FY 2003 was a year of impressive success for FAA. Although air traffic remains below pre-September 11, 2001 levels, passengers are regaining confidence in the system and are returning to the skies. As traffic increases, so do the challenges we face in building organizational excellence to improve safety and increase capacity. Through the combined efforts of our employees and industry partners, we were able to achieve 9 of our 12 goals—a 75 percent success rate. The Performance-at-a-Glance chart on page 11 provides a snapshot of the results we achieved. Additional details on each of the 12 performance measures may be found starting on page 15.



FAA Flight Plan 2004–2008

During FY 2003, FAA completed work on a new long-term strategic plan. The *FAA Flight Plan* is the result of the hard work and sustained commitment of everyone involved in the planning process, including FAA employees, members of Congress and their staff, our industry partners, and stakeholders.

The *Flight Plan* lays out four goals and describes FAA’s strategies for achieving those goals. The *Flight Plan* is aligned with the Department of Transportation’s Strategic Plan and is linked to FAA’s budget requests. It will be used along with detailed business plans from all FAA organizations to align performance and ensure accountability at all levels of the agency. Key performance measures from the *Flight Plan* are reported annually through the issuance of the *Performance and Accountability Report*.

For the first time, every staff office and line of business has developed a plan that links directly to the *Flight Plan*. These business plans are designed to create a line of sight for our employees, laying out specific actions and performance measures that relate our work to the larger goals of the agency. In addition, we have begun using a web-based management tool to track the status of major initiatives tied to each objective in the *Flight Plan*.

Our senior management will regularly review progress against the performance measures contained in the plan. These measures may evolve over time as we work with our employees and external stakeholders to develop new ways to measure our actions.

PERFORMANCE-AT-A-GLANCE

Performance Measure	FY 2003 Target	FY 2003 Results	FY 2003 Status	FY 2004 Target
SAFETY				
Commercial Air Carrier Fatal Accident Rate	.033	.024*	●	.028
Number of General Aviation Fatal Accidents	374	360*	●	349
Runway Incursions (number/rate)	44/.067	32/.051	●	40/NA ¹
Number of Air Traffic Operational Errors	642	680	⬠	629
SYSTEM EFFICIENCY				
On-time Arrival	78.20%	82.30%	●	82.10%
Airport Daily Arrival Capacity	49,120	49,537	●	51,332
Airport Arrival Efficiency Rate	95.49%	95.50%	●	95.67%
Exposure to Noise	437,000	289,000*	●	400,000
People Benefiting from Noise Projects	12,500	13,287	●	NA ²
ORGANIZATIONAL EXCELLENCE				
Milestones/Budget Met for Major Acquisitions	80%/80%	77%/88%	⬠	80%/80%
Customer Satisfaction - Commercial Pilots	62	64	●	63
President's Management Agenda (all 5 areas)	Yellow	Red	⬠	NA ³
KEY: ● Goal Achieved ⬠ Goal Not Achieved				
<i>Notes</i> 1 Not Applicable: Rate no longer being tracked at corporate level. 2 Not Applicable: No longer being tracked at corporate level. 3 Not Applicable: Being tracked at DOT level. * Numbers are preliminary. The National Transportation Safety Board will make available in March 2005 the final numbers for Commercial Air Carrier Fatal Accident Rate and Number of General Aviation Fatal Accidents. Final results for the Exposure to Noise performance target will be available in May 2004.				

MANAGING PERFORMANCE

FAA must continue to improve the reliability and timeliness of performance data and provide a better linkage between human capital requirements, budgets, and performance results. We acknowledge that increasing the validity, reliability, timeliness, and comparability of performance data will be a challenging task.

We face a number of challenges in implementing our Strategic Plan and achieving results. These challenges include:

- The financial difficulties facing the airlines and aviation manufacturers affect their ability and willingness to equip aircraft with the new technologies that will enhance safety and capacity. The financial difficulties facing the industry also impact FAA, which is primarily funded by the Airport and Airway Trust Fund (AATF) from taxes on airline tickets. As long as the demand for air travel is down, so too are revenues available to FAA from the AATF.
- Large capital investments in facility, infrastructure, and agency human capital needs will depend largely on our ability to closely link budget to performance and also in part on the ability and willingness of Congress to fund such operations and responsibilities.

- Our ability to improve safety or expand capacity here at home and in the international arena depends in part on the willingness of authorities at the state, local, and international levels to cooperate and collaborate in areas such as building new airports, expanding runways, or implementing new technologies.
- Emerging threats to national security may cause FAA priorities to shift to meet new responsibilities.

FAA manages performance using the following four-step framework based on best practices used in a number of private and public sector organizations:

- Setting goals
- Planning work and budget
- Monitoring work
- Assessing results

By using this framework and instilling management discipline into our processes, we anticipate that this will be a multi-year journey of learning and change.

TYING PERFORMANCE TO COST

FAA has begun a process to develop financial and other efficiency metrics in FY 2004. This process complements strategic and business planning efforts to create a new performance management process within FAA. We intend to develop financial efficiency metrics not just at the overall FAA level, but in FAA lines of business and staff offices as well.

One of the challenges FAA faces in developing financial metrics is data availability. The agency recently installed a new financial management system, DELPHI. Cost accounting is not yet available for every line of business. However, FAA management has decided that rather than wait for perfect data, we will explore what we can measure, and then seek to improve from there.

In the future, FAA believes it will have in place a series of financial and other efficiency measures that will better guide our business decisions. FAA management will regularly inspect these measures to ensure that the agency is accomplishing its mission through the best use of its resources.

VALIDATING PERFORMANCE INFORMATION

FAA uses strong management controls to ensure that data used to assess performance is accurate, timely, and complete. By exercising both internal and external review processes, FAA's verification and validation process strongly supports the confidence that the managers and Administrator have in performance data.

FAA uses several internal review processes to ensure accurate data. First, at the start of each year, FAA reviews each performance target for data source and validity. Where the criteria for targets have changed, we note that and explain the changes in performance-related materials. DOT also independently verifies some performance data. Several performance measures, such as Commercial Air Carrier Fatal Accident Rate, require independent verification by the National Transportation Safety Board (NTSB) and the Bureau of Transportation Statistics. Data for this measure is not considered final until the NTSB gives final approval.

Independent program evaluations are also an important part of the verification and validation process. Internally, FAA's Office of Configuration Management hires independent contractors to review and evaluate programs jointly run by the Air Traffic Services and Research and Acquisitions lines of business.

The Office of the Inspector General (OIG), General Accounting Office (GAO), and Office of Management and Budget (OMB) also regularly review FAA programs and activities. These reviews help maintain the public's trust in FAA, as well as provide opportunities for FAA to improve. We work with each organization to address concerns and change how we do business. For example, FAA has focused more closely this year on tying budget to performance, as well as cascading performance measures from the overall FAA level to the individual lines of business and staff offices. This is a direct result of OMB's Program Assessment Rating Tool.

EVALUATING OUR PROGRAMS

A critical component of managing performance is the periodic evaluation of programs. In FY 2003, we performed one program evaluation. This evaluation focused on the operational effectiveness of Free Flight Phase 1 (FFP1) tools in creating additional capacity, increasing en route efficiency, and sharing existing data with customers to improve decision-making and directly supports our System Efficiency goal area. Key findings include:

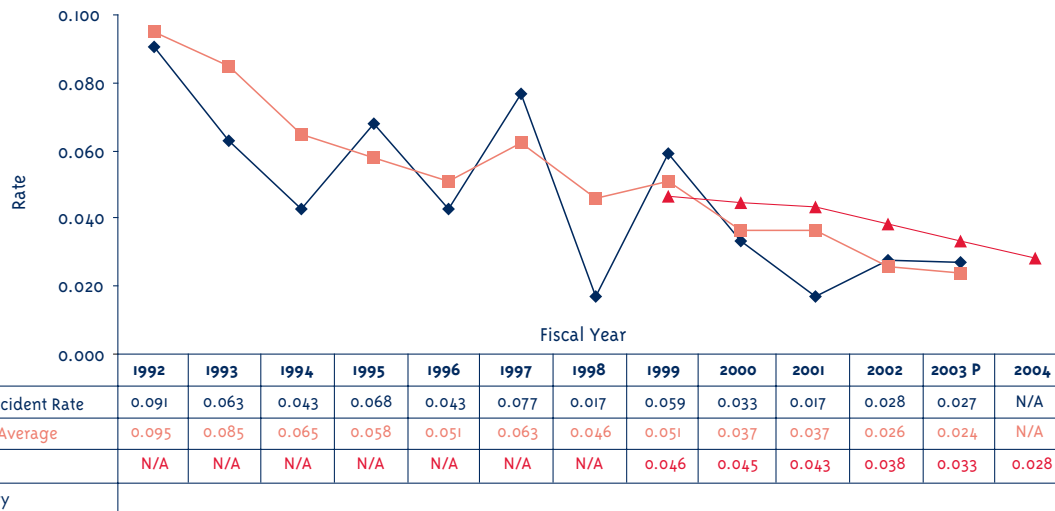
- The Traffic Management Advisor (TMA), operational at all seven sites planned under FFP1, improved capacity by 3 percent to 5 percent for traffic into Dallas/Ft. Worth, Los Angeles, Minneapolis, Denver, and Atlanta airports.
- The User Request Evaluation Tool, operational at six of seven en route centers planned under FFP1, increased direct routings by at least 15 percent at all six centers.
- The Surface Movement Advisor program was operational at all six sites planned for FFP1 and customers reported reduced gate delays and diversions.

In FY 2004, FAA will develop a program evaluation approach for information systems security that protects information technology programs. FAA programs in physical facility security, operational errors, Safer Skies, and aircraft delay reductions are candidates for evaluations in FY 2005–2008.

In the following sections of this Highlights document, FAA presents FY 2003 results for each of our 12 performance goals.

PERFORMANCE RESULTS

Comparison of Fatal Accident Rates
per 100,000 Departures

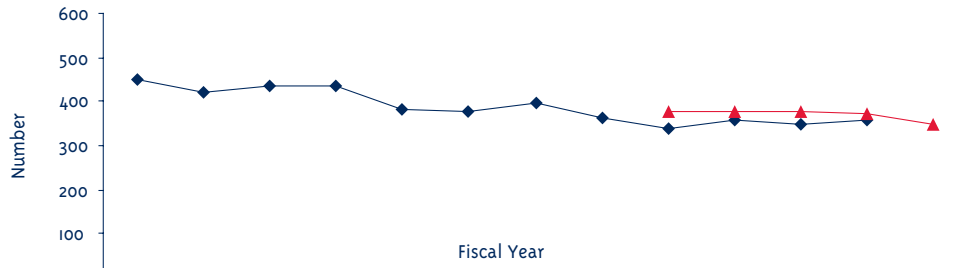


Note: Since the 1970s, the NTSB has not included fatal crashes caused by criminal or terrorist actions when calculating the commercial fatal accident rate. DOT follows the NTSB methodology in quantifying FAA performance in commercial aviation safety. Therefore, the commercial fatal accident rate for FY 2001 did not include the four fatal crashes that occurred on September 11, 2001. If those incidents had been included, the Department would not have met the 2001 target.

Commercial Aviation

FAA has adopted a focused safety agenda designed to bring about a five-fold reduction in fatal accidents due in part to comprehensive reviews of fatal accident causes. In partnership with industry, our Safer Skies program uses the latest technology to help analyze U.S. and global data to find the primary causes of accidents and determine the best actions to break the chain of events that lead to accidents. The value of this program has been a great reduction or elimination of recurrent causes of commercial accidents. Through Safer Skies and a variety of other initiatives and strategies, we were able to exceed our goal of reducing the rate of commercial fatal aviation accidents, achieving a three-year average of .024 fatal accidents per 100,000 departures.

Number of General Aviation & Air Taxi Fatal Accidents



	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003P	2004
—◆— Actual	450	422	435	435	382	378	396	364	341	359	348	360	N/A
—▲— Target	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	379	379	379	374	349

P=Preliminary

General Aviation

FAA exceeded its goal of reducing the number of general aviation fatal aviation accidents by more than 4 percent, to 360. Although we met our FY 2003 goal, we are concerned about the upward trend in general aviation fatal accidents over the past several years. Reducing these types of accidents remains a challenge. We are examining accident data and stratifying it by group (e.g., recreational, instructional, agricultural). We see a particular problem in instructional flying and are looking at ways to develop and implement targeted interventions.

Number of Runway Incursions Highest Severity - Category A & B



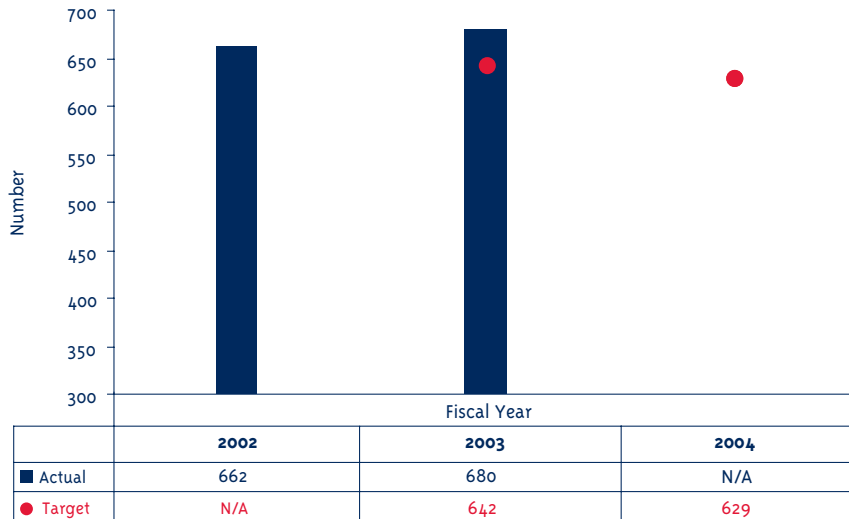
	1999	2000	2001	2002	2003	2004
—◆— Actual	69	67	53	37	32	N/A
—▲— Target	N/A	N/A	N/A	53	44	40

Runway Incursions

FAA was able to reduce the number of the most serious types of runway incursions to 32, which was significantly lower than our target of 44 incursions for the year. This continues a downward trend that began 4 years ago, and resulted in a 14 percent decrease from FY 2002. One significant factor contributing to the decrease in runway incursions is lower traffic volume. Lower traffic volume alone, however, does not fully explain the downward trend. This is evident since the decline in runway incursions began in 1999, when traffic volume was increasing. An equally important contributing factor to our success is that we have focused significant resources, time, and effort to tackle the problem of runway incursions. FAA created the Office of Runway Safety to develop and coordinate efforts to improve runway safety.

This measure was redefined in FY 2002. Actual performance reflecting the redefinition was calculated for prior years.

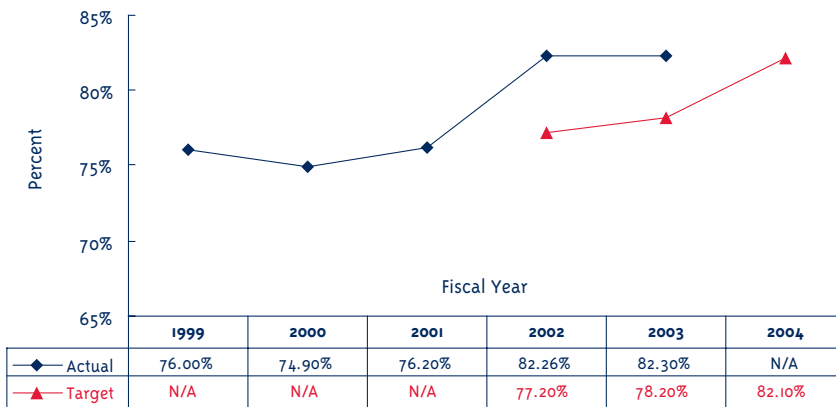
**Number of Operational Errors
Highest Severity – Category A & B**



Operational Errors

We exceeded our limit of 642 errors by almost 6 percent, reporting 680 Category A and B operational errors during FY 2003. Controller awareness was the largest contributor to operational errors, primarily from the inappropriate use of displayed data. The second largest factor was the lack of an adequate plan to ensure proper separation. Other factors include miscommunication between controllers and pilots and adverse weather that caused pilots to deviate from or be unable to accept instruction from controllers. FAA attempted to control operational errors through several programs that, due to budgetary constraints, were either not completed or cancelled. These programs focused on increasing management oversight and training. In FY 2004, FAA plans to devote considerable management attention to operational errors. We will reallocate resources to ensure that performance in this area improves.

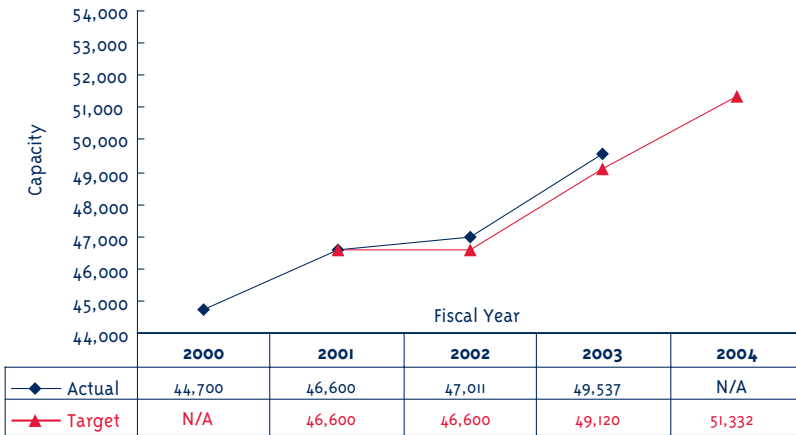
Percent of On-Time Arrivals by Year



On-Time Arrival

With an on-time arrival rate of 82.30 percent, we exceeded our FY 2003 goal of 78.20 percent by more than 5 percent. While decreased volume may have contributed to the increase in on-time arrivals, our success in achieving our goal is also attributed to the continued cooperation and coordination at the National Command Center with airline industry representatives. Our new programs and technology further supported efforts in FY 2003 to increase on-time arrivals.

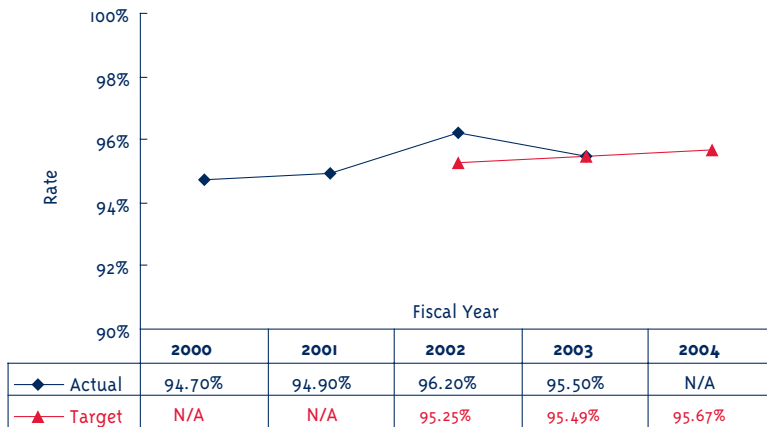
Airport Daily Arrival Capacity



Daily Arrival Capacity

FAA met its FY 2003 target for increasing system capacity. We continue to focus on adding runways, new technologies, and improved data collection to meet future capacity performance targets. Throughout FY 2003, we continued to work with airports around the country to boost capacity by analyzing chokepoints in the system. We studied chokepoints around Chicago, Boston, and New York and helped work out troublesome intersections in flight paths. Although it is a national effort, resources are being applied to geographic areas where the need is greatest.

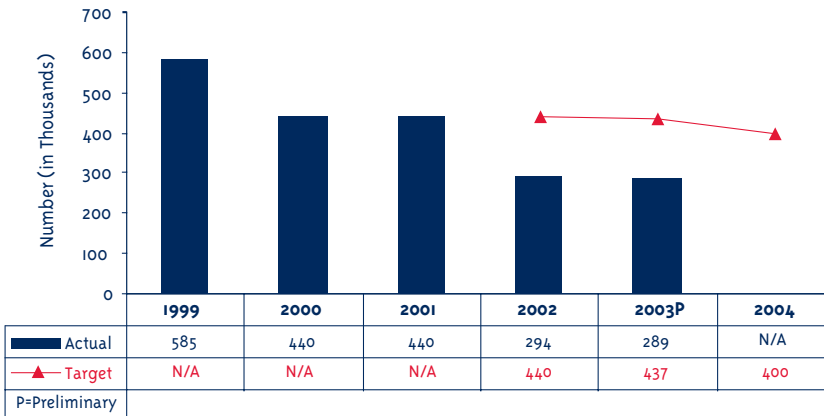
Airport Arrival Efficiency Rate 35 OEP Airports



Arrival Efficiency

The airport arrival efficiency rate measures how well the airports included in FAA's Operational Evolution Plan (OEP) use the capacity they have. An efficient aviation system gets passengers and goods to their destinations safely and reliably. Aviation system improvements must be environmentally responsible, taking into consideration the impacts of aviation development on communities near airports and on sensitive natural resources. Our focus is on strategic expansion of our system capacity and other creative solutions to address our growing mobility needs and increase the reliability of our aviation system. These efforts enabled us to meet our FY 2003 goal for increasing efficiency.

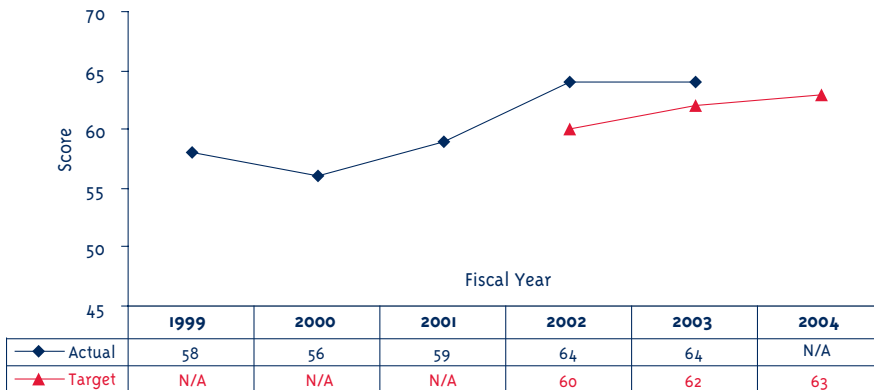
Number of People Exposed to Significant Noise



Exposure to Noise

Helping the airline industry mitigate the effects of noise is one of our primary concerns. Noise exposure has a direct effect on our ability to expand the industry and the economy. In FY 2003, we were able to achieve our goal by working with industry to reduce the number of people exposed to 289,000. Two main factors related to the terrorist attacks of September 11, 2001 account for the dramatic reduction. The first factor is the premature retirement from passenger service of older, noisier aircraft. The second factor is a decrease in aviation operations resulting from economic downturn. FAA also increased the number of people benefiting from noise compatibility projects by 13,287, exceeding our goal of 12,500 by 6 percent. Installing residential sound insulation accounted for benefits to 10,420 people. Acquiring land and moving people accounted for benefits to an additional 2,778 people. Shifting aircraft flight tracks eliminated significant noise exposure for 89 people.

Customer Satisfaction Survey of Commercial Pilots



Customer Satisfaction

To measure customer satisfaction, FAA relies on the American Customer Satisfaction Index (ACSI). The ACSI is a national indicator of the quality of goods and services available to the American public. The ACSI score is a weighted average measuring overall satisfaction, customer expectations, and perceived quality. Commercial pilots are asked about air traffic control personnel and services, pilot certification processes, the clarity of regulations, and how regulations contribute to aviation safety. FAA officially began measuring the score as a performance target in FY 2001. The baseline score in FY 1999 was 58. We exceeded our FY 2003 target of 62, achieving a score of 64 on this year's survey of commercial pilots. An important factor contributing to our success is FAA's Plain Language initiative, which seeks to rewrite all regulations clearly and concisely. Although FAA's ACSI remains significantly below the national ACSI of 71.6 for private sector services, the score of 64 is consistent with government agencies that have a regulatory and enforcement function.

PRESIDENT'S MANAGEMENT AGENDA

Throughout FY 2003, we worked to implement the President's Management Agenda (PMA). The five initiatives in the PMA focus on the strategic management of human capital, competitive sourcing, improved financial performance, expanded electronic government, and budget and performance integration. Only the DOT is graded officially by OMB. As a result, FAA's scores depend on the results of the entire department, not just FAA. Because we cannot directly control results for the PMA, and our score is dependent in a large measure on the results of other agencies within DOT, we have chosen not to report PMA results as an official FY 2004 performance goal. FAA and its management will, however, continue to track PMA results and contributions internally.

FY 2003 PRESIDENT'S MANAGEMENT AGENDA SCORECARD FOR DOT

INITIATIVE	STATUS	PROGRESS
Human Capital: Develop an FAA-wide human capital workforce plan to address future workforce gaps, eliminate skill gaps in critical occupations, develop performance-based incentives for the workforce, remove unneeded management layers, and develop the right mix of skills in the workforce that reflect the new emphasis on E-Government and Competitive Sourcing.	▲	●
Competitive Sourcing: Compete 50 percent of commercial positions at an undetermined future date. Each department must submit a Strategic Competition Plan and compete "commercial reimbursable support services" on a recurring basis.	▲	●
Financial Management: Develop financial management systems capable of producing more timely and accurate information, maintain a record of unqualified opinions on our financial statements, continue to improve accounting controls, and develop full cost accounting capability.	⬮	●
E-Government: Better justify and track cost and performance of information technology projects, as well as participate in government-wide initiatives that automate how the public deals with the Government, such as the FirstGov.gov initiative, E-Grants, standardization of data, and customer relationship management. In addition, properly secure major information technology systems used to meet the agency mission.	⬮	●
Budget/Performance Integration: Better integrate budget and performance functions by integrating budget and performance staff work; developing plans and budgets with outcome goals, output targets, and resources requested in the context of past results; charging full budgetary costs of programs; and documenting program effectiveness.	▲	●
<p>KEY TO FY 2003 STATUS: "Status" measures where DOT is in meeting the initiative. "Progress" measures the rate at which DOT is moving toward green.</p> <ul style="list-style-type: none"> ● GREEN. Met all of OMB's core criteria. ▲ YELLOW. Met some but not all of OMB's core criteria and has no "red" conditions. ⬮ RED. At least one of OMB's core criteria is in need of correction. <p>For a more detailed discussion of the President's Management Agenda, see the OMB website at whitehouse.gov/omb/budintegration/pma_index.html.</p>		

FINANCIAL REVIEW

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

December 18, 2003

This past year, we made significant progress in financial and performance management. We are now in a good position to achieve the goals of the President's Management Agenda in financial management and to embark on the next century of flight. We have worked hard to develop and implement the financial tools we need to control rising operating costs and to give our managers the information they need to transform the FAA into a performance-based organization. In FY 2003, we:

- Received an unqualified opinion on our financial statements, without any material internal control weaknesses.
- Closed our books and prepared our audited financial statements more quickly, finishing in mid-December.
- Completed our final tests and preparations to use DELPHI, the Department of Transportation's integrated financial management system.
- Aligned our budget more closely with our goals and performance measures to support the President's Management Agenda.
- Implemented labor distribution systems to give managers the data they need to make cost-effective decisions.

This year's audit marks the third year in a row we have received an unqualified opinion. Last year our auditors identified the process for estimating liabilities for legal matters to be a material weakness. In 2003, we worked closely with the Office of General Counsel to ensure that estimates of legal liabilities were accurate, correct, and reported on time. This year, for the first time, our auditors identified no material weaknesses.

Throughout 2003, we worked on our new procurement and financial management systems, with a goal of implementing them in November 2003. Our efforts paid off. We eliminated our legacy financial system, which was not compliant with the U.S. Standard General Ledger, and our stand-alone property accounting system. We replaced both with a modern financial management system that fully integrates property accounting. Over 42,000 employees now report time on projects and activities, giving our managers better information about the labor cost of our work. Our cost accounting system provides managers with the full cost of FAA services, helping them understand and control their costs better. These steps help us address concerns previously raised by the General Accounting Office and the DOT Inspector General about our ability to prepare accurate, reliable financial information. In the year to come, one of our greatest challenges will be to manage our business more effectively while meeting even tighter reporting deadlines on our financial statements.

In FY 2003, we developed an approach to control our costs that will be a cornerstone for how we operate in FY 2004 and beyond. This multiyear effort will track and use financial and operational information to control costs and achieve savings. Russ Chew, the head of our new Air Traffic Organization, plans to use our accounting and cost accounting systems as the key to controlling operating costs.

We have made significant strides in improving financial and performance management through the collaborative effort and hard work of the financial staff at headquarters, regional offices and centers, and staff from all the lines of business. We have laid the groundwork for greater success in the years to come, as FAA helps chart the next century of flight.



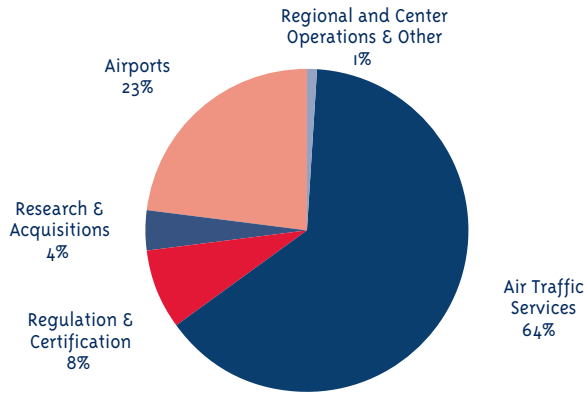
John F. Hennigan
Acting Chief Financial Officer

FINANCIAL HIGHLIGHTS

Highlights of our FY 2003 financial performance appear on the pages that follow. For a more detailed discussion of FAA's financial statements and accompanying highlights, see our *FY 2003 Performance and Accountability Report*.

For the fiscal years ending September 30, 2003 and 2002, FAA's net cost of operations totaled \$12.0 billion and \$12.4 billion, respectively. Net cost is total program cost less related earned revenue.

Net Cost 2003



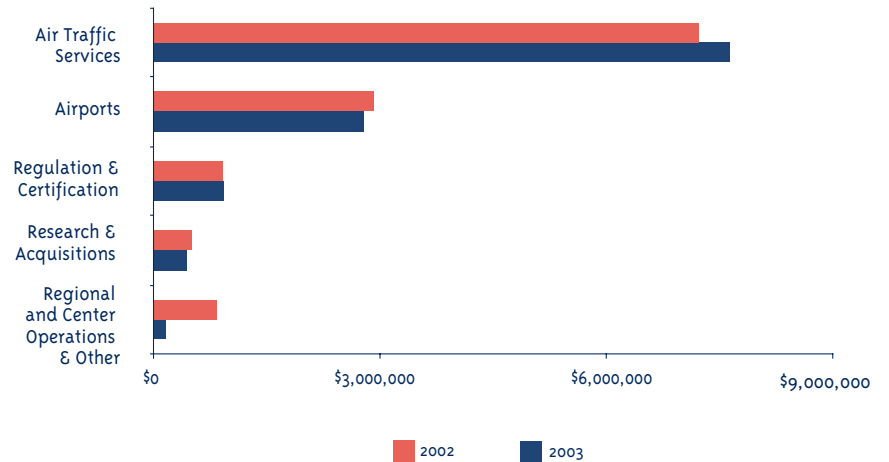
Air Traffic Services is FAA's largest line of business, comprising 64 percent of total net costs. Air Traffic net cost increased by 6 percent, from \$7.2 billion in FY 2002 to \$7.6 billion in FY 2003, primarily due to increased personnel compensation and benefits.

Airports net cost decreased \$147.0 million, from \$2.93 billion in FY 2002 to \$2.79 billion in FY 2003 due to one-time security-related grant costs paid to the TSA in FY 2002 and not incurred in FY 2003.

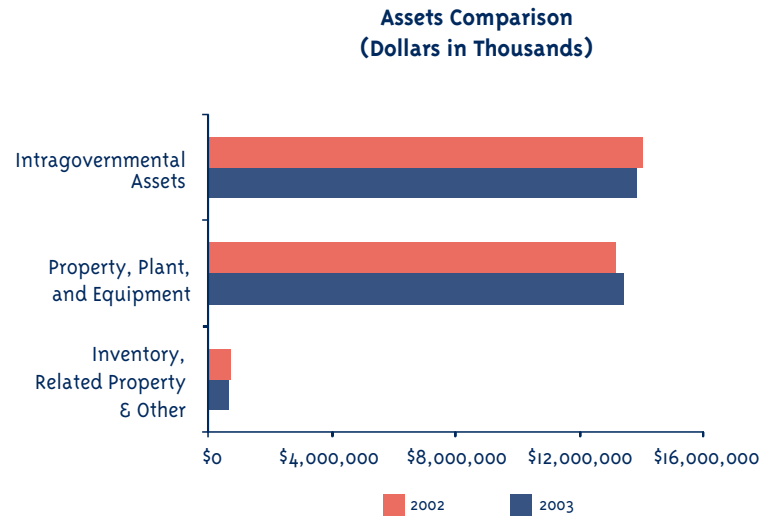
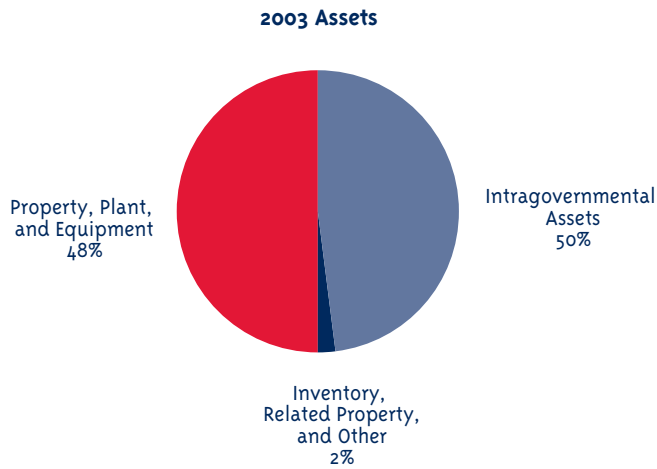
Research and Acquisitions net cost decreased \$72.0 million, from \$514.9 million in FY 2002 to \$442.9 million in FY 2003 primarily due to a decrease in a variety of contract costs.

Regional and Center Operations and Other Programs net cost decreased \$206.1 million, from \$296.6 million in FY 2002 to \$90.5 million in FY 2003. This decrease is principally attributable to non-recurring FY 2002 payments of: (a) \$50.0 million related to Aviation War Risk Insurance, and (b) \$40.0 million to reimburse Metropolitan Washington Airports Authority for revenue losses due to the temporary closure of Ronald Reagan National Airport following the terrorist attacks of September 11, 2001.

Net Cost Comparison
(Dollars in Thousands)



Note: Because the charts in this section correspond to the summary financial information on pages 29–31, the captions and percentages may differ slightly from those published in the *FY 2003 Performance and Accountability Report*, which was presented in a less summarized format.

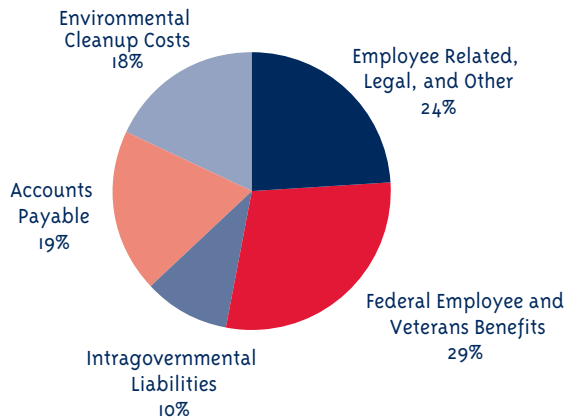


At the end of both FY 2003 and FY 2002, FAA's assets totaled \$27.9 billion. FAA's assets are the resources available to pay liabilities or satisfy future service needs.

Intragovernmental Assets primarily includes fund balances with the U.S. Treasury and investments of passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF). Fund balances with the U.S. Treasury are resources from Department of Treasury accounts from which FAA is authorized to make expenditures to pay liabilities. It includes passenger ticket and other excise taxes deposited to the AATF, but not yet invested. The September 30, 2003, balance of intragovernmental assets decreased \$230.5 million, primarily due to a reduction of investments, partially offset by an increase in fund balances with the U.S. Treasury. The reduction of investments is due to reduced tax revenues deposited into the AATF in FY 2003, while the increase of fund balances with the U.S. Treasury primarily results from the collection of accounts receivable balances.

Property, Plant, and Equipment (PP&E) represents 48 percent of FAA's assets as of September 30, 2003, and primarily comprises construction-in-progress related to the development of national airspace system assets, and capitalized real and personal property. PP&E increased slightly due to the acquisition of real and personal property assets offset by current year property retirements and depreciation.

2003 Liabilities

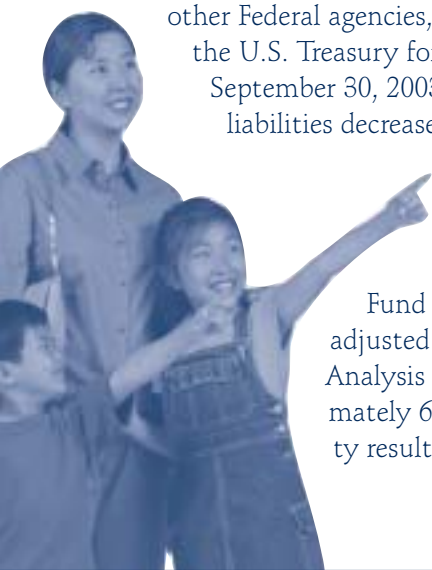


Employee Related, Legal, and Other liabilities to non-federal entities comprise 24 percent of FAA's total liabilities as of September 30, 2003. These liabilities decreased \$317 million because FAA settled several legal claims during FY 2003.

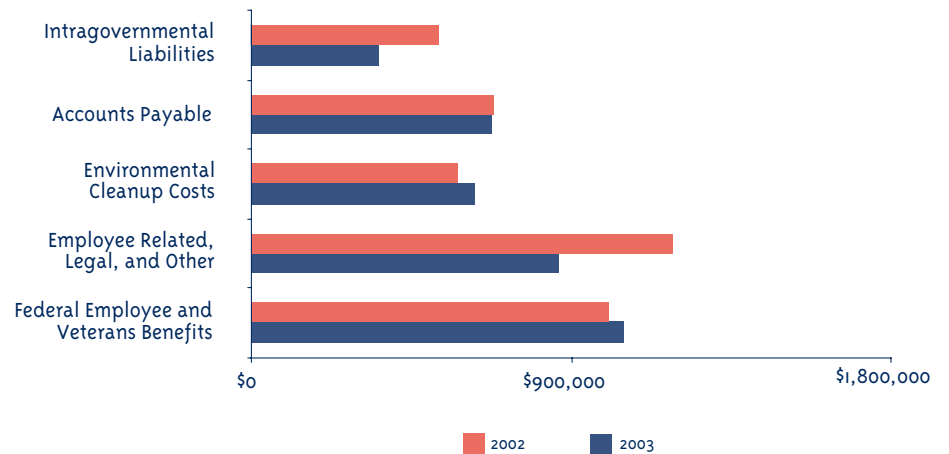
Federal Employee and Veterans Benefits comprise 29 percent of FAA's current year liabilities and consist of FAA's expected liability for death, disability, and medical costs for approved workers compensation cases, plus a component for incurred but not reported claims. The Department of Labor calculates the liability for DOT, and DOT attributes a proportionate amount to FAA based upon actual workers' compensation payments to FAA employees over the preceding 4 years.

At the end of FY 2003 and FY 2002, FAA reported liabilities of \$3.5 billion and \$3.9 billion, respectively. Liabilities are probable and measurable future outflows of resources arising from past transactions or events.

Intragovernmental Liabilities are liabilities to other Federal agencies, including amounts owed to the U.S. Treasury for excise tax adjustments. The September 30, 2003, balance of intragovernmental liabilities decreased \$167.5 million primarily due to the settlement of a FY 2002 \$105.0 million excise tax liability. Estimated excise tax revenues are deposited to the Trust Fund quarterly, and are subsequently adjusted when Treasury's Office of Tax Analysis validates its estimates approximately 6 months later. The FY 2002 liability resulted from this validation process.



**Liabilities Comparison
(Dollars in Thousands)**



FAA's **Summarized Changes in Net Position** is shown on page 31. Net Position increases from the beginning to the end of the reporting period by various financing sources received, offset by the agency's net cost of operations, which serves to reduce net position. FAA's net position increased slightly during FY 2003, from \$24.0 billion as of September 30, 2002, to \$24.3 billion as of September 30, 2003. This is primarily the result of increased appropriations received (a financing source).



FAA is financed through annual and multi-year appropriations authorized by the Congress. Its FY 2003 Enacted Budget was \$13.5 billion. The enacted FY 2003 levels include an across the board rescission of 0.65 percent and a \$3.5 million earmark for Midway Island Airfield under GP Sec. 371 included in Operations. FAA has four appropriations; the largest—Operations—is funded by Treasury's General Fund and a portion from the AATF. AATF is the sole revenue source for the FAA's three capital investment appropriations: (1) Facilities and

Equipment; (2) Research, Engineering and Development; and (3) Airport Improvement Program.

Airport and Airway Trust Fund. Approximately 76 percent of the FAA's FY 2003 budget was provided by the AATF, which derives its funds from excise taxes and interest on invested funds. The AATF, created by the Airport and Airway Revenue Act of 1970, provides a stable source of funding to finance investments in the airport and airway system and, to the extent funds are available, covers the operating costs of the airway system. Aviation excise taxes, which include taxes on domestic passenger tickets, freight waybills, general and commercial aviation fuel/gas, and international departures and arrivals, are deposited into the AATF. The Department of the Treasury maintains the AATF and invests its monies in U.S. Treasury securities. As needed, funds are withdrawn from the AATF and transferred into each FAA appropriation to cover obligations.

Operations. The Operations appropriation funds the salaries and associated costs to operate and maintain the air traffic control system and to carry out FAA's safety inspection and regulatory responsibilities. Funding for Operations in FY 2003 represents only a 2.1 percent increase excluding an FY 2002 \$200 million emergency supplemental appropriation. The increase is attributable to mandatory pay increases.

Facilities and Equipment (F&E). Funds from the F&E appropriation are used to modernize, expand, and replenish the air traffic control infrastructure. Between FY 2002 and FY 2003, there was no increase after excluding \$108.5 million of FY 2002 emergency supplemental funding. Funding increases supported major systems, such as the en route and terminal automation programs, next generation weather radar, the oceanic automation program, communications, and satellite navigation.

Airport Improvement Program (AIP). The Secretary of Transportation is authorized to award grants for airport planning and development to maintain a safe and efficient nationwide system of public airports. These grants make it possible to fund one-fourth to one-third of all capital development at the Nation's public airports. Grants are issued to maintain and enhance airport safety, preserve existing airport infrastructure, and expand capacity and efficiency throughout the airport system.

While the obligation limitation increased by \$100 million from FY 2002 to FY 2003, the FY 2003 enacted level of \$3,378 million represents an approximately \$97 million decrease from the FY 2002 enacted level. This decrease was caused by two factors. First, the FY 2002 enacted level was higher than expected due to a security-related supplemental appropriation of \$175 million. Second, the FY 2003 enacted level reflects an across-the-board 0.65% rescission, which lowered the amount available by almost \$22 million. Grants for airport improvement projects to enhance capacity, improve safety and security, and mitigate noise increased by approximately \$72 million.

Research, Engineering and Development (R,E&D). Funding for R,E&D decreased \$97 million from the prior year, which included a \$50 million emergency supplemental appropriation and a transfer of \$47 million for system security technology to the Department of Homeland Security. The R,E&D funding allows for an increased focus on environment and energy, weather initiatives, human factors, and aircraft safety, in support of the Safer Skies initiative.

SUMMARY FINANCIAL INFORMATION

FAA's independent auditor, KPMG LLP, rendered an unqualified audit opinion on FAA's FY 2003 and FY 2002 financial statements. The DOT Office of Inspector General (OIG) presented KPMG's audit report to the FAA Administrator on December 19, 2003.

The summary financial information presented in this document was derived from the FAA's audited FY 2003 and FY 2002 financial statements, which were prepared pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994.

The Summarized Net Cost of Operations presents the annual cost of operating FAA's lines of business.

The Summarized Changes in Net Position shows that FAA's net position is \$24.3 billion in FY 2003 and \$24.0 billion in FY 2002. In FY 2003, FAA's \$12.3 billion total financing sources exceeded \$12.0 billion net cost of operations by \$300 million, resulting in an increased net position. In FY 2002 the reverse occurred—\$12.4 billion net cost of operations exceeded financing sources by \$1.1 billion, resulting in a reduction of net position.

The Summarized Assets, Liabilities, and Net Position presents the resources available to use (assets) against the amounts owed (liabilities) and the amounts that comprise the difference (net position).

The audited consolidated financial statements are contained in the FAA's *FY 2003 Performance and Accountability Report*, which is available from:

Office of Financial Management, AFM-1
Federal Aviation Administration
800 Independence Avenue, SW
Washington, DC 20591
E-mail address: Susan.Lee@faa.gov
Fax number: (202) 267-5271





KPMG LLP
2001 M Street NW
Washington, DC 20038

Independent Auditors' Report

Administrator, Federal Aviation Administration

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Federal Aviation Administration (FAA) as of, and for the years ended, September 30, 2003 and 2002 (not presented herein) and have issued our report thereon dated December 5, 2003.

The accompanying summary financial information of the FAA as of, and for the years ended, September 30, 2003 and 2002, as explained in the notes thereto, is not a presentation in conformity with accounting principles generally accepted in the United States of America. In our opinion, the accompanying summary financial information is fairly stated, in all material respects, in relation to the portion of the financial statements from which it has been derived.

KPMG LLP

December 5, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Federal Aviation Administration

Summarized Net Cost of Operations
For the Years Ended September 30
(dollars in thousands)

Lines of Business	2003	2002
Air Traffic Services	\$ 7,651,038	\$ 7,236,665
Airports	2,786,493	2,933,542
Regulation and Certification	842,009	823,493
Research and Acquisitions	442,922	514,862
Commercial Space Transportation	11,725	11,361
Non Line of Business Programs		
Regional/Center Operations and Other	117,149	290,832
Net Cost of Continuing Operations	11,951,336	11,910,755
Net Cost of Transferred Operations		
Civil Aviation Security	47,250	533,164
Net Cost of Operations	\$ 11,998,586	\$ 12,443,919

Notes to the Summary Financial Information

Reporting Entity. The Federal Aviation Administration (FAA), created in 1958, is a component of the U.S. Department of Transportation (DOT), a cabinet-level agency of the Executive Branch of the United States Government. The FAA accomplishes its mission through five lines of business and one non-line of business program.

- **Air Traffic Services** operates the nation’s air traffic control system.
- **Airports** is responsible for planning and developing a safe, secure, and efficient airport system; enhancing environmental quality and avoiding or minimizing adverse environmental impacts that might result from a proposed FAA action in support of airport development; and developing standards for the design and construction of facilities that enhance the safety of aircraft operations and security of airline passengers.
- **Regulation and Certification** oversees the safety of aircraft and the credentials and competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel among the safest modes of transportation in history.
- **Research and Acquisitions** supports and conducts research to meet increasing demands for higher levels of system safety, security, capacity, and efficiency; and plans, monitors, controls, schedules, and implements the acquisition of materiel, equipment, and services for the national airspace system and for interagency and international programs.
- **Commercial Space Transportation** oversees the safety of commercial space launches and regulates the commercial space industry.
- **Regional/Center Operations and Other** includes the costs to operate the FAA’s nine regional offices and the Mike Monroney Aeronautical Center.

The Aviation and Transportation Security Act, Public Law 107-71, established the Transportation Security Administration (TSA) and transferred FAA’s civil aviation security functions to the TSA. The TSA assumed responsibility for these functions on February 13, 2002. Subsequently, the Homeland Security Act of 2002, Public Law 107-296, established the Department of Homeland Security (DHS) and transferred TSA from the DOT to the DHS effective March 1, 2003. The FAA segregated the net cost of its continuing operations from the net costs of operations transferred to the TSA.

Basis of Presentation. The summary financial information is intended to provide users an overview of the financial status and activities of the FAA and is derived from and should be read in conjunction with the financial statements contained in the FAA’s *FY 2003 Performance and Accountability Report*. The summary financial information is not a presentation in accordance with accounting principles generally accepted in the United States of America.

Federal Aviation Administration

Summarized Assets, Liabilities, and Net Position
As of September 30
(dollars in thousands)

	2003	2002
Assets		
Intragovernmental assets, including funds with the U.S. Treasury and investments	\$ 13,821,702	\$ 14,052,179
Property, plant, and equipment, net	13,397,607	13,175,768
Inventory, related property, and other	645,177	718,990
Total Assets	\$ 27,864,486	\$ 27,946,937
Liabilities		
Intragovernmental liabilities	\$ 354,192	\$ 521,693
Accounts payable	669,693	677,182
Environmental cleanup costs	621,953	574,676
Employee related, legal, and other	859,124	1,176,106
Federal employee and veterans benefits	1,041,568	997,103
<i>Total Liabilities</i>	<u>3,546,530</u>	<u>3,946,760</u>
Net Position		
Unexpended appropriations	562,595	481,919
Cumulative results of operations	23,755,361	23,518,258
<i>Total Net Position</i>	<u>24,317,956</u>	<u>24,000,177</u>
Total Liabilities and Net Position	\$ 27,864,486	\$ 27,946,937

Notes to the Summary Financial Information (continued)

Assets. *Intragovernmental assets* consists primarily of \$10.8 billion and \$11.2 billion of AATF funds as of September 30, 2003 and 2002, respectively, which Congress has not appropriated to the FAA, and which is invested in U.S. Treasury securities. *Property, plant, and equipment* consists primarily of equipment and related property that the FAA uses to operate the nation's air traffic control system. Repair parts, used to keep the air traffic control system operational, constitute the majority of *Inventory, related property, and other*.

Liabilities. *Intragovernmental liabilities* consists primarily of the FAA's contributions owed to other Federal entities for life, health, retirement, and Social Security benefits and matching contributions to the Thrift Savings Plan. *Accounts payable* represents amounts owed to non-Federal suppliers for goods and services that the FAA has received. *Environmental cleanup costs* represents the accrued costs to correct known environmental hazards and decommission existing assets. *Employee related, legal, and other* consists primarily of accrued personnel compensation and legal liabilities considered probable of loss. *Federal employee and veterans benefits* represents the actuarial liability for future benefits payable for death, disability, medical, and miscellaneous costs for FAA employees under the Federal Employees Compensation Act.

Federal Aviation Administration

Summarized Changes in Net Position
For the Years Ended September 30
(dollars in thousands)

	2003	2002
Net Position - Beginning of Year	\$ 24,000,177	\$ 25,126,328
Financing Sources		
Excise taxes and associated revenue	9,360,469	9,625,942
Appropriations received	3,273,241	1,112,481
Net transfers out	(803,247)	(2,825)
Imputed financing and other	485,902	582,170
Total financing sources	12,316,365	11,317,768
Net Cost of Operations	11,998,586	12,443,919
Net Position - End of Year	<u>\$ 24,317,956</u>	<u>\$ 24,000,177</u>

Notes to the Summary Financial Information (continued)

Financing Sources. The FAA is funded primarily from excise taxes collected by the Internal Revenue Service from airway system users and deposited to the Airport and Airway Trust Fund (AATF). Annually, Congress enacts annual, multi-year, and no-year appropriations from the AATF and the General Fund of the U.S. Treasury to be used, within statutory limits, to fund the FAA's net operating and capital expenditures. The FAA also earns revenue from the sale of goods and services to other entities and from user fees. Transfers represent amounts transferred between FAA and other Federal entities. In FY 2003, this principally consisted of transfers from FAA to the TSA of \$623.6 million of civil aviation security related property, plant, and equipment. Imputed financing and other includes FAA costs paid by other entities, such as the Office of Personnel Management, which funds a portion of retirement costs for Federal employees.

Net Position. Net position consists of unexpended appropriations and cumulative results of operations. As of September 30, 2003 and 2002, unexpended appropriations were \$562.6 million and \$481.9 million, and cumulative results of operations were \$23,755.4 million and \$23,518.3 million, respectively. Cumulative results of operations represent certain assets of the FAA less liabilities, which will be funded by future budgetary resources and congressional appropriations.

CHARTING THE NEXT CENTURY OF FLIGHT

The creative spark and can-do attitude that drove the Wright brothers to accomplish the seemingly impossible goal of flight also drives FAA. As FAA charts its course into the next century, the challenges met today lay the groundwork for the future success of the aviation community in the United States and around the world.

As we enter the 21st century, the challenges facing aviation demand nothing less than transforming the system. We are confronted with the challenges of reducing an already low commercial accident rate, building an air traffic control system capable of efficiently meeting future demand, and modernizing our own organization.

Today, securing safe air travel, navigating industry uncertainties, and managing new technologies require that we embrace change as never before. Looking farther into the future, the aviation community needs to develop a shared vision for the future of aviation. This is the assignment of FAA's Joint Planning Office, which is currently developing a national plan through the year 2025 with the National Aeronautics and Space Administration and the Departments of Defense, Homeland Security, and Commerce.

Several factors affect our ability to meet our ambitious goals for the future, some of which are outside the control of FAA. We plan to aggressively pursue the needed coordination with our partners to ensure success in addressing the following factors.

- **Economic State of the Industry:** The financial difficulties facing airlines and manufacturers affect their ability and willingness to equip aircraft with new technologies to increase safety and capacity. These difficulties also affect FAA, which is funded primarily by the Airport and Airway Trust Fund from taxes on airline tickets, fuel, and air freight. As long as airline travel remains depressed, so too will the revenues available to FAA.
- **Fiscal Priorities of the Nation:** Large capital investments in facilities, infrastructure, and staff will in part depend on the ability and willingness of Congress to fund those investments.

- **Cooperation with State, Local, and International Agencies:** FAA's ability to increase safety and expand capacity also depends in part on authorities at the local, state, and international levels collaborating with FAA to build new airports, expand runways, and implement new technologies.

- **National Security:** FAA works closely with and supports agencies such as the Departments of Defense and Homeland Security and the TSA. We will coordinate closely with TSA and key stakeholders on security issues and activities related to aircraft design and operations. FAA will also work to ensure that the roles of FAA, TSA, and DOT, along with other government and industry stakeholders, are clearly understood. Should new threats arise, priorities may need to shift to counter them.

Our goals are not easy to attain, but then, we have a long history of meeting big challenges. The safety record and the air travel system that FAA and the aviation community have built together are not only the envy of the world, but also a model for our collective future. Working together, we will exercise leadership in setting standards and expectations so the global aviation industry can flourish.

As FAA attempts to identify the broad trends shaping flight, we anticipate future needs to more effectively guide present planning. Although we may not be able to predict the precise contours of our aviation future, we are working on several fronts to advance aviation technology and build on past successes to face the challenges ahead. While we made great strides in improving safety, enhancing security, and increasing efficiency during FY 2003, we must persist in our efforts to build an aviation system for the next century of flight. As the aviation community adjusts to changes in demand and economic conditions, so FAA must make mid-course corrections to address new realities.



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INTERNET LINKS

Flight Plan 2004–2008

<http://www2.faa.gov/AboutFAA/FlightPlan.cfm>

FY 2003 Performance and Accountability Report

http://www1.faa.gov/aba/html_fm/finst.html

FY 2003 Performance and Accountability Highlights

http://www1.faa.gov/aba/html_fm/finst.html

President's Management Agenda

http://www.whitehouse.gov/omb/budintegration/pma_index.html

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