Office of Inspector General

Audit Report

QUALITY CONTROL REVIEW OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS 2015 AND 2014

Federal Aviation Administration

Report Number: QC-2016-007

Date Issued: November 13, 2015

Memorandum

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

Subject: **INFORMATION:** Quality Control Review of Audited Financial Statements for Fiscal Years 2015 and 2014 Federal Aviation Administration Report Number: QC-2016-007

Date: November 13, 2015

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 consolidated financial statements for fiscal years 2015 and 2014.

KPMG LLP of Washington, DC, completed the audit of FAA's consolidated financial statements as of and for the years ended September 30, 2015, and September 30, 2014, (see attachment), under contract to the Office of Inspector General (OIG). The contract required KPMG to perform the audit in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 15-02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2015, and September 30, 2014, 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.[1] The report did not include any reportable internal control deficiencies or instances of reportable noncompliance with laws and regulations tested.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted

[1] Pages 66 and 67 of the attached Performance and Accountability Report

Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's consolidated financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report, dated November 9, 2015, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards. A response to this report is not required since KPMG did not make any recommendations.

We appreciate the cooperation and assistance of FAA's representatives, the Office of Financial Management, and KPMG. If we can answer any questions, please contact me at (202) 366-1959, or Louis C. King, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

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U.S. Department of Transportation
Federal Aviation Administration

FAA FISCAL YEAR 2015
Performance and Accountability Report

The FAA. **Evolving Technology. Advancing Aviation.**

MISSION / VISION / VALUES

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.

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.

CONTENTS / SIDEBARS

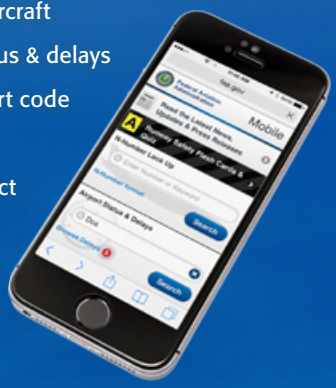
SIDEBARS

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

Visit us from your mobile device at

m.faa.gov

- Read the latest news, updates & press releases
- Review runway safety signage and markings and test your knowledge
- Look up the N-number of an aircraft
- Get information on airport status & delays
- Get Notices to Airmen by airport code
- Read Advisory Circulars
- Locate a Flight Standards District Office
- Report a Wildlife Strike
- Report a Laser Incident



FAA BY THE NUMBERS

REGIONAL AND FIELD OFFICES

45,639 employees

Headquarters
WASHINGTON, DC

3,882

Mike Monroney
Aeronautical Center (MMAC)
OKLAHOMA CITY, OK

3,399

William J. Hughes
Technical Center
ATLANTIC CITY, NJ

1,416

$15.8 billion budget in FY 2015

$9.74 BILLION
Operations

$3.35 BILLION
Grants in Aid for Airports

$2.60 BILLION
Facilities & Equipment

$0.16 BILLION
Research, Engineering & Development

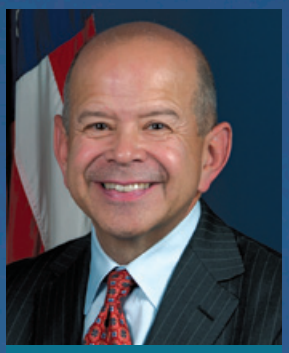
FOREWORD

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 the FAA to prepare financial statements separate from those of the DOT. The FAA consolidates its key data and information and provides it to the DOT to incorporate into their corresponding reports. Although the FAA is not required to prepare a separate Annual Financial Report or Performance and Accountability Report (PAR), it recognizes that it can better demonstrate the 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 FY 2002.

Last year, the FAA was proud to receive its 11th prestigious Certificate of Excellence in Accountability Reporting award for its PAR from the Association of Government Accountants. This award is indicative of the progress the FAA has made in reporting financial and program performance and in candidly assessing its results.

The FAA strives to continue to raise the bar with its performance and financial accountability and to do its part to help the DOT and the federal government excel in providing high-quality services and products to the taxpayers it serves.

A MESSAGE FROM THE ADMINISTRATOR



MICHAEL P. HUERTA

Since its inception nearly six decades ago, the Federal Aviation Administration (FAA) has provided the safest, most efficient aerospace system in the world. The FAA achieves this mission by training, empowering, and enabling its professional aviation workforce, and by integrating new processes and systems to meet the demands of America's airspace system, all while focusing on the safety of the flying public.

The agency's actions are guided by four strategic initiatives that lay the foundation for the aerospace system of the future: making aviation safer and smarter by continually analyzing operations to detect and mitigate risk; using technology and infrastructure to improve our airspace system; enhancing the FAA's role as a global aviation leader; and empowering our workforce to lead and develop the skills needed for the future. The FAA is making substantial headway in meeting these priorities, which benefit our stakeholders while addressing the challenges presented by the evolving demands of the aviation industry.

This report summarizes the FAA's major performance and financial results for fiscal year (FY) 2015 and our goals for the near future.

FY 2015 SIGNIFICANT ACTIVITIES

Next Generation Air Transportation System (NextGen)

The FAA continues to build NextGen, which is the term used to describe the transformation of the nation's airspace system through advanced technology to improve safety, increase capacity, and reduce the effects of aviation on the environment. Many NextGen benefits are now apparent for passengers, businesses, and aviation stakeholders.

In March, the FAA delivered an important foundational element of NextGen when it completed the transition to the En Route Automation Modernization (ERAM) computer system at 20 en route air traffic control centers in the continental United States. Replacing a system that had its roots in the 1960s, ERAM is one of the largest technology changeovers in the FAA's history. ERAM provides an expanded view of our nation's high-altitude traffic and helps aircraft move more efficiently across the country. To learn more about ERAM, please see page 12.

Digital communication between pilots and air traffic controllers is another tool the FAA is using to modernize our system and make every phase of flight more efficient. Known as Data Communications (Data Comm), this is a NextGen technology that enables air traffic controllers and pilots to electronically transmit flight plans and other essential messages. This movement from voice to data speeds up clearance delivery and controller to pilot message exchange, which reduces workload, enhances safety by reducing the chance of communication errors, and thereby improves overall efficiency of the operation. In FY 2015, the FAA continued successful trials for Data Comm in Newark and Memphis. We also achieved Initial Operating Capability at Houston Hobby, Houston Intercontinental, and Salt Lake City towers eight months ahead of schedule. In FY 2016, Data Comm tower services will be deployed to additional air traffic control towers, followed by deployment to en route facilities.

Unmanned Aircraft Systems (UAS)

Safely integrating unmanned aircraft into our airspace is one of the FAA's top priorities, and the agency made substantial progress on this objective in FY 2015.

In February, the FAA released the Small UAS Notice of Proposed Rulemaking (NPRM) for aircraft weighing less than 55 lbs. It established a flexible framework for allowing the routine use of these small unmanned aircraft while also accommodating future innovation. For more details on the NPRM, please see page 16. The FAA also launched the Pathfinder Program (see page 17)—a research effort with partners in industry to help us learn how we might safely expand unmanned aircraft operations beyond the parameters of the proposed Small UAS rule. To date, our partners include CNN, BNSF Railway, and PrecisionHawk, and we anticipate that roster to expand.

As unmanned aircraft become more popular, the FAA is stepping up to educate the public on the safe and responsible operation of UAS in our busy airspace. We partnered with the Academy of Model Aeronautics, the Small UAV Coalition, and the Association for Unmanned Vehicle Systems International to launch the "Know Before You Fly" outreach campaign—an ongoing effort that is informing recreational and commercial users about the regulations and guidelines for unmanned aircraft. We also streamlined processes for granting commercial exemptions, allowing companies and individuals to use unmanned aircraft in low-risk, controlled environments. Through September 30, 2015, we granted more than 1,500 exemptions for commercial operators.

We continue to partner with academia and industry to explore the next steps in unmanned aircraft operations. Last year, we opened six test sites across the country to research potential uses for unmanned aircraft and approved the first ever commercial application in the Arctic. In May 2015, after a rigorous competition, we selected a team from Mississippi State University as the anchor for the FAA's Center of Excellence (COE) for UAS. This COE, essentially a grant program to a consortium of universities, is focusing on research, education, and training in areas critical to the safe and successful integration of unmanned aircraft. For more information on the COE, please see page 16.

Safety Management Systems (SMS)

While the FAA maintains the safest airspace in the world, continued growth means we must continually find better ways to use safety data to detect and mitigate risk. In January, the FAA issued a final rule requiring most U.S. commercial airlines to have Safety Management Systems (SMS) in place by 2018. The rule builds on the voluntary programs many airlines already employ to identify and reduce aviation risk, and many air carriers have already adopted or are building SMS well ahead of the target date.

SMS enables airlines to further reduce risk in commercial aviation by fostering a culture of safety while improving the overall performance of the organization. An effective SMS examines data gathered from everyday operations and isolates trends that could be precursors to incidents or accidents. It then takes steps to mitigate and prevent that risk in future operations. SMS relies on the professionalism and dedication of team members to consistently do the right thing.

While the air carriers take the next steps toward building and maintaining a safety culture, the FAA workforce is also transitioning to a proactive, risk-based approach that will enable greater emphasis on known risks and then dedicate the resources to mitigate them.

REAUTHORIZATION

Every few years, Congress enacts reauthorization for the FAA—legislation that re-establishes the FAA's structure, governance, policy priorities, and funding levels. The reauthorization is typically multi-year and provides the framework for how the agency will conduct its business.

From 2007-2012, the FAA operated under 23 short-term extensions. During this period, lapses in spending authority led to furloughs for some employees. Two years ago, sequestration caused another furlough of employees. Later that year, there was a federal government shutdown that caused even more furloughs. Despite these disruptions, our agency continued to perform its vital role of operating the nation's air traffic control system and regulating safety.

The FAA's current authorization expires March 31, 2016. A key issue being debated is whether to reform the FAA's structure and governance. Some argue that air traffic control should be spun off from the FAA to expedite the modernization of the overall system. We are open to that discussion, but we must be sure that any changes in governance would address the long- and short-term challenges facing the FAA, its workforce and aviation stakeholders.

FY 2015 PERFORMANCE HIGHLIGHTS

A summary of results for all 12 of our performance measurements is provided on pages 25-26 in the Management's Discussion and Analysis Section. Each performance measure is linked to one of our four strategic initiatives. For 11 of 12 measures, year-end data was available as of the date this report was prepared, and the FAA achieved all 11 of those measures. The results for our twelfth measure (FedView Rankings) will not be available until December 2015.

Four of our 12 performance measures support U.S. Department of Transportation (DOT) priorities. The FAA achieved all of these four priority goals.

Commercial Aviation Fatal Accidents Rate: With a result of 0.1, the FAA achieved its goal of not exceeding 6.9 fatalities per 100 million people on board.

General Aviation Fatal Accidents Rate: The year-end result of 1.03 fatal accidents per 100,000 flights hours was below our target of not exceeding 1.04.

Serious Runway Incursions Rate: The FY 2015 result of .302 serious runway incursions per million operations was below the goal of not exceeding .395.

ERAM: The FAA's goal was achieved with the completion of Operational Readiness Decision at the remaining four en route air traffic control centers.

Detailed information, including FY 2015 accomplishments, is in the Performance Results section, which begins on page 38.

ACCOUNTABILITY

The FAA is committed to ensuring transparency and accountability to the public while achieving its mission. Our unqualified statement of assurance is on page 35. Also, for the eighth consecutive year, independent auditors gave our agency an unmodified financial statements audit opinion with no material weaknesses.

The FY 2015 Performance and Accountability Report, as well as a summary document, are available online at ***https://www.faa.gov/about/plans_reports/#performance***.

CONCLUSION

This has been a year of achievement, but it also underscores many challenges that remain as we prepare for the future. America's leadership in aviation faces competition from abroad. Domestically, the agency continues to navigate a constrained and challenging fiscal environment, while the integration of new entrants, like UAS and commercial space flight, into our airspace will require new and additional resources. The FAA looks forward to working with Congress and our stakeholders to preserve America's rich aviation heritage and ensure that the United States remains an innovative, respected global leader in aviation.

Michael P. Huerta
Administrator
November 9, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

1900

1903 — Orville and Wilbur Wright make first powered, sustained, and controlled flight in a heavier-than-air flying machine

1914 — Lawrence Sperry introduces the first automatic gyrostabilizer, an innovation that leads to first auto-pilot

1914 — The U.S. Postal Service inaugurates airmail service

1918 — Robert H. Goddard makes first free flight of a liquid-fueled rocket

1926 — Charles A. Lindbergh completes first solo, nonstop trans-Atlantic flight

1927 — Amelia Earhart is the first woman to fly a solo non-stop trans-Atlantic flight

1932 — A modern airliner, Boeing 247, flies for the first time

1933 — Germany's Heinkel 178 is the first fully jet-propelled aircraft to fly

1935 — Charles E. Yeager pilots Bell X-1—the first aircraft to exceed the speed of sound in level flight

1939 — British scientist Sir Robert Watson-Watt patents the first practical radar system

1947 — Jet age begins with first flight of Boeing 707

1956 — Grand Canyon airplane crash helps spur major safety improvements and the formation of the Federal Aviation Agency in 1958

1957

NASA astronaut Rex Walheim checks out the Dragon spacecraft under development by Space Exploration Technologies (SpaceX) of Hawthorne, Calif., for the agency's Commercial Crew Program. Photo: NASA

HISTORY OF MODERN AVIATION

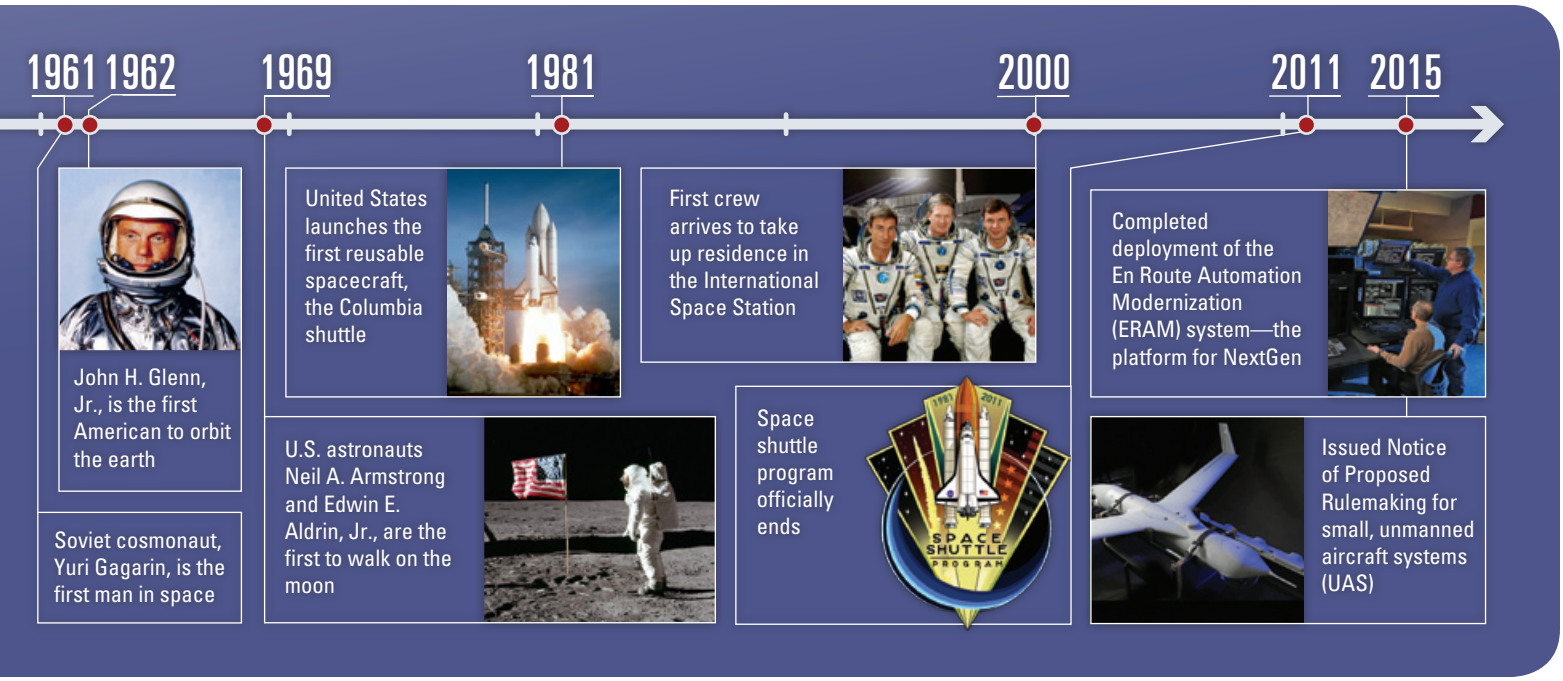
Orville Wright made the first sustained powered flight on December 17, 1903, in a plane that he and his brother Wilbur built. This 12-second flight led to the development of the first practical airplane in 1905. The early twentieth century witnessed countless aviation developments as new planes and technologies entered service. During World War I, the airplane 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, Ohio, constructed by the Army in 1921 using rotating beacons, field floodlights, and flashing markers. As air travel increased, some airport operators began to improve safety by 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. The Bureau of Standards, the Army, and other sources developed a radio system during the 1920s that would guide an aircraft along a chosen course. This system required 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.

ABOVE: On November 1, 1958, Elwood R. Quesada took the oath as FAA's first Administrator.

On June 30, 1956, a Trans World Airlines Super Constellation and a United Airlines DC-7 collided over the Grand Canyon in Arizona 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 that transferred Civil Aeronautics Administration functions to a new independent body: the Federal Aviation Agency (which became the Federal Aviation Administration in 1967).

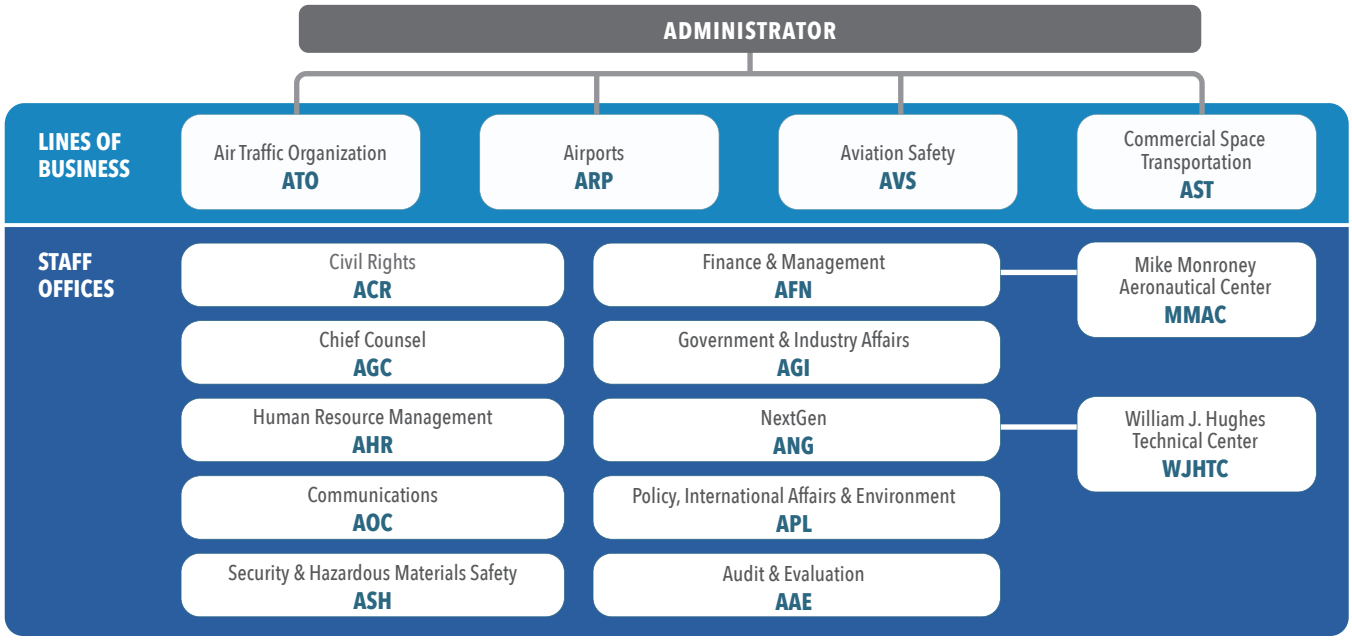


FAA ORGANIZATION

The FAA fulfills its mission through four lines of business that work collaboratively to create, operate, and maintain our nation's airspace system.

- **Air Traffic Organization (ATO).** Serves as the operational arm of the FAA. ATO is responsible for providing safe and efficient air navigation services for 30.2 million square miles of airspace. This represents more than 17 percent of the world's airspace and includes all of the United States and large portions of the Atlantic and Pacific Oceans and the Gulf of Mexico. ATO stakeholders include commercial and private aviation users and the military. ATO employees are the service providers—the controllers, technicians, engineers and support personnel whose daily efforts keep aircraft moving safely and efficiently through the nation's skies.
- **Airports (ARP).** Provides leadership in planning and developing a safe and efficient national airport system; is responsible for all programs related to airport safety and inspections, and for standards of airport design, construction, and operation (including international harmonization of airport standards). Through the Airport Improvement Program (AIP), the office awards airport grants and approves passenger facility charge collections. ARP is also responsible for national airport planning and environmental and social requirements. In addition, ARP establishes policies related to airport rates and charges, compliance with grant assurances, and airport privatization.

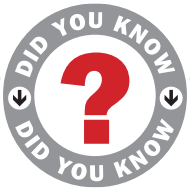
- **Aviation Safety (AVS).** Develops, establishes, administers, and enforces safety standards for all parts of the aviation industry, impacting every facet of domestic and international civil aviation safety. AVS is responsible for the certification of aircraft, airmen (pilots, mechanics, and other designees), and aviation entities (air carriers, charter operators, flying schools, training centers, etc.).
- **Commercial Space Transportation (AST).** Oversees the safety of commercial space transportation activities, which includes the licensing of space launches and reentries and the inspection of space vehicles, launch sites and operations; regulates the U.S. commercial space transportation industry; and encourages, facilitates, and promotes U.S. commercial space transportation.



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

- **Finance and Management (AFN).** Streamlines agency functions to ensure they are delivered as effectively and efficiently as possible. AFN improves accountability and enhances operational efficiency through the responsible stewardship of FAA resources. AFN is comprised of the following offices:
  - **Financial Services**
  - **Acquisitions and Business Services**
  - **Information & Technology Services**
  - **Regions and Center Operations**
    - **Aeronautical Center.** The Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, OK, provides logistics, enterprise business services, software design, training, course design, and contractual, acquisition, realty, personal property, and equipment/management services in support of Center activities and agency programs. The MMAC also trains air traffic controllers and the technicians who repair and maintain airspace supporting systems and equipment in the field. The MMAC provides technological training, national partnerships, logistics support, simulation, and medical research.
- **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. ANG also works with other U.S. federal and state government agencies, the FAA's international counterparts and members of the aviation community to ensure harmonization of NextGen policies and procedures.
  - **Technical Center.** The William J. Hughes Technical Center, located in Atlantic City, NJ, is the FAA's air transportation laboratory and national scientific test base for research and development, test and evaluation, and verification and validation in air traffic control, communications, surveillance, navigation, traffic flow management, and weather systems. The Technical Center supports advancement in airport and aircraft safety, human factors and separation standards, system development, and cyber security. These laboratories provide a platform to explore, integrate, and evaluate aviation concepts from initial concept to deployment in the airspace system. The Technical Center is the primary facility supporting NextGen.

For more information about FAA lines of business and staff offices, please visit *www.faa.gov/about/office_org*.



The FAA **SAFELY GUIDES** approximately **25 million** flights every year

The FAA **MAINTAINS** FAA-operated or FAA contracted towers at more than **500 airports**

The FAA **OPERATES** **24** hours a day / **7** days a week / **365** days per year

The FAA **OVERSEES** a system that transports **756.3 million** passengers annually on U.S. carriers

MAJOR ACCOMPLISHMENTS

NextGen

NextGen is a modernization effort that is transitioning the national airspace system from ground-based radar to satellite-based navigation, from voice to digital communication, and from point-to-point data to a fully integrated information management system. These initiatives are changing how FAA manages, navigates, and communicates in our national airspace.

En Route Automation Modernization (ERAM)

ERAM is the NextGen-enabling computer system that FAA uses at 20 Air Route Traffic Control Centers—a lso known as en route centers — within the continental United States and at the FAA Academy in Oklahoma City, Oklahoma. This system is considered the backbone for managing air traffic in the national airspace. It processes flight and surveillance data, provides communications and generates display data for air traffic controllers.

FAA began replacing HOST, the 40 year-old legacy computer system, with ERAM in March 2012, with the first installation at Salt Lake City Center. Full deployment was completed in March 2015, with the final installation at New York Center. The completion of ERAM is a critical NextGen milestone as it provides the foundational platform for implementing other NextGen tools, technologies, and procedures.

The transition to ERAM was one of the most complex, challenging, and ambitious programs ever deployed by FAA. In effect, this transition represented a live transplant of the "heart" of today's air traffic control system while maintaining safe and efficient flight operations for the flying public.

ERAM increases capacity and improves efficiency in our skies. En Route (typically the segment of flight from approximately 10,000 feet and above) controllers are able to track 1,900 aircraft at a time instead of the previous 1,100. Additionally, coverage now extends beyond facility boundaries, enabling controllers to handle traffic more efficiently. This extended coverage is possible because ERAM can process data from 64 radars versus the 24 radar processing capability of HOST.

Going forward, ERAM will provide benefits for users and the flying public by increasing air traffic flow and improving automated navigation and conflict detection services, both of which are vital to meeting future demand and preventing gridlock and delays.

FAA attributes the success of the development and installation of ERAM to the collaboration between FAA management and labor, including the National Air Traffic Controllers Association and the Professional Aviation Safety Specialists. This collaborative process is now a blueprint that will be applied to the rollout of future technologies.

To learn more about the background, benefits, and features of ERAM, please see the ERAM fact sheet at ***http://www.faa.gov/news/fact_sheets/news_story.cfm?newsid=7714***. Additionally, an ERAM video can be found at ***https://www.youtube.com/watch?v=5-uJtoyKUWs&feature=youtube***.

NEXTGEN WEATHER

The NextGen Weather Program consolidates multiple FAA weather tracking and forecasting systems and sensors with overlapping capabilities into one single system. This new system harnesses massive computing power allowing for unprecedented advances in numerical weather forecasting and translation of weather information into airspace constraints. The Program is providing tailored aviation weather products for our airspace, helping controllers and operators develop reliable flight plans, make more informed decisions, and improve on-time flight performance.

A key component of the Program is the fully-automated NextGen Weather Processor (NWP). NWP combines information from weather radars, environmental satellites, lightning, meteorological observations, and output from numerical forecast models of the National Oceanic and Atmospheric Administration to generate improved weather information for all FAA users and stakeholders. NWP's improved weather information includes weather safety hazards which help predict route blockage and airspace capacity constraints up to eight hours in advance. This provides support for strategic traffic flow management of aircraft.

NWP also includes an Aviation Weather Display, providing consistent weather information "at a glance" for en route and terminal users.

With NWP, the flying public should experience fewer weather delays, flight cancellations, and refueling stops, which should result in more dependability in flight schedules.

NextGen Programs

Automatic Dependent Surveillance-Broadcast (ADS-B) is FAA's satellite-based successor to radar. ADS-B makes use of GPS technology to determine and share precise aircraft location information, and streams additional flight information to the cockpits of aircraft equipped with ADS-B avionics.
http://www.faa.gov/nextgen/programs/adsb/

Data Communications (Data Comm) will provide digital data communications services between pilots and controllers. Data Comm provides a data link between ground automation and avionics for clearances, instructions, traffic flow management, and flight crew requests and reports. Data Comm will reduce delays; reduce communication errors; improve controller and pilot efficiency; and increase controller productivity leading to increased capacity. Data Comm is critical to the success of NextGen operational improvements by providing communication infrastructure enhancements.
http://www.faa.gov/nextgen/programs/datacomm/

En Route Automation Modernization (ERAM)* is one of the foundational programs that make it possible for NextGen to realize its full potential. ERAM replaces the 30-year-old HOST computer system at the 20 air route traffic control centers in the contiguous United States. This scalable system serves as the platform upon which data sharing, digital communications and trajectory-based operations will reside. ERAM processes flight and surveillance data, provides communications and generates display data to air traffic controllers.
http://www.faa.gov/nextgen/update/progress_and_plans/eram/

** The ERAM base program is not a NextGen program, but is foundational to the success of many NextGen capabilities. For example, ERAM serves as the platform upon which NextGen capabilities such as data sharing, digital communications and trajectory-based operations will reside.*

National Airspace System Voice System (NVS) will replace FAA's aging analog voice communication systems with state-of-the-art digital technology. NVS will standardize the voice communication infrastructure among FAA facilities, and provide greater flexibility to the air traffic control system.
http://www.faa.gov/nextgen/programs/nvs/

System Wide Information Management (SWIM) is the network infrastructure that will carry NextGen digital information. SWIM will enable cost-effective, real-time data exchange and sharing among users of the nation's airspace.
http://www.faa.gov/nextgen/programs/swim/

Terminal Automation Modernization and Replacement (TAMR)* is upgrading multiple air traffic control technologies to a single, state-of-the-art platform: the Standard Terminal Automation Replacement System (STARS). Under TAMR, technology is being upgraded at the 55 sites where STARS is already operational, while older automation platforms are being replaced at 108 additional facilities.
http://www.faa.gov/nextgen/update/progress_and_plans/tamr/

** TAMR is not a NextGen program but, like ERAM, the successful transition to this common automation platform is foundational to successfully deploying other NextGen capabilities.*

Automatic Dependent Surveillance-Broadcast (ADS-B) and Wide Area Augmentation System (WAAS)

The FAA has also completed installation of the ADS-B infrastructure, a GPS-based technology which provides nationwide surveillance and flight information services to pilots flying properly-equipped aircraft. With ADS-B technology, pilots can look at their equipped flightdeck displays to see and avoid severe weather, their position to other aircraft as well as other flight information. Many general aviation pilots are already equipping their aircraft to take advantage of the safety and efficiency benefits.

Alaska was one of the first places the FAA unveiled ADS-B more than 10 years ago. Alaska was selected because general aviation aircraft there play critical roles—as ambulances, school buses, ferrying supplies, etc.—in serving remote, mountainous communities that lack radar coverage and are often only accessible by air. The benefits delivered from ADS-B significantly improved situational awareness for pilots, especially in bad weather. The accident rate for ADS-B-equipped aircraft was reduced by nearly half in Southwest Alaska. To learn more about ADS-B, please visit *http://www.faa.gov/nextgen/programs/adsb/*.

ADS-B is not the only NextGen GPS-based technology available to general aviation pilots. For more than a decade, the FAA has been developing and publishing Wide Area Augmentation System (WAAS) approach procedures at airports that do not have ground-based navigational aids. GPS alone does not meet the FAA's navigation requirements for accuracy, integrity, and availability. But the WAAS corrects for GPS signal errors caused by atmospheric disturbances, timing, and errors in satellite orbit. WAAS augments the information sent to GPS receivers to enhance the accuracy and reliability of position estimates. This means general aviation pilots with properly equipped aircraft may use these new WAAS approach procedures to fly into airports despite poor weather conditions with minimums as low as 200 feet—a significant safety and efficiency benefit, particularly for medical aircraft or those low on fuel. There are now 4,160 WAAS approach procedures—more than twice the number of ground-based, instrument landing system glide slopes—serving 1,968 airports. In 2015, 165 WAAS procedures were produced. The agency expects to develop 80 more WAAS procedures next year and 25 procedures immediately thereafter until such time as pilots are able to fly a WAAS approach at every qualified runway in the country. To learn more about WAAS, please visit: *http://www.faa.gov/about/office_org/headquarters_offices/ato/service_units/techops/navservices/gnss/waas/*.

Data Comm

The FAA is moving toward supplementing voice with digital communications capabilities between air traffic controllers and flight crew through Data Comm. In FY 2015, the FAA continued its successful trials of the new technology in Newark and Memphis. In addition, the FAA achieved Initial Operating Capability (IOC) at Houston Hobby, Houston Intercontinental, and Salt Lake City towers. Those

A NEXTGEN BENEFIT: EQUIVALENT LATERAL SPACING OPERATIONS

NextGen-enabled technology called Equivalent Lateral Spacing Operations, or ELSO, is increasing runway capacity by allowing more aircraft to take off from the same runway during the same time period. Atlanta is the first airport where the FAA has used ELSO, and FAA plans to expand the procedure to airports in Denver, Detroit, Cleveland, Miami and Ft. Lauderdale within the next few years.

ELSO allows air traffic controllers to space routes more closely together and safely clear aircraft for takeoff more efficiently. This is possible because an aircraft equipped with performance-based navigation is able to fly a precise path with pinpoint accuracy, giving controllers more certainty about the aircraft's intended route of travel. When controllers know the aircraft's exact path on take-off, they don't have to build an extra cushion of airspace around the plane to account for variations in the flight path. This flexibility makes it possible for controllers to clear as many as eight to twelve additional departures every hour.

This innovative concept also benefits air traffic controllers and airlines by freeing up airspace and reducing taxi-time. That saves millions of dollars in fuel each year—for example it saves nearly $20 million per year at the Atlanta airport alone.

ELSO is just one of a number of innovative strategies under NextGen that will help to streamline our nation's airspace and reduce complexity for air traffic controllers and airlines.

milestones were achieved eight months ahead of schedule. In FY 2016, FAA plans to deploy this technology to additional towers, followed by deployment at en route facilities.

Data Comm will provide a direct digital link between the pilots and air traffic controllers for safety-of-flight air traffic control clearances, instructions, traffic flow management, flight crew requests and reports. Data Comm's digital link will reduce the impact of ground delay programs, airport reconfigurations, convective weather, congestion, and other causes; reduce communication errors; improve controller and pilot efficiency through automated information exchange; enable NextGen services (e.g., enhanced re-routes, trajectory operations); and increase controller productivity leading to increased capacity.

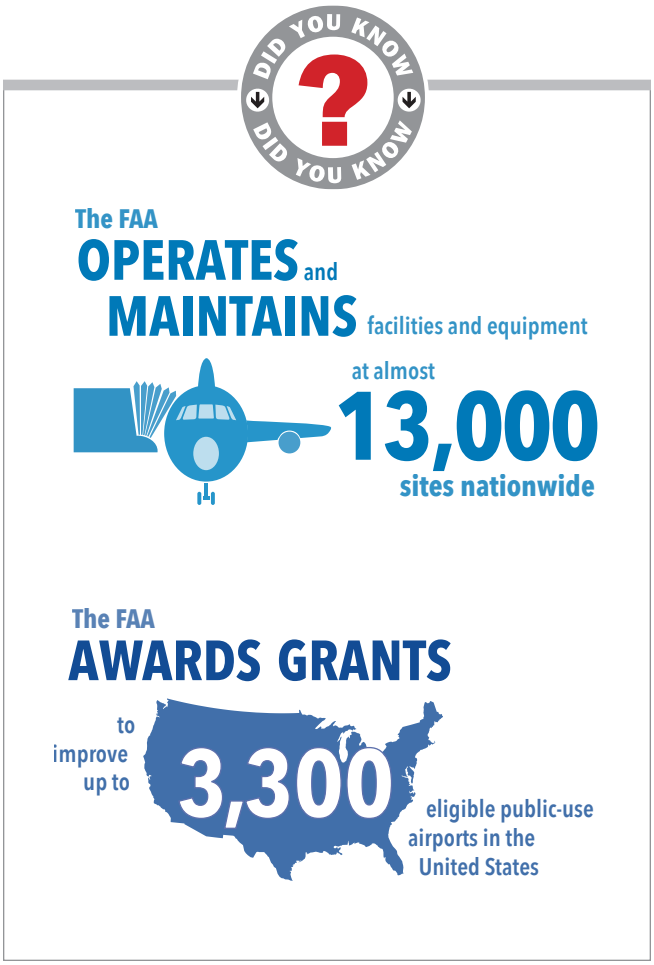
These program benefits should help airlines stay on schedule and deliver passengers to their destinations quickly and safely.

Challenges

The FAA's number one priority is safety. It faces a number of challenges in modernizing the system at the same time that it operates the busiest airspace in the world. FAA operates 24/7 and safely guides approximately 68,000 flights daily.

- **Equipage.** Before the January 1, 2020 mandate, all aircraft flying in controlled airspace in the United States must be equipped with ADS-B avionics. The aviation industry must equip its fleet to take full advantage of NextGen capabilities.
- **Congestion.** FAA must create more direct and efficient flight paths and procedures to ensure that traffic flows in a measured and predictable way in order to avoid congestion. The current traffic management tools allow the FAA to work collaboratively with the airlines, corporate and business aviation, and private aircraft, which enable traffic to flow more efficiently. However, providing for additional flight paths and procedures will ensure that airports can handle a growing number of flights nationwide.
- **Expanding Capacity.** The FAA continues to work with airports to expand their infrastructure to meet traffic growth and reduce congestion.

  In late January, FAA published the third edition of its report on long-term airport capacity needs. The report, titled "Future Airport Capability Task 3" (FACT3), identifies airports that are at risk for significant flight delays and congestion through 2030.

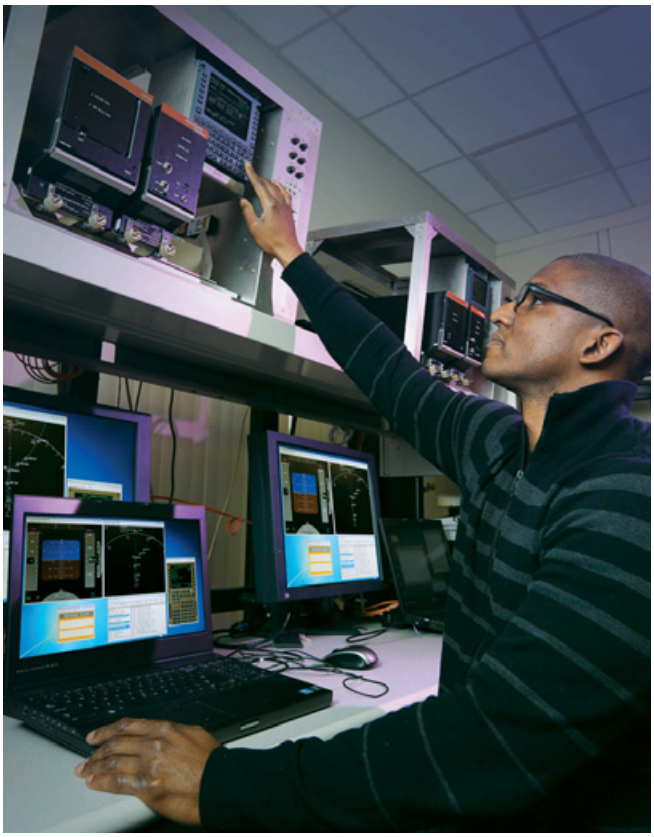


The report focuses on runway capacity, since runways can be the most challenging projects to build at an airport. It also looks at constraints with gates and the efficiency of aircraft moving around the airport. Gates and ramp areas at airports can usually be expanded, but new runways are often a long-term solution.

For the rest of this decade, most major domestic airports have sufficient capacity—except for several high-demand airports that have consistent delays, which include New York City-area airports, Atlanta, Philadelphia, and San Francisco.

Unmanned Aircraft Systems (UAS)

One of the requirements of the FAA Modernization and Reform Act of 2012 is to safely integrate UAS into the nation's airspace. UAS are flown by a pilot via a ground control system. Introducing these aircraft into the nation's airspace is challenging for both the FAA and the aviation community.



Testing in the Data Comm laboratory at the FAA's William J. Hughes Technical Center. Photo: FAA

Notice of Proposed Rulemaking

In February of this year, FAA issued the Notice of Proposed Rulemaking (NPRM) for unmanned aircraft weighing less than 55 pounds. This NPRM is a big step forward in outlining the framework that will govern the use of these small unmanned aircraft. This proposed rule offers a very flexible framework that provides for the safe use of these aircraft, while also accommodating future innovation in the industry.

The FAA proposal offers safety rules for small UAS conducting non-recreational operations. The rule would limit flights to daylight and visual-line-of-sight operations. It also addresses height restrictions, operator certification, optional use of a visual observer, aircraft registration and marking, and operational limits.

Under the proposed rule, the person actually flying a small UAS would be an "operator." An operator would have to be at least 17 years old, pass an aeronautical knowledge test and obtain an FAA UAS operator certificate. To maintain certification, the operator would be required to pass the FAA knowledge test every 24 months. A small UAS operator would not need any further private pilot certifications (i.e., a private pilot license or medical rating). And before each flight, operators would conduct a preflight inspection, just as pilots do with manned aircraft today.

The new rule also proposes operating limitations designed to minimize risks to other aircraft, and people and property on the ground. The proposed rule maintains the existing prohibition against operating in a careless or reckless manner. It also would prohibit an operator from allowing any object to be dropped from the UAS.

The new rules would not apply to model aircraft as a hobby or for recreation. Anyone who wants to fly these aircraft must follow FAA model aircraft guidelines (***https://www.faa.gov/uas/model_aircraft/***).

The current unmanned aircraft rules remain in place until the FAA implements a final new rule. To view the FAA's Small UAS Notice of Proposed Rulemaking, please visit: ***https://www.federalregister.gov/articles/2015/02/23/2015-03544/operation-and-certification-of-small-unmanned-aircraft-systems***.

UAS Center of Excellence

This past May, the FAA selected a Mississippi State University team as the FAA's Center of Excellence (COE) for UAS. The COE will focus on research, education and training in areas critical to the safe and successful integration of UAS into the nation's airspace.

Congress appropriated $5 million for the five-year agreement with the COE that will be matched dollar-for-dollar by team members.

This world-class, public-private partnership will help FAA focus on the challenges and opportunities of this cutting-edge technology. FAA expects this partnership will help educate and train a cadre of unmanned aircraft professionals well into the future.

The COE research areas are expected to evolve over time, but initially will include: detect and avoid technology; low-altitude operations safety; control and communications; spectrum management; human factors; compatibility with air traffic control operations; and training and certification of UAS pilots and other crewmembers.

The COE began research in September and expects to be fully operational and engaged in a robust research agenda by January 2016.

The COE includes the following 15 universities: Drexel University; Embry Riddle Aeronautical University; Kansas State University; Kansas University; Mississippi State University; Montana State University; New Mexico State University; North Carolina State University; Ohio State University; Oregon State University; University of Alabama, Huntsville; University of Alaska, Fairbanks; University of California–Davis; University of North Dakota; and Wichita State University.

To learn more about the UAS COE, please ***visit https://www.faa.gov/uas/legislative_programs/coe/***.

Pathfinder Program

This year FAA launched the Pathfinder Program. This is a partnership between FAA and three leading organizations tasked with addressing long-term use and integration of unmanned aircraft systems into our airspace and daily lives.

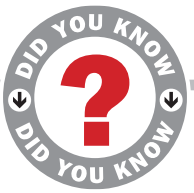
Cable News Network (CNN) will be researching how UAS can be deployed in a populated environment for news-gathering purposes. Their research will focus on concerns for safety; how news gathering can be done in a responsible manner; and how to take advantage of what the technology provides.

Precision Hawk, a manufacturer of UAS, will be surveying crops in rural areas using unmanned aircraft flying outside of the pilot's direct vision. They will be working on new research and technology that focus on how we can ensure that UAS have systems in place that enable them to operate in what has always been an environment of "see and avoid."

Burlington Northern Santa Fe (BNSF) Railway will explore the challenges of using UAS to conduct safety inspections and ensure security on their rail network around the country.

FAA anticipates receiving valuable data from each of these trials that could result in FAA-approved operations in the next few years. The trials will also give insight into how unmanned aircraft can be used to transform the way certain industries do business. The FAA plans to add additional partners to the Pathfinder Program in FY 2016.

For more information on UAS, please visit ***http://www.faa.gov/uas/legislative_programs/coe/***.



No Drone Zone

In response to individuals flying unmanned aircraft systems (UAS) in restricted airspace around the National Mall and downtown Washington, D.C., the FAA recognized the need for increased public awareness about restricted areas where UAS are not allowed to fly.

The FAA is leading a public outreach campaign for the region around Washington, D.C. to reinforce the message that the city itself, and communities within a 15-mile radius of the Ronald Reagan Washington National Airport, are a "No Drone Zone." In other parts of the country the No Drone Zone is a five mile radius of an airport.

Rules were put in place after the 9/11 attacks establishing a "national defense airspace" over the D.C. area that limit aircraft operations – including unmanned aircraft – to only those with FAA and TSA authorization. The FAA wants to ensure that residents and tourists understand that operating unmanned aircraft in this area for any purpose is against the law.

Other Major Accomplishments

Washington, DC Metroplex

A metroplex refers to a system of airports in close proximity to one another, and where their shared airspace may serve one or more major cities. A metroplex has at least one, but often two or more, major commercial airports.

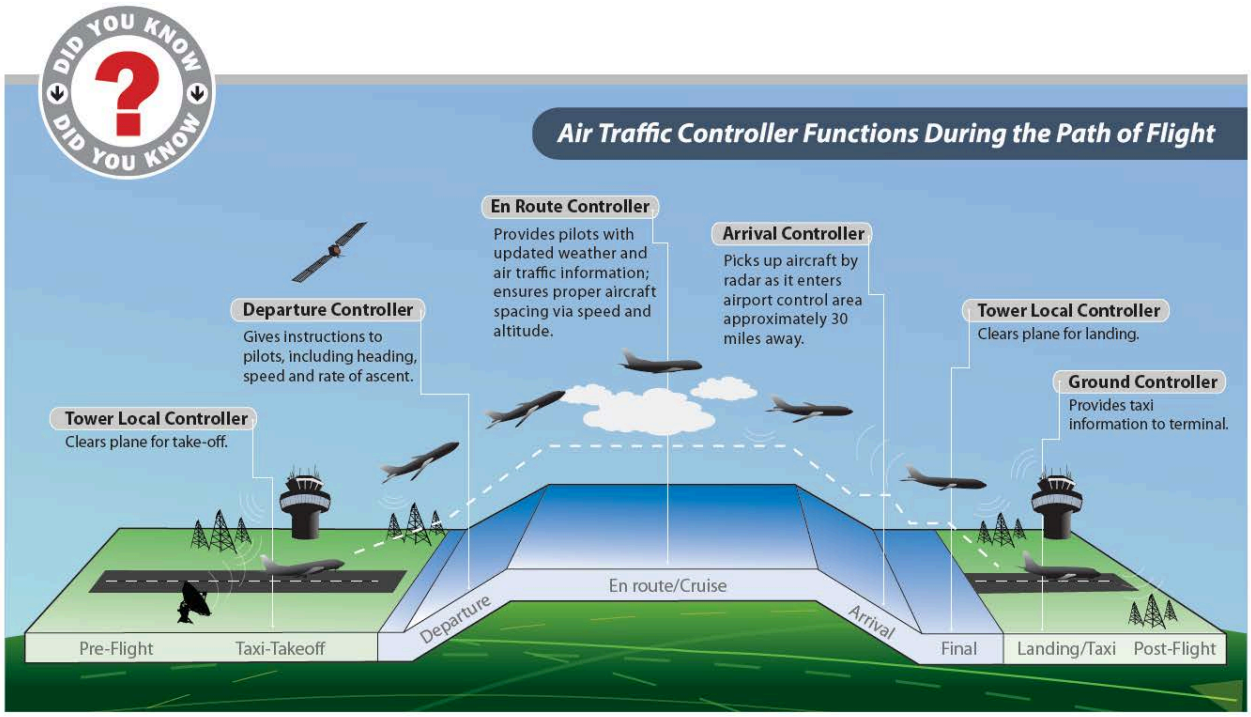
In FY 2015, the Washington, DC Metroplex became the second in the nation to have three, state-of-the-art, satellite-based highways in the sky running side by side, each dedicated to one of the three major airports in the region. Dulles International Airport and Reagan National Airport were already using Optimized Profile Descents (OPD), which enable aircraft to descend from cruising altitude to the runway in a smooth, continuous arc instead of the traditional staircase descent. This saves time for passengers, while reducing fuel used and carbon dioxide emissions. A traditional staircase-like descent burns fuel at each step. In addition, voice communications between air traffic controllers and pilots are greatly reduced since clearances required during each step of a staircase descent are eliminated. This year Baltimore/Washington International Airport also deployed OPDs.

FAA estimates that airlines will burn at least 2.1 million fewer gallons of fuel each year in the skies above Washington, while emitting at least 18,200 fewer metric tons of carbon dioxide. Using the Environmental Protection Agency's energy calculator, this is the equivalent of annual greenhouse gas emissions from 3,930 passenger vehicles or 6,691 tons of waste taken to landfills. To view a video about the Washington, DC Metroplex, please visit ***http://www.faa.gov/tv/?mediaId=981***.

Cooperation with France on Commercial Space

This year, Administrator Huerta and French National Space Agency President Jean-Yves Le Gall signed a Memorandum of Cooperation (MOC) to cooperate on research and development related to the safety of private sector orbital space launches and re-entry activities. The research-related, non-binding arrangement between France and the United States is the first of its kind covering research into commercial orbital space operations.

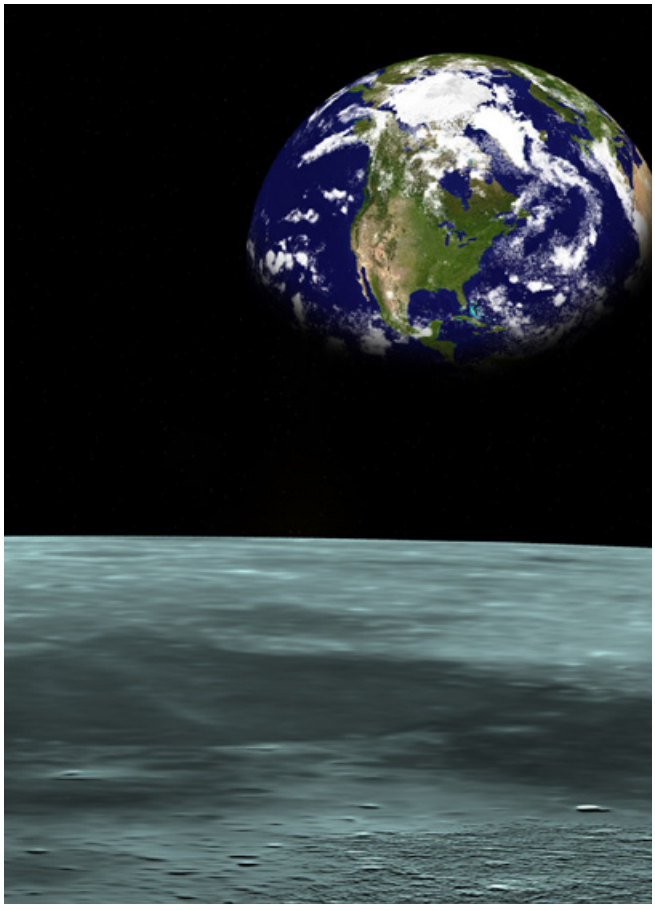
The FAA Office of Commercial Space Transportation is in charge of regulating and overseeing the safety of the U.S. commercial space transportation industry. The MOC involves current activities that both the French and United States governments are undertaking related to orbital launches and spacecraft re-entries.

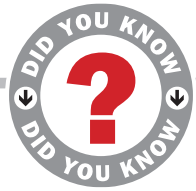


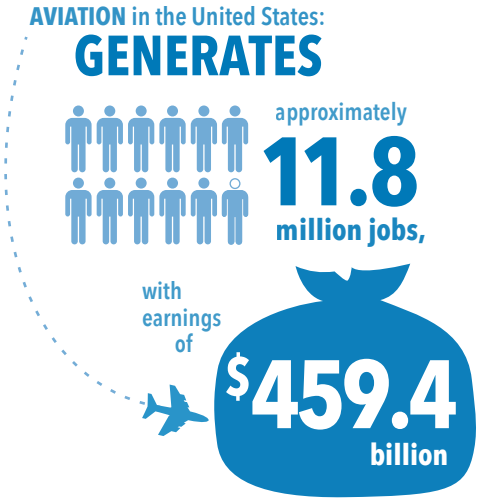
The primary focus of this new partnership is to understand each other's safety regulations and to evaluate safety techniques for the launch and re-entry of commercial space vehicles.

This MOC will enhance both domestically and internationally the quality, objectivity, and utility of methods designed to ensure the protection of public health and safety related to commercial space transportation. Both France and the United States can achieve these goals through the exchange of information on programs and projects of mutual interest, carrying out joint analyses, and the coordination of research activities relating to safety and the environment.

The MOC could pave the way for development of future arrangements between the FAA and France, including the regulation of suborbital reusable vehicles that can carry people and the operation of launch sites known as spaceports. To learn more about FAA's Office of Commercial Space Transportation, please visit *http://www.faa.gov/about/office_org/headquarters_offices/ast/about/*.







WILLIAM J. HUGHES TECHNICAL CENTER

The William J. Hughes Technical Center (Technical Center) in Atlantic City, New Jersey, is the FAA's national scientific laboratory for research and development, test and evaluation, and verification and validation in air traffic control, communications, surveillance, navigation, traffic flow management, and weather systems. It supports advancement in airport and aircraft safety, human factors, separation standards, system development, and cybersecurity. The FAA organization chart on page 10 shows that the Technical Center is part of FAA's NextGen staff office. Following are highlights of some recent accomplishments:

- **The Technical Center houses ultra-modern laboratories featuring technology-driven engineering and scientific capabilities.** Using best practices and quality standards, it served 60 different projects requiring testing, analysis, evaluation, and verification for existing and future airspace and air transportation systems to ensure each is operationally suitable and effective.
- **It supported an assessment of operational integration of the Terminal Sequencing and Spacing (TSS) system.** This involved a series of human-in-the-loop simulations to test interactions between the FAA's En Route Ground-based Interval Management for Spacing (GIM-S) and the NASA-developed prototype TSS system. Collectively, the TSS and GIM-S systems offer capabilities to facilitate effective aircraft arrival and departure placement as well as a more efficient way for aircraft to approach airports prior to landing.
- **The Technical Center successfully monitored and reported on the performance of domestic separation standards according to Reduced Vertical Separation Minimum (RVSM) criteria.** RVSM allows designated aircraft and pilots to safely fly more efficient routes, thereby gaining fuel savings and increased airspace capacity.
- **The Technical Center established the NextGen Cyber Security Test Facility (CyTF) and implemented the Department of Homeland Security's Continuous Diagnostics and Mitigation (CDM) program.** By adding the CDM, the Technical Center has the capability to continuously enhance measures to prevent, deter, detect, and respond to cyberattacks against the FAA's infrastructure.
- **FAA's Technology Transfer Program utilizes Cooperative Research and Development Agreements (CRDAs) for research and development solutions to aviation needs affecting public and private industry.** This year, the Technical Center awarded seven new CRDAs and maintained or renewed 38 CRDAs. Research and development included testing fuels, engines, and parts, as well as generating technical documentation and supporting engineering personnel who conduct research.
- **The Technical Center held the 10th Annual Verification and Validation (V&V) Summit, which included speakers addressing innovative methods and strategies embracing V&V philosophies and principles critical to moving NextGen initiatives forward.** Two key objectives of this year's summit were to foster a set of V&V best practices that better support acquisitions and that enhance decision making by highlighting "real-world" ways to incorporate V&V into organizational operations.

PERFORMANCE HIGHLIGHTS

The FAA is charged with promoting the safety and efficiency of the nation's aviation system. FAA maintains the system's integrity and reliability through its broad authority to enforce safety regulations and conduct oversight of the civil aviation industry. Strategic plans, annual business plans, human capital plans, program evaluations, annual performance and accountability reports, and constant reevaluation of FAA efforts create a recurring cycle of planning, program execution, measurement, verification, and reporting. FAA has created a strong link between resources and performance. This link helps FAA focus on accomplishing its priorities within the context of their costs and benefits.

Managing Performance

FAA manages 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 the FAA improves 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 FAA's strategic plan.

Plan, Work, and Budget

The second step in evaluating performance focuses on planning, which begins with reviewing the critical activities and resources required to achieve 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.

The complete FY 2015 Congressional Justification can be found at: ***http://www.transportation.gov/sites/dot.gov/files/docs/FAA-FY2015-Budget-Estimates.pdf***.

The FAA also has a section in the DOT-prepared Budget Highlights Fiscal Year 2015. This document can be found at: ***http://www.transportation.gov/sites/dot.gov/files/docs/BudgetHighlightsFY2015.pdf***.

In addition, strategic initiatives and FY 2015 business plans for all FAA organizations are available at ***http://www.faa.gov/about/plans_reports/#business_plans***.

Monitor Work

Monitoring occurs through various performance management activities in which FAA executives and employees participate each month.

The agency's overall governance model was revised in FY 2013 to streamline decision-making at the executive level. The revised model includes two groups—an Executive Council and a Business Council.

The Executive Council provides oversight for agency-wide strategic direction and decision making for critical priorities. This includes setting short and long-term agency goals; annual budget and financial decisions and all activities conducted by the FAA. The Executive Council is the highest deliberative body in the agency and the primary forum to advise and assist the Administrator. The Administrator is not bound by the recommendations of the Council.

The Business Council is the primary forum to advise and assist the Deputy Administrator in making decisions on significant internal (e.g., workforce, IT, and non-national airspace system facilities) issues facing the agency.

The two councils create a more transparent and clearly-defined decision-making process; they clarify decisions across the FAA and clearly communicate decisions by means of decision memos.

on the RADAR

ALASKA WEATHER CAMERA PROGRAM

As winter weather whips the nation's northern-most state, pilots now have access to a fully deployed set of weather cameras to help them determine when and where it is safe to fly. The Alaska Weather Camera Program improves safety and efficiency by providing pilots with near real-time visual weather information. It includes a recently-updated website that enhances navigational planning on an interactive map, with easily accessible images and other weather data products.

The pictures have been critical in helping pilots in Alaska make better safety decisions. The program also helps aircraft operators save fuel by eliminating situations where pilots take off only to find they have to return due to bad weather.

More than three-quarters of Alaskan communities have no access to highways or roads and depend on aviation for access to food, mail, jobs, schools, medical services, and travel. For these communities, small aircraft are essential to everyday life.

The program began in 1999 and FAA installed the 221st and final weather camera last fall. The cameras are positioned to view sky conditions around airports, air routes, extreme mountain passes, and extremely remote areas and tidal zones.

The FAA started the program after determining that pilots operating under Visual Flight Rules would benefit from actual views of current weather conditions. Camera images are updated every 10 minutes and are made available to the public through the FAA's aviation camera website at: http://avcams.faa.gov.

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.

Performance measures and targets support our mission to provide the American public with a safe and efficient global aviation system. We have streamlined our strategic focus over the past several 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

As previously discussed, to help our nation's airspace system better prepare for forecasted growth and future changes in the industry, the Administrator has outlined key strategic priorities to meet America's growing reliance on air travel. All of FAA's performance measures are linked to one of the four priorities.

- **Make aviation safer and smarter**
  Safety is the backbone of what FAA does. It builds on safety management principles to proactively address emerging safety risk. FAA wants to make smarter, system-level, risk-based decisions. This year, FAA achieved all six goals that fall under this strategic priority. For a complete discussion of safety measures, see page 40.
- **Deliver benefits through technology and infrastructure**
  FAA must deliver the benefits of NextGen. This involves keeping NextGen on schedule and on budget, but also encompasses the delivery of benefits to users. In FY 2015, FAA achieved all five goals in this strategic priority area. For more information, please see page 49.

- **Enhance global leadership**
  It is important for the FAA to play a leadership role globally; to improve safety, air traffic efficiency, and environmental sustainability across the globe. FAA will do this through shaping global standards and enhancing collaboration and harmonization. During FY 2015, FAA continued efforts to develop an enhanced organizational structure that supports this strategic priority area.
- **Empower and innovate with the FAA's people**
  It is critical that FAA prepare for the future by improving how it recruits and trains its workforce. FAA needs the leadership, technical, and functional skills to ensure the U.S. has the world's safest and most productive aviation sector. There is one performance measure related to this strategic priority. Results for the FedView Rankings measure will not be available until December 2015. A discussion of this measure can be found on page 56.

on the RADAR

NEXTGEN INTEGRATION AND EVALUATION CAPABILITY (NIEC) LABORATORY

The FAA's NIEC laboratory at the William J. Hughes Technical Center in New Jersey operates 24/7 to provide a platform to explore, integrate, and evaluate innovative aviation concepts supporting the FAA's NextGen initiatives. The NIEC allows researchers to determine the effects new systems or procedures have on air traffic controllers and pilots. The NIEC occasionally partners with other government and industry laboratories to explore new concepts for improving aviation safety and efficiency.

The work done in the laboratory simulates the journey of airplanes and the interactions among air traffic controllers, airlines, and pilots. In essence, simulated planes depart from the gate, fly through our airspace, and land at their designated arrival gate. The lab can create complex interactions where people, commercial airlines, data (for example, weather), support systems, military and general aviation planes, and unmanned aircraft systems interact in realistic scenarios. NIEC simulations uncover problems early in the system design, when it is easier to fix flaws before a new function is integrated into real-world operations. The end goal is to ensure that FAA's investments are safe and cost-effective.

The NIEC specializes in human-in-the-loop simulations where a group of air traffic controllers and/or pilots work in the lab performing their daily work routines but with new technologies. For example, an eye tracker can be used to track the movement of a pilot or air traffic controller's eye to determine whether the data being interpreted by the pilot or air traffic controller is optimally received.

A simulation on Space Vehicle Operations was recently completed where one vehicle took off into space while another landed. By conducting this type of experiment in a lab, researchers can better calculate how much airspace this new type of operation requires, whether the launch was affected by the landing of the other vehicle, and how to make sure that other airplanes flying in the vicinity are safe.

MIKE MONRONEY AERONAUTICAL CENTER (MMAC)

The Mike Monroney Aeronautical Center (MMAC) in Oklahoma City, OK, provides logistics, enterprise business services, software design, training, course design, and acquisition services. MMAC also trains the air traffic control and technician workforces. The FAA organization chart on page 10 shows that MMAC is part of FAA's Office of Finance and Management. The following are highlights of some MMAC's divisions and their recent accomplishments:

- **Air traffic control training continues to grow at the MMAC's Academy.** Over the past five years, the FAA has hired approximately 4,400 new controllers with 5,900 more anticipated over the next five years to keep pace with attrition. The Academy is working double shifts in order to be able to train the new hires in a timely manner. Also, in the interest of saving taxpayer dollars, academy personnel developed their own simulation software to use in ERAM laboratories. This solution increases en route training by 20 percent, allowing over 1,000 students to be trained annually, thus enabling the Academy to meet the FAA's hiring goals.
- **The MMAC's Academy and the Office of Commercial Space Transportation are collaborating to provide a "License2Launch" 20-hour training course.** A course is planned for December 2015 and is available to those working in the commercial space industry and to the governments of other nations. This effort promotes FAA's role in commercial space, its global leadership role, and the commercial space industry. Course topics include the history of space flight, commercial vs. government space flight, license and permit challenges and mitigation strategies, and introduction to the human factors of spaceflight.
- **The FAA's Logistics Center supports the operational maintenance of FAA and Department of Defense air traffic control facilities in the U.S. and abroad.** The MMAC operates 24/7 managing, repairing, and supporting products used by air traffic controllers. A multi-year project to re-engineer and automate the FAA's supply chain infrastructure included implementation of the new Logistics Center Support System, which achieved Initial Operating Capability in May 2015. Field technicians and engineers now have access to a temporary software portal that integrates their inventory with material and financial planning. Final operational capability of the new system is scheduled for in April 2016.
- **The Enterprise Services Center (ESC) is a designated Federal Shared Services Provider.** ESC delivers financial and technology shared services for the DOT, FAA, and other federal agencies. ESC recently deployed a new federal travel system called "E2 Solutions" to 21 federal agencies representing over 70,000 travelers. Streamlining this business process allows for better use of resources and government funds. ESC recently secured a $7.5 million interagency agreement with the Department of Labor (DOL). The agreement is to develop an implementation strategy, approach and requirements to provide a full suite of financial management and financial system services to the DOL, including its 20 agencies.
- **The MMAC is a leader in reducing the federal government's environmental impact.** The Office of Facility Management has earned accolades for maintaining green initiatives. Awards include the Department of Energy's Federal Energy and Water Management Award and DOT's Sustainability Achievement Award. Working towards achieving goals set forth in the President's Executive Order 13693, the MMAC is actively engaged in the challenge of reducing energy and conserving water while reducing fleet and fuel consumption. Exceeding threshold reductions in these targeted areas have resulted in substantial cost savings for the MMAC and the entire agency.

Some of the MMAC divisions described above are also part of the FAA's Administrative Services Franchise Fund—a business-like entity authorized by law to competitively offer support services to various governmental entities. The Administrative Services Franchise Fund is described in more detail beginning on page 121.

Performance At A Glance

A summary of FAA's FY 2015 performance to date is reflected in the following tables and discussed in detail in the Performance Results section beginning on page 38. The measures are grouped below according to FAA strategic priorities, with the exception of the Enhanced Global Leadership priority area, for which metrics are still under development.

STRATEGIC PRIORITY: Make Aviation Safer and Smarter

STRATEGIC OBJECTIVE: Build on safety management principles to proactively address emerging safety risk by using consistent, data-informed approaches to make smarter, system-level, risk-based decisions

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
Commercial Air Carrier Fatality Rate ▲ In FY 2015, the commercial air carrier fatality rate will not exceed 6.9 fatalities per 100 million people on board.	0.0	1.1	0.6[1]	6.9	0.1[2]	✓	6.7
Serious Runway Incursions Rate ▲ Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.356	0.220	0.282	0.395	0.302[3]	✓	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.	9.33	5.66	3.44	20	2.65[3]	✓	20
IT Risk Management and Information Systems Security Address 80 percent of high value risks within 30 days. Establish oversight by the Cybersecurity Steering Committee to assure consistent risk acceptance decisions. Visualize vulnerabilities on all Internet Protocol-based systems.	Performance measure redefined in FY 2015	Performance measure redefined in FY 2015	Performance measure redefined in FY 2015	80%	100%	✓	80%
General Aviation Fatal Accident Rate ▲ Reduce the general aviation fatal accident rate to no more than 1.04 fatal accidents per 100,000 flight hours.	1.09	1.11	1.09[1]	1.04	1.03[2]	✓	1.02
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	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 NTSB in March 2016. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

2 Preliminary estimate until final result can be confirmed by NTSB in March 2017. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

3 Preliminary estimate until the final result becomes available in January 2016. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

STRATEGIC PRIORITY: Deliver Benefits through Technology and Infrastructure

STRATEGIC OBJECTIVE: Lay the foundation for the national airspace system of the future by achieving prioritized NextGen benefits, integrating new user entrants, and delivering more efficient, streamlined services

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
En Route Automation Modernization (ERAM) ^ Operational Readiness Decision (ORD) for ERAM at four Air Route Traffic Control Centers by March 31, 2015.	7 (IOC)	8 (IOC)[4]	5 (ORD)[5]	4 (ORD)	4 (ORD)	✓	N/A[6]
Major Systems Investments Ninety 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 FY 2015.	100%	90%	95%	90%	100%	✓	90%
National Airspace System Energy Efficiency Improve aviation fuel efficiency by 20 percent relative to the calendar year 2000 baseline.	-22.72%	-21.66%	-22.40%	-20%	-24.37%	✓	N/A[7]
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 342,000 in calendar year 2015.	315,000	319, 000	321,000	342,000	340,000	✓	328,000
Unmodified Audit Opinion Obtain an unmodified opinion with no material weakness on the agency's financial statements (Unmodified Audit Opinion with no material weakness).	Unqualified audit opinion with no material weakness	Unmodified audit opinion with no material weakness[8]	Unmodified audit opinion with no material weakness	Unmodified audit opinion with no material weakness	Unmodified audit opinion with no material weakness	✓	Unmodified audit opinion with no material weakness

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

✓ Target met ✘ Target not met

4 Prior to FY 2014, this performance measure was based on the number of centers achieving Initial Operating Capability (IOC).

5 Beginning in FY 2014, this performance measure changed to the number of centers achieving Operational Readiness Decision (ORD)

6 The transition to ERAM was completed in FY 2015. This performance measure will now be retired. Therefore, there is no FY 2016 target.

7 Beginning in FY 2016 , the FAA will no longer have a 2 percent annual improvement target for NAS-wide Energy Efficiency. The FAA will continue to calculate, monitor, and report the trends for this metric annually.

8 The term "unmodified" came into existence in FY 2013. Prior to that time, it was "unqualified."

STRATEGIC PRIORITY: Empower and Innovate with the FAA's People

STRATEGIC OBJECTIVE: Prepare FAA's human capital for the future by identifying, recruiting, and training a workforce with the leadership, technical, and functional skills to ensure the United States has the world's safest and most productive aviation sector

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
FedView Rankings FAA is ranked in the top 34 percent of federal agencies in the Best-Places-to-Work FedView rankings.	39%	40%	50%	34%	TBD[9]	TBD	31%

9 Results will not be available until December 2015.

✓ Target met ✘ Target not met

ALIGNMENT OF FAA COSTS AND STRATEGIC PRIORITIES

The FAA uses a cost accounting system to track and summarize costs by organizational unit and project. This enables the FAA to evaluate whether its spending is in alignment with the agency's four strategic priorities.

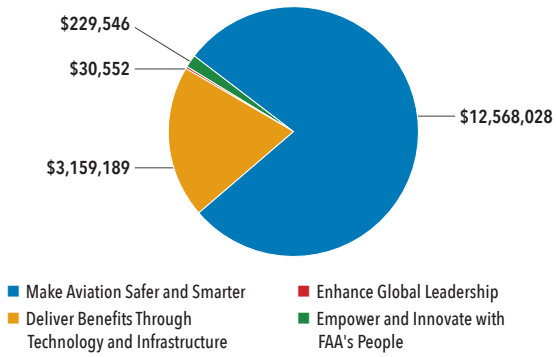
At the beginning of each project, the FAA determines the degree to which the project will contribute to one or more of the strategic priorities. The FAA then allocates actual project costs to the strategic priorities that are supported by the project. Because the FAA also routinely accumulates costs by organizational unit, it is then able to assign total net costs among its four lines of business and the combined staff offices, by strategic priority.

The FAA's total net cost of $16.0 billion was allocated to its four strategic priorities, as described below and as shown in the *Net Cost by Strategic Priority Area* chart on this page, and in Note 11 of the financial statements on page 91.

Make aviation safer and smarter. Approximately $12.6 billion, or approximately 79 percent of total net cost, was devoted to the priority of ensuring the safety of the nation's airspace.

- The Office of Airports (ARP) directed $1.7 billion to establish safe airport infrastructure.
- The Air Traffic Organization (ATO) spent approximately $9.2 billion, largely to maintain the safe separation of aircraft in the air and on the ground.
- The Aviation Safety Organization (AVS) spent just over $1.3 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 about $16.0 million to further support the agency's safety mission.

NET COST BY STRATEGIC PRIORITY AREA
as of September 30, 2015
(Dollars in Thousands)



Deliver benefits through technology and infrastructure. Approximately $3.2 billion or about 20 percent of total net costs was assigned to expanding the capacity of the national airspace system, particularly through the pursuit of programs contributing to the NextGen initiative.

- The ATO spent approximately $1.6 billion, largely to finance its facilities and equipment projects.
- The ARP spent more than $1.5 billion to enhance the capacity of the country's airports through runway projects and other efforts.

Enhance global leadership. As a whole, the FAA committed almost $31 million to strengthening its 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.

Empower and innovate with the FAA's people. Approximately $229.5 million supported this strategic priority, to which nearly all the lines of business and staff offices contributed. This strategic priority entails preparing the FAA's human capital for the future, by identifying, recruiting, and training a workforce with the leadership, tehnical and functional skills to ensure the United States has the world's safest and most productive aviation sector.

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's financial performance.

FY 2015 Financial Statements 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 Generally Accepted Government Auditing Standards. FAA is required to prepare its own financial statements under OMB Bulletin No. 15–02, Audit Requirements for Federal Financial Statements. DOT's 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 2015 financial statements.

KPMG LLP has rendered an unmodified audit opinion on FAA's FY 2015 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 the 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 2014 to FY 2015, 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).

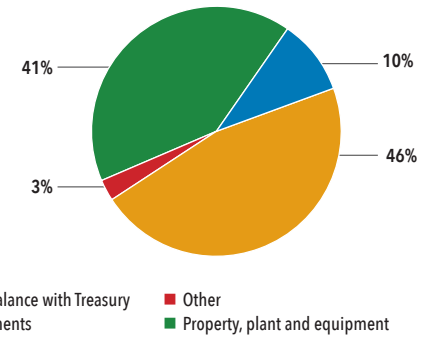
Assets

Total assets were $32.3 billion as of September 30, 2015. 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.

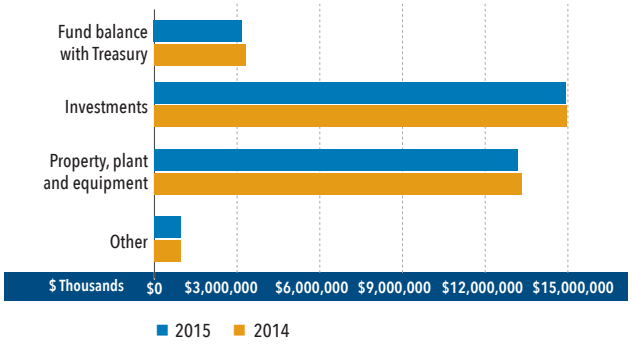
The Assets Comparison chart presents comparisons of major asset balances as of September 30, 2014 and 2015.

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 decreased slightly from $3.3 billion to $3.2 billion.

COMPOSITION OF ASSETS
as of September 30, 2015



ASSETS COMPARISON
(Dollars in Thousands)



At $14.9 billion, *Investments* represent 46 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 until the premium portion of the program expired as discussed in Note 1.B on page 76. These amounts are used to finance the FAA's operations to the extent authorized by Congress and to pay potential insurance claims. Investment balances were relatively unchanged on a comparative basis.

At $13.2 billion, *General property, plant, and equipment, net* (PP&E) represents 41 percent of the FAA's assets as of September 30, 2015, 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 $121.8 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

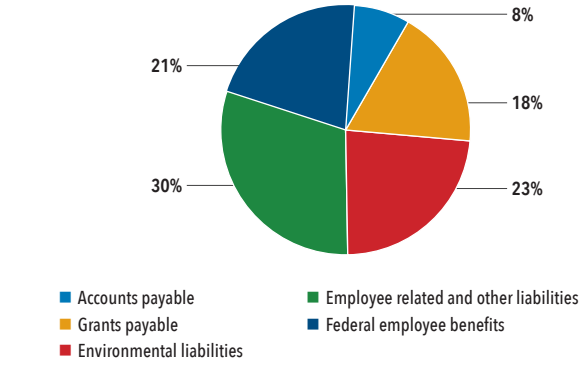
As of September 30, 2015, FAA reported liabilities of $4.1 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2014 and September 30, 2015. Below is a discussion of the major categories.

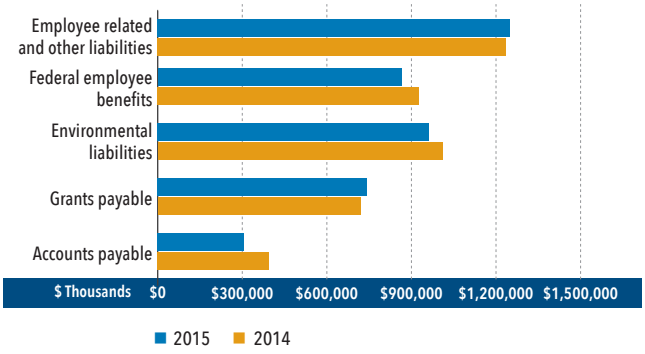
At $1.2 billion, *Employee related and other liabilities* represent 30 percent of FAA's total liabilities. These liabilities increased slightly by $12.2 million as of September 30, 2015 and are comprised mainly of $237.3 million in advances received, $183.0 million in Federal Employee's Compensation Act payable, $237.4 million in accrued payroll and benefits, $478.6 million in accrued leave and benefits, $14.0 million in legal claims liability and $67.2 million in capital lease liability.

At $864.8 million, *Federal employee benefits* represent 21 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

COMPOSITION OF LIABILITIES
as of September 30, 2015



LIABILITIES COMPARISON
(Dollars in Thousands)

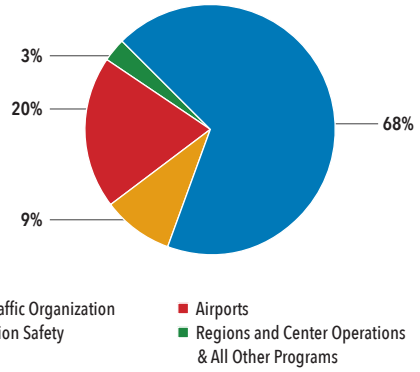


employees over the preceding four years. This liability is updated on an annual basis at year end.

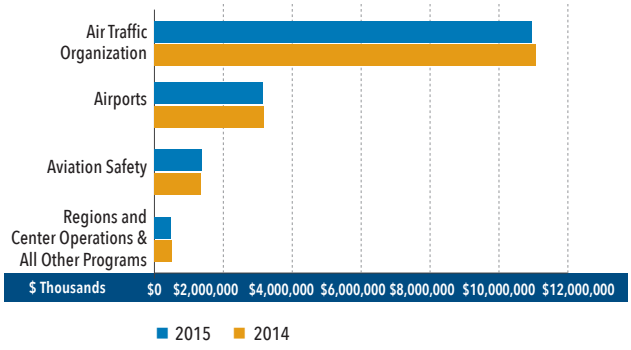
Environmental liabilities represent 23 percent of FAA's total liabilities and slightly decreased to $962.2 million as of September 30, 2015 compared with $1.0 billion a year earlier. *Environmental liabilities* include a component for remediation of known contaminated sites and the estimated costs to decommission assets presently in service.

The FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program grant recipients and represent 18 percent of liabilities. *Grants payable* increased by $23.2 million. *Accounts payable* decreased $88.2 million and are amounts the FAA owes to other entities for unpaid goods and services received.

COMPOSITION OF NET COSTS
as of September 30, 2015



NET COST COMPARISON
(Dollars in Thousands)



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, 2015 and September 30, 2014, FAA's net costs were $16.0 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, 2014 and September 30, 2015 net costs.

With a net cost of $10.9 billion, the *Air Traffic Organization* is FAA's largest line of business, comprising 68 percent of total net costs.

The Air Traffic Organization's net costs decreased by $127.5 million, on a comparative basis, primarily from decreases in labor and benefit costs and contractor services offset by increases in supplies and materials and indirect cost allocations.

The FAA's second largest line of business is *Airports* with a net cost of $3.2 billion as of September 30, 2015, which is 20 percent of the FAA's total net costs. Net costs decreased slightly by $29.8 million from the prior year primarily due to a decrease in the Airport Improvement Program grant disbursements.

The net cost of *Aviation Safety* represents 9 percent of the FAA's total net costs, while *Regions and Center Operations and All Other Programs* comprise 3 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 paid 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, 2015 decreased by $78.0 million due primarily to a combination of financing sources of $1.1 billion from appropriations used, non-exchange revenue of $14.6 billion, imputed financing of $402.8 million, and donations of property of $40.9 million offset by transfers out of $187.8 million and net costs of $16.0 billion. Unexpended appropriations decreased slightly by $12.9 million.

Statement of Budgetary Resources

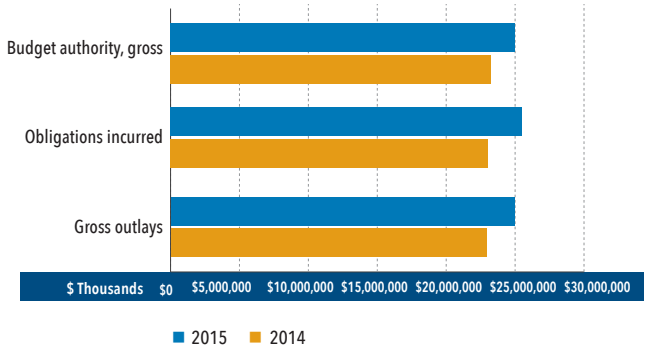
This statement provides information on the budgetary resources available to FAA as of September 30, 2015 and September 30, 2014, and the status of those budgetary resources.

FAA's *Total budgetary resources* result from Congressional appropriations which include unobligated amounts carried forward from prior years and contract authority used for the Airport Improvement Program grant awards. *Total budgetary resources* were $29.3 billion as of September 30, 2015 and $27.0 billion as of September 30, 2014.

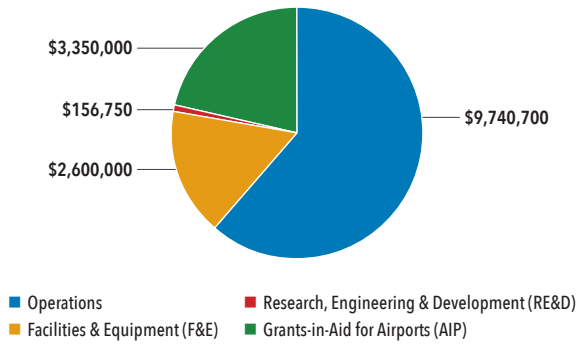
The *Unapportioned* category of budgetary resources represents resources that are not available until apportioned by the Office of Management and Budget. As of September 30, 2015 and 2014 the *Unapportioned* balances were $2.3 billion and $2.4 billion, respectively.

The *Statement of Budgetary Resources Comparison* chart summarizes the changes in certain key aspects of the Statement of 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's obligations. The FAA reported gross budget authority of $25.0 billion as of September 30, 2015, compared to $23.2 billion as of September 30, 2014. *Obligations incurred* increased $2.5 billion to $25.5 billion. *Gross outlays* increased by $2.0 billion to $25.0 billion.

STATEMENT OF BUDGETARY RESOURCES COMPARISON
(Dollars in Thousands)



FAA ENACTED BUDGET– FY 2015
(Dollars in Thousands)



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. The FAA's Required Supplementary Stewardship Information 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 increased in FY 2015 by $51.4 million. Two areas of focus this year included developing a test method on composite fuselage structural materials designed to understand possible flame propagation and the development of a tool to measure the relative risk of wake turbulence within the NextGen aircraft proximity protocols.

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

The FAA receives budget authority to obligate and expend funds from both the Department of the Treasury's General Fund and the Airport and Airway Trust Fund (AATF). 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 funds a portion of FAA operating costs. In FY 2015, the AATF provided approximately 93 percent of our enacted budgetary authority per the *FY 2015 Consolidated Appropriations Act (P.L. 113-235)*.

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 Department of the Treasury, which maintains the AATF, invests those funds in government securities. Interest earned is also deposited into the AATF. Funding is withdrawn as needed to meet cash disbursement needs and transferred to each FAA appropriation account.

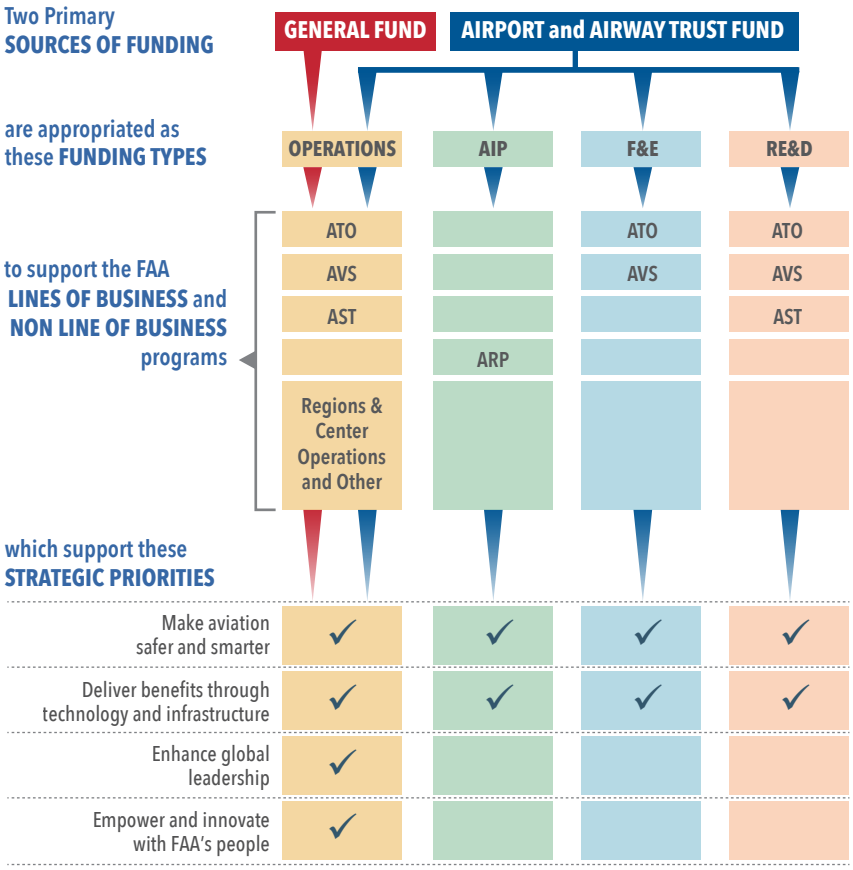
FAA is financed through annual and multi-year appropriations authorized by Congress. The chart on page 31, *FAA Enacted Budget – FY 2015*, summarizes the budget enacted by Congress for FAA's four primary appropriation accounts. The FY 2015 enacted budget of $15.8 billion was an increase of $87 million (0.6 percent) over the FY 2014 enacted level. The FAA requests and receives its funding in four primary appropriation accounts:

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

The largest, Operations, is funded by both the general fund and the AATF. In FY 2015, the AATF provided 88 percent of the revenue for Operations. The AATF is the sole revenue source for the three capital investment appropriation accounts—AIP, F&E, and RE&D.

Operations. This account 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 safety inspection and regulatory responsibilities. In addition, the account covers administrative and managerial costs for international, medical, engineering, and development programs, as well as for policy oversight and overall management functions. The FY 2015 Operations appropriation was $9.74 billion, approximately 0.9 percent greater than FY 2014.

FAA RESOURCES and HOW THEY ARE USED



This chart aligns with the presentation of the FAA's audited Consolidated Statements of Net Cost on page 72 and net cost by program and strategic priority in Note 11 on page 91. Net costs are presented among FAA's four lines of business and collectively for its non-line of business programs. General and administrative costs from the FAA's staff offices are allocated to the lines of business they support, on a reasonable and consistent basis. For more information, also see discussion of funding sources on this page and FAA's lines of business and staff offices on pages 10–11.

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 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 2015 funding for AIP was $3.35 billion, essentially unchanged from the FY 2014 level.

F&E. This account funds the capital improvement projects necessary to establish, replace, relocate, or improve air navigation facilities and equipment and aviation safety systems across the national airspace system, particularly through programs supporting NextGen. Several major systems that contribute to the NextGen effort reached significant milestones in FY 2015. These include ADS-B, Data Comm, and ERAM. F&E was funded at $2.60 billion in FY 2015, equal to the FY 2014 level.

RE&D. This account funds research, engineering, and development programs to plan, conduct, and integrate domestic and international research efforts, and develop products and services that will ensure a safe, efficient, and environmentally-compatible global air transportation system. The FY 2015 appropriation for RE&D was $156.7 million, a reduction of $2.0 million (1.3 percent) from the FY 2014 level.

The FAA must use its funds in the way they are appropriated. On its own, FAA does not possess the legal authority to move funds between these accounts. A transfer between accounts requires an act of Congress.

MANAGEMENT CONTROL HIGHLIGHTS

Financial Management Integrity: Controls, Compliance and Challenges

In a November 4, 2015 memorandum, the FAA Administrator reported to the Secretary of DOT an unqualified statement of assurance under the Federal Managers' Financial Integrity Act (FMFIA). Every year, FAA program managers in the lines of business and staff offices assess the vulnerability of their program. On the basis of these assessments, reviews are conducted to determine their compliance with sections 2 and 4 of FMFIA. The head of the line of business or staff office then identifies in writing to the Administrator any potential material internal control weakness or system nonconformance. Identified weaknesses deemed material are consolidated in 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 FMFIA, we report our compliance with the Federal Financial Management Improvement Act (FFMIA). FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction level reporting. For FY 2015, we are reporting overall substantial compliance.

Improper Payments Information Act of 2002 (IPIA)

The Improper Payments Information Act of 2002, which has been amended twice—first by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and again by the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA)—requires federal agencies to annually report to the President and the Congress information on improper payments.

IPIA spells out a systematic approach by which the federal government can 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 dealing with these losses.

The purpose of these regulations and guidance is to improve agency efforts to reduce and recover improper payments. Specifically, IPIA 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 IPIA 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 IPIA, 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 2015 IPIA review did not find any programs or activities with "significant erroneous payments," as determined in accordance with the criteria of the OMB, which identifies erroneous payments as those payments exceeding both $10 million and 1.5 percent of program payments or exceeding $100 million.

MANAGEMENT ASSURANCES

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement – Fiscal Year 2015

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:

- Effectiveness and efficiency of operations
- Reliability of reporting for internal and external use
- Compliance with applicable laws and regulations

Internally, we assess the vulnerability of our programs and systems through FMFIA. We are pleased to report that, as a whole, the management controls and financial management systems in effect from October 1, 2014 through September 30, 2015 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, the safeguarding of assets, 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, 2015. In addition, because the scope of processes tested this year was unlimited and no material weaknesses were reported in our financial statements, the FAA is issuing an unqualified statement of assurance.

Michael P. Huerta
Administrator
November 4, 2015

FINANCIAL MANAGEMENT SYSTEMS STRATEGY AND ACTIONS

Financial Systems Strategy

The FAA's financial systems strategy is based on a framework called the Federal Enterprise Architecture, which 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. Initiates federated financial information technology management as a new business model across the agency, enabling shared strategic planning and project implementation between FAA organizations.

Applications. Reduces the current financial management system portfolio through a financial systems modernization program that reduces redundancies in financial and business areas.

Data. Implements a financial data management roadmap and stewardship council to govern the use and sharing of FAA financial data as a common asset; reduces the redundancy of data; and improves the quality of data to facilitate decision-making.

Information. Builds 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. Defines and delivers 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 its financial management systems, and streamline processes and reports. Maintaining fewer systems will enable the FAA to operate more efficiently. It will have fewer points of data entry, fewer systems to reconcile with the official sources of the data, and fewer systems on which to train employees.

Below is a summary of the systems critical to the FAA's 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. In FY 2015, FAA has been expanding internet based billing and vendor payments (a feature called iSupplier). When completed in FY 2016, vendors will be able to submit their invoices to the FAA electronically via the internet and the FAA can deposit the funds directly into the vendor's bank account.

The FAA is in the process of upgrading the application used to track and account for the work performed for other federal agencies under reimbursable agreements. The current reimbursable work application is cumbersome, inefficient, lacks data integrity and essential reporting required to support proper oversight and management of the reimbursable process. The upgraded system will standardize the process across all financial projects with enhanced visibility and control over core financial operations.

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 FY 2014, FAA retrofitted PRISM to work with an upgraded version of Delphi that was also implemented in FY 2014. In FY 2015, we began the upgrade of the PRISM software to version 7.2, which is compliant with the latest version of the Windows operating system. PRISM 7.2 enables user login with personal identity verification (PIV) cards for two new modules, P-Con (for contract management) and P-Card (for purchase card transactions management).

on the RADAR

FAA MAKES GLOBAL MARK IN COMMERCIAL SPACE

The growth of the commercial space transportation industry is attracting global attention, and other countries are turning to the FAA for guidance on how to benefit from this dynamic aviation sector.

The possibilities are motivating countries to consider whether to build spaceports, where to build them, and how to regulate commercial space travel. Since the FAA has already overseen over 235 commercial space launches, several countries have turned to us for guidance on policies and procedures.

Having signed a memorandum of cooperation on June 16, France is the latest country to work with the FAA, but is not the only one. We have also signed agreements with the United Kingdom, Italy, Spain, and the Caribbean island nation of Curacao. Other nations that have contacted the FAA for insights into the next space frontier include Canada, Germany, Japan, Mexico, New Zealand, Singapore, Sweden and the United Arab Emirates.

Bilateral cooperation between the FAA and other governments is a relatively new concept in a field once defined by the phrase "space race." While there has been bilateral cooperation, there have been some policy and legal obstacles regarding export controls and International Traffic in Arms Regulations.

Practically speaking, traditional space missions to put satellites into orbit on expendable rockets do not offer much opportunity for transportation collaboration because they typically launch from within one country for the benefit solely of that country.

But with companies like Virgin Galactic and XCOR Aerospace working toward suborbital space tourism flights that incorporate reusable vehicles, the potential expansion within other countries is real. In the short term, U.S. companies could take their "spaceplanes" abroad for launches from different locations. And a longer-term vision includes launching the vehicles in one nation and landing them in another.

The FAA's goal is to foster industry growth by encouraging regulations that are as globally compatible and interoperable as possible. George Nield, the Associate Administrator for commercial space transportation, made that point in a speech at last year's Farnborough International Airshow when U.S. and U.K. officials signed their agreement.

"The less time governments have to spend on adjusting regulations to fit each system," he said, "the more time we can spend on setting up the right environment for industry to succeed."

Budget. In FY 2014, FAA eliminated duplicative "cuff record" systems, moving to a single system for all Operations account needs. In FY 2015, FAA started work on a new project toolset to help us better manage our reimbursable services. In FY 2016, FAA plans to expand this toolset to other projects as well.

Financial Reporting. In FY 2015, FAA continued to use the Regional Information System, the Financial Management System, and the Research, Engineering & Development Monitoring, Analysis and Control System, but are studying options for combining the functionality of these systems 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 ATO for timekeeping, schedule and position management, and labor distribution reporting. During FY 2015, FAA started work on replacing CRU-X because it is at the end of its life cycle. The replacement system will allow the FAA to use less hardware, which will reduce the maintenance costs. The updated software will also provide a more secure system environment.

Travel. In FY 2015, FAA replaced its online travel system with a more robust system called E2 Solutions. E2 provides employees with an end-to-end travel and expense management tool. The system also supports better monitoring and compliance with travel regulations.

PERFORMANCE RESULTS

Developmental Testing of the Advanced Electronic Flight Strips System at the William J. Hughes Technical Center. Photo: NextGen Office, FAA

PERFORMANCE MEASURES OVERVIEW

In this section, the FAA discusses its progress in achieving our 12 performance measures. The measures are organized by strategic priority and objective. In FY 2015, the FAA reports on performance measures for three of the four overarching strategic priorities:

- **Make Aviation Safer and Smarter** (page 40)
- **Deliver Benefits through Technology and Infrastructure** (page 49)
- **Empower and Innovate with the FAA's People** (page 56)

In FY 2015, the FAA continued to develop initiatives that will support its fourth strategic priority, Enhance Global Leadership. While there are no established performance measures to report on for this priority in FY 2015, the FAA is continuing work in this area. For example: This year, the FAA signed a Letter of Intent with the European Union to extend and expand cooperative work toward providing seamless air traffic services for aircraft flying between the United States and Europe.

This extension and expansion of a 2011 Memorandum of Cooperation will ensure that passengers will enjoy safer, on-time flying over the Atlantic thanks to the benefits of NextGen and its European counterpart, the Single European Sky ATM Research (SESAR).

The Letter of Intent will also ensure that the FAA maintains ongoing research on the interoperability of aviation electronics, communication protocols and procedures, as well as operational methods under NextGen and SESAR.

Additionally, the Letter of Intent reflects the strong commitment from the United States and the European Union to harmonize air traffic technologies and procedures involving NextGen and SESAR. It also supports the International Civil Aviation Organization's Global Air Navigation Plan, which aims to harmonize air traffic systems throughout the world.

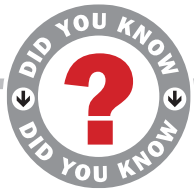
In the discussion that follows, the FAA provides the FY 2015 performance targets, a discussion of FY 2015 performance, and, when available, five years of historical trend data. The FAA has also prepared a graph of performance measures with three or more years of data.

In FY 2015, the FAA achieved 11 of the 11 performance targets for which it had end-of-year data. One performance measure (FedView Ranking) will not have any data results available until December 2015. The FAA will report FY 2015 results for this measure in the *Fiscal Year 2016 Performance and Accountability Report*. The FAA notes the measures for which the data provided are preliminary.

Although in some cases the FAA achieved a result this year that was significantly better than the target, the FAA did not set a new fiscal year 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 in doing so provide a more accurate picture of the agency's long-term performance. Moreover, some annual targets use data acquired over a multi-year period. The targets used in this section have been set to measure the FAA's performance toward long-term goals.

The Performance Results section concludes on pages 59–61 with discussions of the ways in which performance data are verified and the completeness and reliability of the performance data.

Additionally, the FAA reports quarterly progress updates on performance goals that support DOT agency priority goals via the government-wide performance website ***www.performance.gov***.

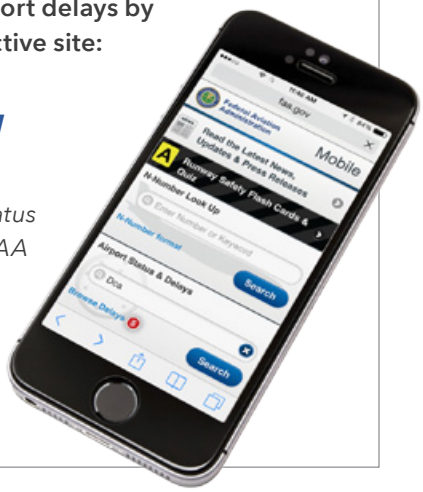


Airport Delay Information

You can check airport delays by visiting this interactive site:

M.FAA.GOV

The airport delay status is provided by the FAA Air Traffic Control System Command Center.



STRATEGIC PRIORITY: Make Aviation Safer and Smarter

STRATEGIC OBJECTIVE: Build on safety management principles to proactively address emerging safety risk by using consistent, data-informed approaches to make smarter, system-level, risk-based decisions

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
Commercial Air Carrier Fatality Rate ^ In FY 2015, the commercial air carrier fatality rate will not exceed 6.9 fatalities per 100 million people on board.	0.0	1.1	0.6[1]	6.9	0.1[2]	✓	6.7
Serious Runway Incursions Rate ^ Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.356	0.220	0.282	0.395	0.302[3]	✓	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.	9.33	5.66	3.44	20	2.65[3]	✓	20
IT Risk Management and Information Systems Security Address 80 percent of high value risks within 30 days. Establish oversight by the Cybersecurity Steering Committee to assure consistent risk acceptance decisions. Visualize vulnerabilities on all Internet Protocol-based systems.	Performance measure redefined in FY 2015	Performance measure redefined in FY 2015	Performance measure redefined in FY 2015	80%	100%	✓	80%
General Aviation Fatal Accident Rate ^ Reduce the general aviation fatal accident rate to no more than 1.04 fatal accidents per 100,000 flight hours.	1.09	1.11	1.09[1]	1.04	1.03[2]	✓	1.02
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	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 NTSB in March 2016. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

2 Preliminary estimate until final result can be confirmed by NTSB in March 2017. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

3 Preliminary estimate until the final result becomes available in January 2016. We do not expect any change in the final result to be significant enough to change the year-end status of achieving the result.

Commercial Aviation 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 2015 Target	No more than 6.9 fatalities per 100 million persons on board.
FY 2015 Result	**0.1** *(Preliminary estimate until the final result can be confirmed by the National Transportation Safety Board (NTSB) in March 2017.)*
Public Benefit	As fatal air carrier accidents have declined in terms of average fatalities per accident, this metric will sharpen the FAA's focus on helping air travel become even safer.

Commercial aviation includes both scheduled and nonscheduled flights of U.S. passenger and cargo carriers. This form of transportation is one of the safest. In FY 2015, with a result of 0.1 fatalities per 100 million people on board, the FAA was successful in achieving our target of not exceeding a rate of 6.9.

The FAA's success in commercial aviation safety is due in part to the aviation industry and government investing in safety enhancements that reduce the fatality risk in commercial air travel in the United States. The work of the Commercial Aviation Safety Team (CAST), along with new aircraft, regulations, and other activities continues to play a positive impact in reducing the fatality rate for commercial aviation in the United States. CAST has developed 96 safety enhancements to date, of which 68 are completed, and 28 still underway. The last 19 enhancements were based on non-accident data, demonstrating its progress from reactive safety enhancements to proactive risk mitigation.

CAST

The FAA and the aviation industry agree that a strong partnership is essential to aviation safety. The agency and industry must work together to address risks; otherwise, safety cannot advance. CAST is a joint industry/government group committed to improving aviation safety, focusing on detecting high risk areas and implementing mitigation strategies before accidents or serious incidents occur.

CAST's goal over the next decade is to reduce the U.S. commercial fatality risk by 50 percent from 2007 to 2025.

CAST has developed an integrated, data-driven strategy to reduce the commercial aviation fatality risk in the United States. Developed by CAST, the airline industry currently uses 96 safety enhancements to improve safety. To learn more about CAST, please visit *https://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=18178*.

Safety Management Systems (SMS) Rule

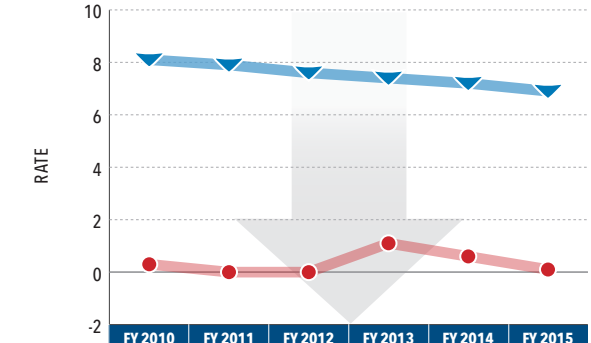
This past January, the FAA announced a final rule that requires U.S. air carriers to put in place a formal, top-down, organization-wide approach to manage safety risk and assure the effectiveness of safety risk controls.

The rule requires airlines to implement a safety management system within three years. The rule also requires there be a single executive accountable for the oversight of the airline's SMS.

In making this rule, the FAA looked at more than 100 accidents of U.S. commercial carriers between 2001 and 2010 and determined that if an SMS had been in place, it may have prevented many of these tragedies.

An SMS is a series of processes and procedures that everyone follows to enhance safety. The processes include evaluating data from airline operations in a structured approach. Operations data can help identify patterns and trends that could possibly lead to a problem. Evaluating this information enables the industry to take action before there is a problem. In the past, the FAA's focus in improving safety was to study the causes of past accidents. Now

COMMERCIAL AIR CARRIER FATALITY RATE
Fatalities per 100 million persons on board



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	0.3	0.0	0.0	1.1	0.6[1]	0.1[2]
Target	8.1	7.9	7.6	7.4	7.2	6.9
Target Achieved?	✓	✓	✓	✓	✓	✓

1 Preliminary estimate until final result can be confirmed by NTSB in March 2016. The FAA does not expect any change in the result to be significant enough to alter the year-end status of achieving the target.

2 Preliminary estimate until final result can be confirmed by NTSB in March 2017. The FAA does not expect any change in the result to be significant enough to alter the year-end status of achieving the target.

FAA's Wildlife Strike Database

Did you know that the FAA maintains a database (*http://wildlife.faa.gov/*) of reported incidents of wildlife coming in contact with an aircraft? Wildlife strikes are very dangerous because they can result in the loss of life as well as aircraft damage. FAA created the database to help inform airports and the agency what types of wildlife are involved, the amount of damage to the aircraft, and how many strikes occur at general aviation airports annually. The database contains records of wildlife strikes reported since 1990. Since wildlife strike reporting is voluntary, the database includes only the information that is reported to the FAA. Reports are made by airlines, airports, pilots, and others.

The reports include details about the strike, such as the airport, time of day, phase of flight, aircraft type, and wildlife type. The database of wildlife strikes has been critical to helping pilots identify potential hazards that may affect their flight plan. This information will also allow the FAA to help airports develop wildlife mitigation plans to reduce wildlife strikes. To learn about FAA's Wildlife Hazard Mitigation Program, please visit:

http://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=14393

with a proactive approach, the FAA has continuously improved aviation safety and, fortunately, today there are very few accidents. However, the ultimate goal is to prevent accidents from happening at all. An SMS does not replace FAA oversight or inspections, but it does help foster a stronger safety culture within an airline.

Airlines are already voluntarily sharing enormous amounts of their operational data with the FAA in a cooperative effort to enhance safety, which enhances the ability to learn from each other. The data now covers about 96 percent of U.S. air carrier commercial operations. This data comes from a variety of sources, including self-reporting by employees when they see a safety risk.

An SMS creates a process for looking at data in a systematic way, identifying the risk, and then taking actions to mitigate risk before there is a problem. The rule applies to all commercial carriers, both passenger and cargo. An SMS can be scaled to the size of an airline's operation. It is not one size fits all. FAA encourages airlines to create the best safety system that matches their operations.

Also in FY 2015, the FAA completed user acceptance testing of the agency-wide Hazard Identification Risk Management Tracking (HIRMT) tool, which standardizes data that is related to hazards, their associated risks, and mitigation actions. The tool supports safety data sharing and is a significant step forward in achieving an effective SMS. The FAA plans to launch the HIRMT in FY 2016. To learn more about SMS, please visit ***https://www.faa.gov/about/initiatives/sms/***.

Serious Runway Incursions Rate (Category A & B)

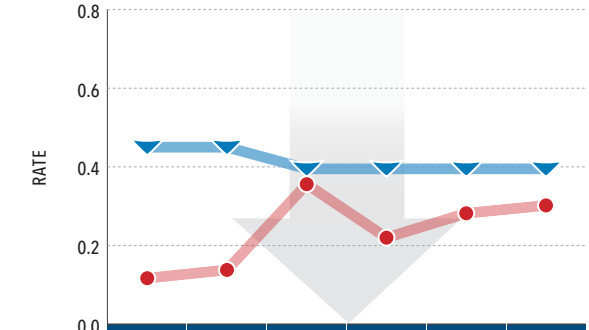
Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations, and maintain or improve through FY 2018.	
FY 2015 Target	Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.
FY 2015 Result	**0.302** *(Preliminary estimate until the final result becomes available in January 2016.)*
Public Benefit	Runway incursions create dangerous situations that can lead to serious accidents. Reducing the number of runway incursions lessens the probability of accidents that potentially involve fatalities, injuries, and significant property damage.

Runway safety is a significant challenge and a top priority for everyone in aviation. Often there are occurrences involving the incorrect presence of an aircraft, vehicle or person on the protected area of a surface designated for the landing and take-off of aircraft. Such an occurrence is known as a runway incursion. In the United States, there is an average of three runway incursions daily. Most runway incursions are Category C & D (see below) and pose no significant safety or property damage risk. Runway incursions are a serious safety concern and have involved air carrier aircraft, military aircraft, GA, and pedestrian vehicles.

A number of things may lead to a runway incursion. As seen in the chart below, among these are pilot deviations, operational incidents, and vehicle (driver) deviations.

Pilot Deviations	↗ Crossing a runway hold marking without clearance from air traffic control ↗ Taking off without clearance ↗ Landing without clearance
Operational Incidents	↗ Clearing an aircraft onto a runway while another aircraft is landing on the same runway ↗ Issuing a takeoff clearance while the runway is occupied by another aircraft or vehicle
Vehicle (Driver) Deviations	↗ Crossing a runway hold marking without air traffic control clearance

SERIOUS RUNWAY INCURSIONS RATE
Per million operations



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	0.117	0.138	0.356	0.220	0.282	0.302[1]
Target	0.450	0.450	0.395	0.395	0.395	0.395
Target Achieved?	✓	✓	✓	✓	✓	✓

1 Preliminary estimate until final result becomes available in January 2016. The FAA does not expect any change in the result to be significant enough to alter the year-end status of achieving the target.

The FAA assesses runway incursions into four categories based on severity:

- **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.
- **Category C:** An incident characterized by ample time and/or distance to avoid a collision.
- **Category D:** An incident that meets the definition of runway incursion such as incorrect presence of a single vehicle/person/aircraft on the protected area of a surface designated for the landing and take-off of aircraft but with no immediate safety consequences.

While the FAA tracks all four categories of runway incursion severity categories, this performance measure includes only the two most serious categories (A and B).

In FY 2015, with a preliminary result of 0.302 Category A and B runway incursions per million operations, the FAA continued its success in achieving the target of keeping serious runway incursions to a rate of no more than 0.395 per million operations.

In FY 2015, the FAA finalized the development of a Runway Safety Focus Airports Tool. The tool is designed to access indicators of risk at airports. With this tool, the FAA can better focus its limited resources on mitigating risks at airports before incidents occur. When candidate airports are selected in December 2015, the FAA will work with the airport authorities to identify mitigation plans and actions needed for their resolution.

The FAA has made significant progress in improving runway safety at U.S. airports over the past 15 years by working with other members of the aviation community on education, training, marking and lighting, standard runway safety areas, new technology, and airfield improvements.

In June of this year, a new FAA national initiative known as the Runway Incursion Mitigation program was launched. The program will identify airport risk factors that might contribute to a runway incursion and it will develop strategies to help airports mitigate those risks. To learn more about runway safety, please visit: ***http://www.faa.gov/airports/runway_safety/***.

on the RADAR

FAA IMPLEMENTS NEW AIRPORT SAFETY PROGRAM

The FAA has made significant progress in improving runway safety at U.S. airports over the past 15 years by working with other members of the aviation community on education, training, marking and lighting, standard runway safety areas, new technology and airfield improvements.

The FAA plans to build on this success by working with airports over the next 10–15 years to further reduce runway risks through risk-based decision-making. A new FAA national initiative known as the Runway Incursion Mitigation (RIM) program will identify airport risk factors that might contribute to runway incursions and develop strategies to help airports mitigate those risks.

Runway incursions occur when an aircraft, vehicle, or person enters the protected area of an airport designated for aircraft landings and take offs. Risk factors that contribute to runway incursions may include unclear taxiway markings, airport signage, and more complex issues such as the runway or taxiway layout. Through RIM, the FAA will focus on reducing runway incursions by addressing risks at specific locations at the airport that have a history of runway incursions.

Risk-based decision-making builds on safety management principles by using a consistent approach to proactively address emerging safety risks. The FAA already has collected and reviewed data to identify specific airport areas with risk factors that could contribute to a runway incursion. The FAA has developed a preliminary inventory of airport locations where runway incursions have occurred. The FAA will continue to work with airports to develop strategies to mitigate runway incursions at these locations.

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 2015 Target	Reduce risks in flight by limiting the rate of the most serious losses of standard separation (LoSS) to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.
FY 2015 Result	**2.65** *(Preliminary estimate until the final result becomes available in January 2016).*
Public Benefit	SRER safety data provide the FAA with a quantifiable list of hazards that contribute to the highest risk events in the national airspace system. By addressing the most serious hazards, this targeted approach has become one of the ATO's most powerful tools for identifying hazards, taking corrective action to mitigate the likelihood of severe LoSS events, and monitoring results. The targeted approach is the culmination of our proactive safety management process, which includes valuing input from frontline employees, developing new policies, and deploying new technology that results in a greater measure of safety for the flying public.

At any given time, there are roughly 7,000 aircraft occupying our nation's airspace. To help maintain safe distances between aircraft while they are under the control of air traffic controllers, the FAA has established minimum separation standards, based on an aircraft's phase of flight and its size.

In 2011, in an effort to move beyond one-dimensional safety metrics (i.e., procedural noncompliance tallies), the ATO introduced the SRER, a 12-month rolling rate that shows the most serious loss of separation events across our airspace system. In FY 2015, with a result of 2.65, the FAA achieved its target of limiting the most serious losses of standard separation to 20 or fewer for every thousand losses of standard separation within the system.

What is "most serious?" All validated losses of standard separation events with 66 percent or less of standard separation are categorized as Risk Analysis Events (RAE) and are examined by a panel consisting of air traffic controllers, pilots, and other experts. For example: An occurrence in which 3 miles lateral separation between two aircraft was required, at any point where the aircrafts were separated by only 2 miles or less (66 percent or less) would be categorized an RAE. Criteria are then used to determine if the RAE is a serious event. These criteria include: proximity, closure rate, repeatability and severity. The loss of standard separation data will then be used to compute the SRER, which is the rate of the most serious losses for every thousand losses of standard separation within the system.

The SRER allows FAA 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.

Using the benefits of SRER, the FAA can identify losses of separation and obtain a more accurate picture of system safety performance.

The FAA's systemic view of safety within the national airspace system places more value on discovering why adverse safety occurrences happen and in identifying risks rather than determining who was at fault. From the implementation of voluntary safety reporting, to new electronic separation loss detection programs to the establishment of a proactive safety management system, the SRER has enabled the FAA to greatly enhance its ability to identify precursors, root causes, and trends of safety risks system-wide rather than reacting to single incidents. The lessons the FAA learns through this process are then incorporated into training of operational personnel.

With the additional data gained, the FAA is better 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
Rate of serious losses of standard separation per thousand losses

	Target	Actual	Target Achieved?
FY 2015	20	2.65[1]	✓
FY 2014	20	3.44	✓
FY 2013	20	5.66	✓
FY 2012	20	9.33	✓
FY 2011	20	24.54	✘
FY 2010	This was a new measure in FY 2011		

1 Preliminary estimate until final result becomes available in January 2016. The FAA does not expect any change in the result to be significant enough to alter the year-end status of achieving the target.

IT Risk Management and Information Systems Security

Address 80 percent of the high value risks within 30 days. Establish oversight by the Cybersecurity Steering Committee to assure consistent risk acceptance decisions. Visualize vulnerabilities on IP-based systems.	
FY 2015 Target	**80%**
FY 2015 Result	**100%**
Public Benefit	The Office of the Chief Information Officer is dedicated to providing the highest level of cyber security available and is committed to the protection of personally identifiable information.

The FAA manages more than 300 information systems that collectively assure the successful execution of the agency's mission. Disruption to these systems could impact the safety and efficiency of the nation's airspace system. Through malicious cyber-enabled actions, hackers seek to disrupt services by exploiting software, hardware, and network infrastructure.

Federal law requires that the FAA protect its infrastructure's integrity, availability, and confidentiality from cyber threats to ensure a safe and efficient execution of the FAA's mission. The FAA must ensure that the agency's systems are protected from cyber events. The FAA's Office of the Chief Information Officer is dedicated to providing the highest level of cyber security available and is committed to the protection of personally identifiable information.

In FY 2015, the performance measure for IT Risk Management and Information Systems Security is based on the percentage of high value risks addressed within 30 days from initial incident detection, as well as establishing oversight with the Cybersecurity Steering Committee to assure consistent risk acceptance decisions. High value risks are defined as threats identified as high and deemed exploitable within FAA's infrastructure, vulnerabilities that affect high risk systems and can be exploited, or vulnerabilities related to current attacks and can be exploited. Through audits and system scans, high value risks can be detected across FAA's three operating domains: Mission Support, National Air Space, and Research & Development. This performance target is measured by dividing the number of high value risks addressed within 30 days from initial detection by the total number of high value risks detected.

In order to achieve this goal in 2015, at least 80 percent of high value risks had to be addressed within 30 days from initial detection. The FAA's Security Operations Center executes the process to identify high value risks and tracks their disposition by establishing a baseline and notifying FAA's domain points of contact who address risk and report disposition within 30 days. The FAA established oversight with the Cybersecurity Steering Committee by reporting high value risks monthly for review to assure consistent risk acceptance decisions. This year, the FAA identified 32 High Value Risks, and successfully addressed 100 percent of them, thereby meeting this goal.

IT RISK MANAGEMENT AND INFORMATION SYSTEMS SECURITY

Address 80 percent of high value risks within 30 days. Establish oversight by the Cybersecurity Steering Committee to assure consistent risk acceptance decisions. Visualize vulnerabilities on all IP based systems.

	Target	Actual	Target Achieved?
FY 2015	80%	100%	✓
FY 2014	This performance measure was redefined in FY 2015		

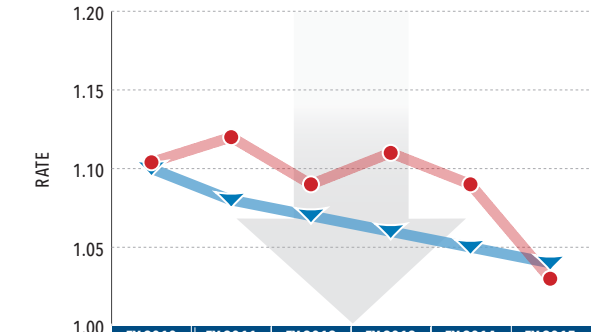
General Aviation (GA) Fatal Accident Rate

Reduce the GA fatal accident rate to no more than one fatal accident per 100,000 flight hours by 2018. No more than 1.04 fatal accidents per 100,000 flight hours in FY 2015.	
FY 2015 Target	No more than 1.04 fatal accidents per 100,000 flight hours in FY 2015.
FY 2015 Result	**1.03** *(Preliminary estimate until the final result can be confirmed by the NTSB in March 2017.)*
Public Benefit	By tracking the rate of fatal GA accidents per flight hours, the FAA can more accurately identify trends, indicating a decrease or increase of potential safety risks.

With almost 200,000 active aircraft including amateur built aircraft, rotorcraft, balloons, and highly sophisticated turbojets, the United States has the most diverse GA community in the world. Unfortunately, there are a high number of GA accidents each year—many of which result in deaths. Reducing GA fatalities is one of the FAA's top priorities. The FAA's goal is to reduce the GA fatal accident rate by 10 percent over a 10-year period (2009-2018).

In FY 2015, with a rate of 1.03 fatal accidents per 100,000 flight hours, it appears the FAA has just achieved its goal of not exceeding a rate of 1.04. The results will not be considered final until confirmed by the NTSB in March 2017. This marks the first year that the FAA has achieved its goal in this area. The FAA is proud of its accomplishment, but the GA fatality rate still remains high and the FAA is committed to reducing it further.

GENERAL AVIATION FATAL ACCIDENT RATE
Fatal accidents per 100,000 flight hours



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	1.104	1.12	1.09	1.11	1.09[1]	1.03[2]
Target	1.10	1.08	1.07	1.06	1.05	1.04
Target Achieved?	✗	✗	✗	✗	✗	✓

1 Preliminary estimate until final result can be confirmed by NTSB in March 2016. The FAA does not expect any change in the result to be significant enough to alter the year-end status of achieving the target.

2 Preliminary estimate until final result can be confirmed by NTSB in March 2017. The FAA does not expect any change in the result to be significant enough to alter theyear-end status of achieving the target.

In the FY 2014 PAR, based on the results that were available at that time, the FAA reported that it achieved the goal last year. However, as it was noted, results are not final until confirmed by NTSB, which may take up to 18 months after the end of a fiscal year. Unfortunately, NTSB confirmed three additional GA fatal accidents that took place in FY 2014 that were not included in the original calculation. As a result, the fatal accident rate was above the target. Therefore, the FAA did not achieve the goal in FY 2014.

The FAA continues to analyze GA data and develop strategies to address the challenges of creating a safe environment for GA flights. The agency and industry formed the General Aviation Joint Steering Committee (GAJSC), which uses a non-regulatory, proactive, and data-driven strategy to get results. To date, the GAJSC has developed 33 safety enhancements. The GAJSC is also working to obtain broader data sources from the GA community to help better identify safety risks.

The GAJSC is reaching out to the GA community to educate pilots and other stakeholders on the benefits of sharing (in a protected, non-punitive manner) collected safety data through the FAA's Aviation Safety Information Analysis and Sharing (ASIAS) program. The goal of the program is to assist the GA community in reducing the number of fatal accidents by looking for systemic risks that could potentially lead to fatal accidents. Data submitted to ASIAS is confidential, de-identified, and will not be used for enforcement purposes.

The FAA is taking steps to help improve safety in small aircraft by simplifying design approval requirements for safety systems like Angle of Attack (AOA) indicators. AOA indicators provide the pilot with a visual aid to prevent loss of control of the aircraft in the critical phases of flight. Previously, cost and complexity of indicators limited their use to the military and commercial aircraft. Under the new guidelines, AOA devices can be added to small airplanes to supplement airspeed indicators and stall warning systems, giving pilots an additional tool to avoid a dangerous aerodynamic stall and subsequent loss of control.

To spread safety awareness throughout the aviation community, the FAA conducts live safety seminars, and sends email notifications, airmen notices, and FAA Safety Team (FAAST) blasts. Additionally, FAAST has Twitter and Facebook pages as well as airman counseling, and presentations/booths at aviation events. For more information on FAAST, please visit ***www.FAASafety.gov***.

Commercial Space Launch and Reentry Accidents

No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	
FY 2015 Target	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
FY 2015 Result	**0**
Public Benefit	The FAA's Office of Commercial Space Transportation (AST) oversight of commercial space launch industry activities has resulted in no loss of life or property damage to the public.

When someone hears the words "commercial space transportation," they often think of the National Aeronautics and Space Administration (NASA), which is a civil research and development agency of the federal government. However, NASA does not regulate the commercial space transportation industry. That responsibility falls to the FAA. Protecting the public during commercial space launches and re-entries (return to the earth's atmosphere) is at the core of the FAA's mission, which is to provide the safest, most efficient aerospace system in the world.

In FY 2015, the FAA was successful in maintaining its perfect record of no fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.

FAA's successes today will shape the future of commercial space transportation for decades to come. The commercial space industry is rapidly growing and commercial space tourism is imminent. To support this emerging market, the FAA is working to integrate commercial space transportation operations into our national airspace system.

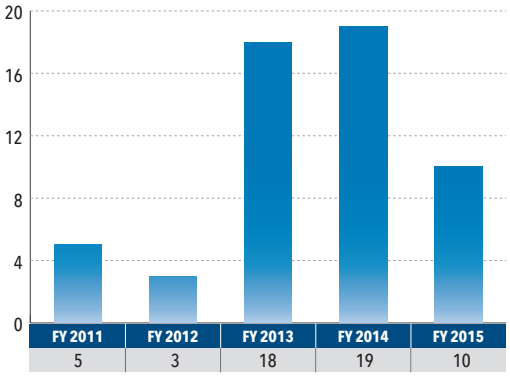
In FY 2015, the FAA completed the Space Data Integrator (SDI) project, which is a prototype of a system that will enable the FAA to receive data from commercial space vehicles as they are transiting through the national airspace system. The data is then automatically routed for display and analysis on FAA traffic management and safety systems. Prior to this, such data would have had to be manually typed. The project culminated with a demonstration of routing data from an actual commercial space operator, SpaceX, through the SDI and was displayed on the traffic management system at the FAA Command Center.

This year, there were two permitted launches and eight licensed launches. A permitted launch is one in which the FAA authorizes an experimental reusable suborbital rocket to launch or reenter for purposes other than for compensation or hire.

A permit is valid for a one-year renewable term and allows a permittee to conduct an unlimited number of launches and reentries for a particular suborbital rocket design during that time.

Further, an operator can apply for either a launch specific license or a launch operator license. The key difference between a launch-specific license and a launch operator license is that a launch-specific license authorizes only a specific number of launch or reentry activities. A launch or reentry operator license will allow an operator to perform an unspecified number of launches or reentries. To view FAA's fact sheet on Commercial Space Transportation Activities, please visit ***https://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=19074***.

FAA LICENSED AND PERMITTED LAUNCHES



COMMERCIAL SPACE LAUNCH AND REENTRY ACCIDENTS

Number of fatalities, serious injuries, or significant property damage to the uninvolved public during space launch and re-entry activities

	Target	Actual	Target Achieved?
FY 2015	0	0	✓
FY 2014	0	0	✓
FY 2013	0	0	✓
FY 2012	0	0	✓
FY 2011	0	0	✓
FY 2010	0	0	✓

STRATEGIC PRIORITY: Deliver Benefits through Technology and Infrastructure

STRATEGIC OBJECTIVE: Lay the foundation for the national airspace system of the future by achieving prioritized nextgen benefits, integrating new user entrants, and delivering more efficient, streamlined services

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
En Route Automation Modernization (ERAM) ▲ Operational Readiness Decision (ORD) for ERAM at four Air Route Traffic Control Centers (ARTCCs) by March 31, 2015.	7 (IOC)	8 (IOC)[1]	5 (ORD)[2]	4 (ORD)	4 (ORD)	✓	N/A[3]
Major Systems Investments Ninety 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 FY 2015.	100%	90%	95%	90%	100%	✓	90%
National Airspace System Energy Efficiency Improve aviation fuel efficiency by 20 percent relative to the calendar year 2000 baseline.	-22.72%	-21.66%	-22.40%	-20%	-24.37%	✓	N/A[4]
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 342,000 in calendar year 2015.	315,000	319, 000	321,000	342,000	340,000	✓	328,000
Unmodified Audit Opinion Obtain an unmodified opinion with no material weakness on the agency's financial statements (Unmodified Audit Opinion with no material weakness).	Unqualified audit opinion with no material weakness	Unmodified audit opinion with no material weakness[5]	Unmodified audit opinion with no material weakness	Unmodified audit opinion with no material weakness	Unmodified audit opinion with no material weakness	✓	Unmodified audit opinion with no material weakness

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

✓ Target met ✘ Target not met

1 Prior to FY 2014, this performance measure was based on the number of centers achieving Initial Operating Capability (IOC).
2 Beginning in FY 2014, this performance measure changed to the number of centers achieving ORD.
3 The transition to ERAM was completed in FY 2015. This performance measure will now be retired. Therefore, there is no FY 2016 target.
4 Beginning in FY 2016 , the FAA will no longer have a 2 percent annual improvement target for NAS-wide Energy Efficiency. The FAA will continue to calculate, monitor, and report the trends for this metric annually.
5 The term "unmodified" came into existence in FY 2013. Prior to then, it was "unqualified."

En Route Automation Modernization (ERAM) System

By March 2015, all 20 ARTCCs will have ORD for ERAM.	
FY 2015 Target	Complete ORD for ERAM at four ARTCCs by March 31, 2015.
FY 2015 Result	**4 (ORD)**
Public Benefit	Accomplishing this metric will expand capacity and reduce costs that 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% in U.S. domestic markets and 47% 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 to 4% annually.

Looking at the future of air travel, there will be more planes in our skies and more people in the nation's airports. To meet this challenge, the FAA must integrate cutting-edge technology into the aviation system.

Several years ago, the FAA began replacing the legacy computer system that 20 high altitude en route centers use with a new system called ERAM. This technology is a major step forward in our relentless efforts to develop and implement NextGen.

The ERAM system will help enable the transition of air traffic control from a ground-based system to a satellite-based air traffic management system. It provides air traffic controllers a tool to more efficiently manage flights from takeoff to touchdown. With ERAM, passengers will be able to get to their destinations faster, safer, and have a smoother ride—all while burning less fuel to get there.

Prior to 2014, our ERAM performance measure focused on the centers achieving Initial Operating Capability (IOC). This important first step in deploying ERAM at a center demonstrated that the system could be operated and maintained at a facility. After a center's ERAM system was fully operational, the center took the next step, which was declaring an Operational Readiness Decision (ORD). A center declared ORD when it began using the new equipment full-time and had no intention to return to operations using the old system. At ORD declaration, the process of decommissioning and removing the old system would begin.

By the end of FY 2014, 20 centers had achieved IOC and there were only four centers (Jacksonville, Atlanta, New York, and Washington, D.C.) where ORD had not been achieved. In March 2015, the final ORD was achieved, thus completing this major milestone. With ERAM fully in place, the FAA has fulfilled an important commitment in modernizing the nation's NextGen air traffic control system. More information about ERAM can be found at: ***http://www.faa.gov/air_traffic/technology/eram/***.

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

	Target	Actual	Target Achieved?
FY 2015	4 (ORD)	4 (ORD)	✓
FY 2014[1]	4 (ORD)	5 (ORD)	✓
FY 2013	11 (IOC)	8 (IOC)	✘
FY 2012	7 (IOC)	7 (IOC)	✓
FY 2011	2 (IOC)	2 (IOC)	✓
FY 2010	This was a new measure in FY 2011		

1 Prior to FY 2014, this performance measure was based on the number of centers achieving IOC. The three remaining centers that did not achieve IOC in FY 2013 were achieved in FY 2014. Beginning in FY 2014, the performance measure changed to the number of centers achieving ORD. Prior to FY 2014, 11 of the centers had achieved ORD.

Major Systems Investments

Ninety 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 FY 2015.	
FY 2015 Target	90% of major baselined acquisition programs must be maintained within 10% of their current acquisition cost, schedule, and technical performance baseline as of the end of FY 2015.
FY 2015 Result	**100%**
Public Benefit	The FAA's ability to keep acquisitions within budget and on schedule will allow for a timely transition to NextGen and other new programs. The transition to NextGen and other new programs involves acquiring numerous systems to support precision satellite navigation; digital, networked communications; integrated weather information; layered, adaptive security; and more.

Critical to the implementation of NextGen, is FAA's ability to manage major system investments in an efficient and cost-effective manner. Therefore, FAA established a performance measure that tracks and monitors the agency's success in staying within a 10 percent variance of established cost, schedule, and technical performance thresholds. In FY 2015, 100 percent of the measured major systems investments stayed within the 90 percent threshold—thus the FAA was successful in achieving the goal.

The FAA's ongoing efforts involve the acquisition of numerous systems, tools, and equipment to support precision-based satellite navigation, networked digital communications, integrated weather information, and improved security. The FAA has established acquisition categories (ACATs) within the Acquisition Management System to better identify and govern major system investments. The following criteria are applied to determine the ACAT level of each acquisition:

- Lifecycle costs and annual costs
- Political sensitivity
- Risk level
- Complexity
- Likelihood of changes in the safety of the nation's airspace

Major Systems Investments that have lifecycle costs greater than $100 million, or are classified with a medium or high rating in any of the criteria, are assigned an ACAT level of 1, 2, or 3. These categories are considered major capital investments. In addition, if a program is a key enabler of NextGen, it also is designated a major capital investment. Each of these investments has an established acquisition program baseline that documents the thresholds for performance measurement. 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, periodic reviews, and decision making.

Reporting on this performance measure ensures continuity and consistency with the Air Traffic Management System Performance Improvement Act of 1996. The Act requires the FAA Administrator to terminate programs that are funded from Facilities and Equipment appropriations 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.

MAJOR SYSTEMS INVESTMENTS
Maintain 90 percent of major system investments within budget

	Target	Actual	Target Achieved?
FY 2015	90%	100%	✓
FY 2014[1]	90%	95%	✓
FY 2013	90%	90%	✓
FY 2012	90%	100%	✓
FY 2011	This was a new measure in FY 2012		

National Airspace System Energy Efficiency

Improve national airspace system energy efficiency (fuel burned per revenue tonne kilometer flown) by at least 2 percent annually.	
FY 2015 Target	Improve aviation fuel efficiency by 20% relative to the calendar year 2000 baseline.
FY 2015 Result	**-24.37%**
Public Benefit	Today's aircraft are up to 70% more efficient 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 (CO_2) 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 unless improvements are made in fuel-efficient technology, optimized air traffic operations, and renewable fuels. This measure supports the development of these improvements in order 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 to growing the economy.

As the number of flights increase each year, there is a growing concern over the potential impact of aircraft greenhouse gas emissions on the global climate. The primary greenhouse gas from aircraft operations is carbon dioxide, which is directly related to the amount of fuel consumed.

FAA monitors improvements in aircraft and engine technology, operational procedures, and enhancements in the energy efficiency of aircraft operations. Such information makes it possible to assess aviation's emissions contribution.

In FY 2015, the FAA's target was a 20 percent decrease (minus 20 percent) in fuel burned by payload (the load carried by an aircraft that is not necessarily for its operation, for example passengers or cargo) transported relative to the calendar year 2000 baseline. The FAA was successful in achieving this goal with a 24.37 percent reduction (minus 24.37 percent) in fuel burned. During recent years, the FAA progressively required a further 2 percent reduction target annually, toward the 20 percent reduction target in FY 2015. Beginning in FY 2016, the FAA will no longer have a 2 percent annual improvement target for NAS Energy Efficiency. The FAA will continue to calculate, monitor, and report the trends for this metric annually.

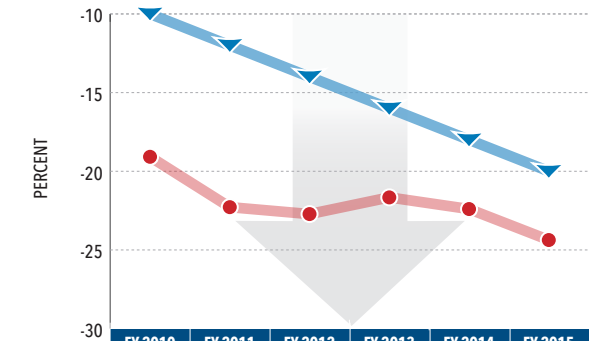
National airspace system-wide energy efficiency performance is heavily dependent upon commercial airline operating procedures and day-to-day operational conditions. This includes the condition of the airline's operating fleet and route assignments, air traffic conditions, weather, airport operating status, congestion in the system, and any disruptions that introduce delay in scheduled flights. Success in this measure indicates progress in improving the energy efficiency of commercial aircraft operations within the airspace system, thereby diminishing aviation's environmental impact.

Additionally, FAA's Office of Environment and Energy's Research and Development Program supports the United States Aviation Greenhouse Gas Emissions Reduction Plan (***http://www.icao.int/environmental-protection/Pages/ClimateChange_ActionPlan.aspx***).

The FAA also provides scientific understanding, development of new technologies, fuels and operations, and analyses to support NextGen and its goals of environmental protection that allow for sustained growth. In particular, the program helps achieve the NextGen goals to:

- Reduce significant community noise and air quality emissions impacts in absolute terms.
- Limit or reduce the impact of aviation greenhouse gas emissions on the global climate (including the rate of fuel burn).

NATIONAL AIRSPACE SYSTEM ENERGY EFFICIENCY
Cumulative percentage reduction from baseline



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	-19.08	-22.28	-22.72	-21.66	-22.40	-24.37
Target	-10.00	-12.00	-14.00	-16.00	-18.00	-20.00
Target Achieved?	✓	✓	✓	✓	✓	✓

- Improve energy efficiency (including air traffic operations and alternative fuels development).
- Proactively address other environmental issues.

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. General Electric's advanced engine combustor known as the Twin Annular Premixed Swirler (TAPS) II, which was matured under the CLEEN program, will be used in CFM International's LEAP turbofan engine and is expected to enter service in 2016.

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 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.

More information about the CLEEN program can be found at: *http://www.faa.gov/about/office_org/headquarters_offices/apl/research/aircraft_technology/cleen/*

FAA LAUNCHES "FLY SAFE CAMPAIGN"

On June 6, 2015 the FAA and industry launched the "Fly Safe" national safety campaign at the Aircraft Owners and Pilots Association's Fly-In held at the Frederick Municipal Airport, Frederick, MD. The campaign aims to educate the general aviation (GA) community on how to prevent Loss of Control accidents.

Loss of Control (LOC) is an accident involving an unintended departure of an aircraft from controlled flight, possibly resulting in an engine stall or spin, thus introducing an element of surprise to the pilot.

"Improving GA safety is a top priority for the FAA and industry," said FAA Deputy Administrator Michael Whitaker. "The fatal accident rate remains flat and too many lives are being lost despite the great work of our GA community."

Approximately 450 people are killed each year in GA accidents. Loss of Control is the number one cause of these accidents, and it can happen during all phases of flight, anywhere, and at any time. The course explores factors that can lead to LOC and provides practical steps that can be taken by pilots to help avoid LOC.

Each month on faa.gov, the Fly Safe web page provides pilots with a Loss of Control topic, resources and tips to reduce risk. Topics include angle of attack, survival, transition training, and managing unexpected events. The FAA and industry promote the campaign using social media. The site can be found at http://www.faa.gov/news/updates/?newsid=83106&omnirss=news_updatesaoc&cid=101_n_u.

Noise Exposure

The U.S. population exposed to significant aircraft noise around airports has been reduced to less than 300,000 persons by 2018.	
FY 2015 Target	Reduce the number of people exposed to significant aircraft noise to less than 342,000 in calendar year 2015.
FY 2015 Result	**340,000**
Public Benefit	The public benefit is reduced exposure to unwanted aircraft noise and increased capacity, thus reducing airport congestion and delays.

With the beginning of commercial jet service in the 1950s, air travel became faster, more efficient and more widely available for the public. But with it came an escalation in the impacts of noise around the nation's airports. In 1969, Congress gave FAA the responsibility for reducing noise through regulation of aircraft design and certification.

In the late 1970s, an estimated 7 million people were subjected to high noise levels from aircraft. Today, the number of people affected by significant aircraft noise in the United States is lower even though the number of passengers has increased significantly since that time.

In FY 2015, the FAA achieved its noise exposure goal of keeping the number of people exposed to aircraft noise below 342,000 with a result of 340,000. Although the FAA has succeeded in achieving this goal in the recent past, the number of people exposed to noise fluctuates every year. Factors that have contributed to increases include variations in the number of flights at individual airports, the fleet mix at those airports, and the flight paths flown.

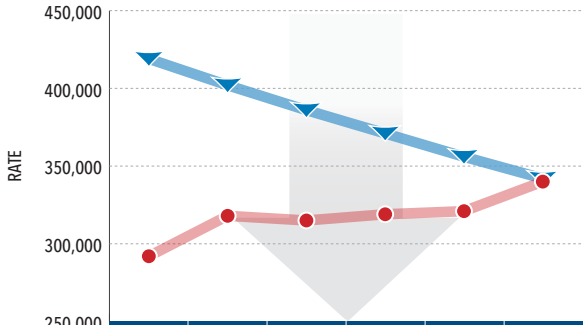
The number of people exposed to noise at certain airports can be affected by small changes in the shape of a noise contour and changes to the population counts provided by the Census Bureau. A noise contour is a line on a map that connects points of equal noise exposure on the surface. A small change in a contour shape can potentially cause a large change in the population count due to the uneven distribution of the population around airports. The population counts can also change as the original census data collected in 2010 is updated to the latest information.

For this goal, FAA defines significant aircraft noise as being exposed to day-night average sound level (DNL) of 65 decibels (dB) or higher. DNL is the 24-hour average sound level, in decibels, for the period from midnight to midnight, obtained after the addition of ten decibels to sound levels for the periods between midnight and 7 a.m., and between 10 p.m. and midnight, local time. DNL takes into account the number of aircraft "noise events," the noise level of each event, and whether the event occurred in the daytime or at night. A noise event is defined as a one-time noise occurrence caused by an individual aircraft overflight.

The agency is also utilizing NextGen technologies and procedures to help reduce aviation noise. Optimized Profile Descents (OPD), also known as Continuous Descent Arrivals, provide a smooth path to the runway and eliminate the throttle noise produced during traditional step-down procedures, in which the aircraft descends and levels off at increasingly lower altitudes.

The FAA has made great strides in reducing noise impacts on the public, primarily through advancements in aircraft technology. Our CLEEN program provides incentives for manufacturers to develop lower-noise aircraft through technologies such as noise-reducing engine nozzles.

NOISE EXPOSURE
Number of people exposed to significant aircraft noise



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Actual	292,000	318,000	315,000	319,000	321,000	340,000
Target	419,000	402,000	386,000	371,000	356,000	342,000
Target Achieved?	✓	✓	✓	✓	✓	✓

Unmodified Audit Opinion with No Material Weakness

Obtain an unmodified opinion with no material weakness on the agency's financial statements.	
FY 2015 Target	Obtain an unmodified opinion with no material weakness on the agency's financial statements.
FY 2015 Result	Unmodified opinion with no material weakness on the agency's financial statements.
Public Benefit	The public benefits by being reasonably assured that the agency is being managed in a transparent and fiscally responsible manner.

In FY 2015, for the eighth consecutive year, FAA received an unmodified audit opinion with no material weaknesses. An unmodified audit opinion means that the financial statements are presented, in all material respects, in accordance with U.S. generally accepted accounting principles. Additionally, for federal agencies, it is a signal to the public and Congress that the agency is transparent and accountable in the way it uses taxpayer resources. Achieving an unmodified audit with no material weakness requires every FAA organization to assume responsibility for following accounting policy properly by entering accurate source data into the accounting system.

From the highest levels of the agency down, the audit is a priority. Executive-level leadership move resources where they are needed so that sound internal controls operate routinely and effectively. Also, at FAA any audit issues are resolved promptly, the integrity of data and business system operations is ensured, and ongoing performance is monitored. This strong emphasis on fiscal responsibility is the most significant factor contributing to the achievement of this measure.

UNMODIFIED AUDIT OPINION
Obtain an unmodified opinion with no material weakness on the agency's financial statements
(Unmodified Audit Opinion with no material weakness)

	Target	Actual	Target Achieved?
FY 2015	Unmodified Audit Opinion with no Material Weakness	Unmodified Audit Opinion with no Material Weakness	✓
FY 2014	Unmodified Audit Opinion with no Material Weakness	Unmodified Audit Opinion with no Material Weakness	✓
FY 2013[1, 2]	Unmodified Audit Opinion with no Material Weakness	Unmodified Audit Opinion with no Material Weakness	✓
FY 2012[1]	Unqualified Audit Opinion with no Material Weakness	Unqualified Audit Opinion with no Material Weakness	✓
FY 2011	Unqualified Audit Opinion with no Material Weakness	Unqualified Audit Opinion with no Material Weakness	✓
FY 2010	Unqualified Audit Opinion with no Material Weakness	Unqualified Audit Opinion with no Material Weakness	✓

1 In FY 2012 and FY 2013, the unmodified audit opinion was one of three indicators that were aggregated to determine performance against a combined goal. The combined indicators were all part of a performance measure that is now retired (Outside Ratings – see our FY 2013 PAR for a full description of the calculation).

2 The term "unmodified" came into existence in FY 2013. Prior to then, it was "unqualified."

STRATEGIC PRIORITY: Empower and Innovate with the FAA's People

STRATEGIC OBJECTIVE: Prepare FAA's human capital for the future by identifying, recruiting, and training a workforce with the leadership, technical, and functional skills to ensure the United States has the world's safest and most productive aviation sector

Performance Measure	FY 2012 Results	FY 2013 Results	FY 2014 Results	FY 2015 Target	FY 2015 Results	FY 2015 Status	FY 2016 Target
FedView Rankings FAA is ranked in the top 34 percent of federal agencies in the Best-Places-to-Work FedView rankings.	39%	40%	50%	34%	TBD[1]	TBD	31%

1 Results will not be available until December 2015.

✓ Target met ✘ Target not met

FedView Rankings

The FAA is ranked in the top 34% of federal agencies in the Best-Places-to-Work (BPTW) FedView rankings.	
FY 2015 Target	The FAA is ranked in the top 34% of federal agencies in the Best-Places-to-Work FedView rankings.
FY 2015 Result	**TBD** (Results will not be available until December 2015.)
Public Benefit	Improvements in FedView results that are used to calculate the rankings would indicate that the 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 a survey that measures employees' perceptions of the extent to which conditions characterizing successful organizations are present in their agencies. The survey, known as the Federal Employee Viewpoint Survey (FedView), provides 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 survey is based on a sample of federal employees. These employees are encouraged but not required to participate. Additionally, workplace issues over which an employee has no control (e.g., furloughs, budgets, etc.) can negatively impact survey results. The survey is also subject to sampling errors. For these reasons, it may take several years before an overall performance trend emerges.

The Partnership for Public Service obtains FedView survey data from the OPM and calculates the 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 among the top 25 percent BPTW by 2018. For FY 2015, the FAA's target is to be ranked in the top 34 percent.

The results for the FY 2015 survey will not be available until December 2015. Due to the publication date of the FY 2015 PAR, these results will not be included in this document. However, the results of the FY 2014 survey became available in December 2014. Our FY 2014 result saw FAA's ranking decrease 10 percentage points, from being in the top 40 percent in FY 2013 to the top 50 percent in FY 2014. Therefore, we did not achieve the goal in FY 2014, which was to be ranked in the top 37 percent.

Although we have set a very aggressive goal to improve our ranking in the index from the top 75 percent in FY 2012 to the top 25 percent in FY 2018, our actual rankings have declined from the top 39 percent when this measure was established in FY 2012, to the top 50 percent in FY 2014. Notwithstanding this recent trend line, the FAA is committed to building a strong performance and engagement culture that helps the agency achieve the long-term goal of being in the top 25 percent of best places to work. The FAA Administrator challenged his senior team to address the agency's 2014 results from the FedView Survey with actions that will improve employee engagement within and across the FAA workforce. A Best Practices Roundtable for FAA leaders examined ways to make the agency a better place to work and identified ways to engage employees using public and private sector best practices.

FEDVIEW RANKINGS
FAA is ranked in the top 34 percent of Federal Agencies in the Best-Places-to-Work FedView rankings.

	Target	Actual	Target Achieved?
2015	34%	TBD[1]	TBD
2014	37%	50%	✘
2013	75%	40%	✓
2012	75%	39%	✓
2011	This was a new measure in FY 2012		

1 Results expected in December 2015.

The Workforce of the Future initiative emphasizes transformational leadership practices to strengthen workforce engagement. Leadership development is part of this initiative and includes engagement-related leadership competencies such as developing others, collaboration, communication, innovation, and diversity and inclusion. The FAA Leadership and Learning Institute (FLLI) redesigned core management and leadership courses integrating these new strategic leadership capabilities.

In the first year of operation, FLLI trained 1,479 students in instructor-led courses and had 14,066 web-based training completions. FAA's new Foundational Leadership Curriculum combines the latest in learning best practices with the essential knowledge and skills FAA managers need to be successful leading the FAA. This year-long training program allows new managers to grow as leaders, develop and engage their employees, and build relationships with fellow leadership peers.

In FY 2015, FAA improved how new employees are welcomed and initiated into the agency by establishing a program office expressly

for this purpose. FAA's new comprehensive onboarding program begins when a new employee accepts the job offer and continues through the new hire's first year. This program can significantly improve engagement, time-to-productivity, and retention. In addition, a variety of agency-wide steps have been taken to foster communication, including holding regular executive town hall meetings, enhancing employee websites, publishing internal newsletters, and nurturing employee opportunities for collaboration and participation in work groups. These communication innovations facilitate the sharing of information and improved workforce engagement.

on the RADAR

THE HEAT IS ON...THE RUNWAY

Over the past few years, the FAA's William J. Hughes Technical Center in Atlantic City, N.J. has sponsored research into a number of innovative techniques to prevent snow and ice buildup on airstrips. The research is centered on more cost-effective—and environmentally friendly—ways to keep runways and areas around the terminal open rather than deploying large teams of plows and snow blowers often seen at large airports in the Midwest and Northeast.

Several new technologies are being tested that could offer expanded options for airports and increase capacity in bad weather:

- Electrically conductive concrete, which involves electrifying metal fibers imbedded into concrete that heat-up and start the de-icing process.
- Spraying various nanomaterials—such as DuPont's Teflon—onto pavement to produce pavements that repel water preventing snow and ice from sticking and make it easier for plows to clean up after a storm.
- Hydronic systems, which circulate heated liquid through pipes, warming the pavement and melting any snow and ice from the surface.
- Incorporating "phase change" materials (PCMs) into runway pavement that can store heat and light and slowly release it at freezing temperatures to help melt snow and prevent ice buildup. The PCMs are derived from plant and vegetable oils. When the oils melt, energy is absorbed into the PCMs. When temperatures cool down, the material will start to crystalize, and that process releases energy.

These technologies to utilize heated pavement at an airport can be used solely for runways, or might be more economically employed closer to the more congested areas near the terminal.

QUALITY ASSURANCE AND COST CONTROLS

Verification and Validation of Performance Information

FAA employs strong management controls to ensure the accuracy, completeness, and timely reporting of performance data. Because of rigorous internal and external reviews, the FAA's verification and validation process produces performance results that agency managers and the Administrator are confident of.

In addition to internal verification and review by the FAA, performance data is independently verified by the Department of Transportation. Moreover, data from 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 our performance data. At the beginning of each fiscal year, we update the performance measure profiles, which essentially function as 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.

To supplement the performance measure profiles, the agency annually conducts an internal review of the verification processes used by all internal 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 at the end of the year.

Program Evaluations

Program evaluations are an assessment of the manner and extent to which an agency has achieved its objectives. While performance measures use statistics to show whether the FAA has achieved its intended outcomes, program evaluations include the use of analytical techniques to assess the extent to which programs have contributed to their desired outcomes and trends. Understanding the results of program evaluations enables us to initiate actions to improve program performance. Program evaluations are conducted by contractors, academic institutions, the Office of the Inspector General, and the Government Accountability Office.

The Office of Airport Planning and Programming has standing processes in place for internal reviews of key financial programs, particularly related to Airport Improvement Program (AIP) grant documentation as well as Passenger Facility Charge (PFC) application processing. From time to time, FAA also undertakes more formal program evaluations, in the planning, environmental or financial areas. However, during FY 2015, FAA did not initiate any formal program reviews, although it is continuing to incorporate findings from the PFC review initiated two years ago.

Improving Financial Management

Cost-Effectiveness

FAA's strategic plan includes an objective to improve the financial management of the agency while delivering quality customer service. A cost-control target is tracked each month. FAA efforts in this area for FY 2015 are described below.

FY 2015 COST CONTROL PROGRAM RESULTS
(Dollars in Thousands)

Activity	FY 2015 Savings Estimate	Actual FY 2015 Savings	FY 2015 Savings as Percent of Estimate
Service Area Restructuring	$1,344	$2,427	181%
Worker's Compensation Consolidation	$7,000	$7,372	105%
NESS - ATO Flight Service Stations	$0	$1,866	
SAVES	$25,000	$41,098	164%
Total	**$33,344**	**$52,763**	**158%**
TARGET	**$30,009**		**90%**

Service Area Restructuring. By reevaluating and changing the structure of the Office of Finance and Management, the FAA sharply reduced staffing requirements. This activity achieved savings of $2.4 million in FY 2015.

Workers' Compensation Consolidation. The FAA has saved a total of $142 million in workers' compensation claims since FY 2005. Due to the FAA's success in this area, the DOT gave the FAA centralized, department-wide responsibility for managing workers' compensation claims. In FY 2015, the FAA saved over $7 million in workers' compensation costs. The goal of the program is to mitigate Office of Workers' Compensation Programs costs by undertaking proactive and centralized management of injury claims, and achieve cost containment through effective management of the workers' compensation program. Cost avoidance is computed as follows:

1. Short-term disability claims (disability < one year)—computed as compensation payments avoided from the date of return to work through the remaining balance of one year following the employee's date of injury.
2. Long-term disability claims (disability > one year)—computed as compensation payments avoided over the course of one full calendar year from the date of successful resolution (return to work, termination/reduction of benefits, etc.).
3. Questionable claims challenged by FAA's Human Resource Management National Workers' Compensation Program Office and denied by the Department of Labor—computed as compensation payments avoided over the course of one full calendar year from the date of injury.

National Airspace System Efficient Streamlined Services (NESS)-Flight Service Stations: In January 2014, the FAA Administrator announced an initiative called the National Airspace System of the Future which requires a "fundamental transformation to a more efficient national airspace system with increased safety and user benefits." Flight Service will be supporting the National Airspace System Efficient Streamlined Services (NESS) sub initiative by implementing a multi-year, phased transition plan which includes:

1. Using technological advances to provide efficient and affordable flight services.
2. Identifying human-delivered services that could be replaced with automation.
3. Eliminating or reducing services that are redundant or obsolete, or do not support end-state core safety functions.
4. Re-scoping and negotiating contracts to support the appropriate service levels.
5. Engaging stakeholders throughout this process.
6. Modifying proposed flight services changes based on stakeholder feedback and input.

Based on the Flight Service Station vendor's current performance, the savings share is 60/40 split with the FAA. As of August 2015, this has yielded a total cost savings of $4.65 million, of which, 40 percent ($1.86 million) is reported for the FAA.

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 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 $41 million in cost savings for FY 2015, and a total savings of more than $231 million since program implementation in 2006. SAVES contracts have produced the following relative savings rates for 2015:

- 52.4 percent for IT Commercial off-the-shelf Software.
- 36.4 percent for IT Hardware.
- 71.95 percent for Office Supplies.
- 1.0 percent for Office Equipment.
- 0.7 percent for Maintenance, Repair, and Operations and Delivery Services.

Efficiency

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 Commercial Space Transportation 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 future launch and reentry operations.

Freeze the Footprint. As part of the federal government's commitment to increase efficiency, the Administration has adopted an initiative in FY 2013 to not increase the total square footage of its domestic office and warehouse space, referred to as the "Freeze the Footprint" policy for federal real estate. In FY 2016, this will move into the next phase of the initiative, called "Reduce the Footprint." Our previous efforts in this area have yielded positive results by reducing our space by approximately 3 percent to date from our FY 2012 baseline (starting point for measuring progress), and real estate costs nationwide. Since implementing the Freeze the Footprint initiative, FAA has reduced over 268,000 square feet of office and warehouse space. For example, we terminated a lease in May 2014 in Washington, DC, reducing over 27,000 square feet of space, thereby avoiding $1.7 million in associated costs. Continuing our momentum, we work to strengthen our real property portfolio management through ongoing real estate reviews. We also continue to partner with the General Services Administration on a real estate planning initiative and in developing additional potential space consolidations for FY 2015 and beyond. For more information on our Freeze the Footprint efforts, see page 118.

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 Analysis has evaluated 632 procurement packages with an estimated total value of $74.7 billion. Since the process was begun, FAA has greatly improved its ability to better define program requirements, more accurately estimate costs, and substantiate those cost estimates. With these improvements, it has established proper controls and can manage 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 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 IT needs.

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

FINANCIAL RESULTS

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

The world of aviation is changing quickly, at a pace unseen since the Wright brothers' first flights over a century ago. From Unmanned Aircraft Systems (UAS) — to Next Generation Air Transportation System (NextGen) technologies and capabilities — to commercial space launches, the FAA is incorporating new uses for our airspace and making our nation's aviation system safer, smarter, and more efficient. Integrating rapid change into a system that must operate continuously and safely is a daunting task, especially in the current fiscal environment. This challenge, however, presents a tremendous opportunity to make a difference for our stakeholders for many years to come.

MARK HOUSE

ACCOMPLISHMENTS

This has been a successful year for FAA's investment in critical capital infrastructure and the ongoing deployment of NextGen technologies. As in previous years, more than 90 percent of our major system investments remain within 10 percent of their cost and schedule baselines. Some of the highlights of this year's accomplishments in this area include:

- We completed our deployment of ERAM, our new automation system, at all 20 en route control centers. ERAM provides the platform to operate new technologies, such as Automatic Dependent Surveillance-Broadcast (ADS-B), the core technology enabling us to move from a radar-based air traffic system to a satellite-based system.
- We tested the Data Comm system in Newark, Memphis, Houston and Salt Lake City. This system connects pilots in aircraft directly with air traffic controllers through a text messaging, digital communication system.
- We continued to establish more Performance-based Navigation routes and procedures that are based on satellite technology to make the flow of air traffic more efficient. Found in all phases of flight, these procedures now outnumber those based on radar. And at 21 major aviation hubs around the country — called Metroplexes — we have implemented hundreds of these new flight procedures to improve the way aircraft navigate the complex airspace around these areas.

On the administrative side, we continue to make improvements and achieve cost-saving efficiencies through the restructuring of FAA's regional offices, reducing our administrative footprint, and eliminating redundant or obsolete functions, processes, and contracts. We also achieved an unmodified audit opinion with no material weaknesses on our FY 2015 financial statements, demonstrating our continued commitment to excellence in financial reporting. This was also reflected in FAA being named a recipient of the FY 2014 Certificate of Excellence in Accountability Reporting award given by the Association of Government Accountants, our eleventh award to date.

THE FUTURE

Over the past five years, the FAA has made substantial progress on the transformation of the National Airspace System (NAS). From completion of ERAM, to installation of the ADS-B infrastructure, to development of thousands of performance based navigation procedures, FAA committed to, and delivered on, NextGen capabilities that are integral to the transformation of the NAS. We are proud and honored to be a part of this historic transformation.

It has not been easy getting to this point. The budget-related furloughs due to authorization lapse (FY 2011), sequestration budget cuts (FY 2013), and appropriation lapse (FY 2014) have frustrated our employees and our stakeholders. These fits and starts in authorization and appropriation cycles have disrupted operations, delayed investments, and hindered performance of the FAA, which operates a highly sophisticated around-the-clock aviation system.

But these disruptions could have been avoided. The FAA is different than most other government entities in that the vast majority of its funding comes directly from the users of the aviation system. In FY 2015, more than 92 percent of the FAA's $15.8 billion budget was paid for by user taxes and fees on deposit in the Airport and Airway Trust Fund (AATF). The vast majority of these AATF user fee and tax revenues are generated from commercial passenger and cargo operations, while less than two percent are generated by general aviation, through fuel taxes.

This virtual self-sufficiency raises the interesting and exciting possibility of doing something different—but that still maintains accountability—with FAA's upcoming reauthorization. Our stakeholders throughout industry and government are now openly discussing possible changes in our structure, financing, and governance to create an aviation system that will sustain our nation's economic growth well into the future. While we are open to this debate, our focus remains on bringing to fruition an FAA authorization that provides the stable, predictable, and sufficient funding needed to execute our priorities of modernizing the air traffic control system, investing in infrastructure for our airways and airports, and maintaining the safest and most efficient airspace system in the world.

Mark House
Chief Financial Officer
November 9, 2015

BACKGROUND: SpaceX's Falcon 9 rocket and Dragon spacecraft launched from the Cape Canaveral Air Force Station, Florida. It is the only operational spacecraft capable of returning a significant amount of supplies back to Earth, including experiments. Photo: SpaceX

OFFICE OF THE INSPECTOR GENERAL (OIG) QUALITY CONTROL REVIEW

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

Memorandum

Subject: **INFORMATION:** Quality Control Review of Audited Financial Statements for Fiscal Years 2015 and 2014 Federal Aviation Administration Report Number: QC-2016-007

Date: November 13, 2015

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 consolidated financial statements for fiscal years 2015 and 2014.

KPMG LLP of Washington, DC, completed the audit of FAA's consolidated financial statements as of and for the years ended September 30, 2015, and September 30, 2014, (see attachment), under contract to the Office of Inspector General (OIG). The contract required KPMG to perform the audit in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 15-02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2015, and September 30, 2014, 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.[1] The report did not include any reportable internal control deficiencies or instances of reportable noncompliance with laws and regulations tested.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted

[1] Pages 66 and 67 of the attached Performance and Accountability Report

Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's consolidated financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report, dated November 9, 2015, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG did not comply, in all material respects, with generally accepted Government auditing standards. A response to this report is not required since KPMG did not make any recommendations.

We appreciate the cooperation and assistance of FAA's representatives, the Office of Financial Management, and KPMG. If we can answer any questions, please contact me at (202) 366-1959, or Louis C. King, Assistant Inspector General for Financial and Information Technology Audits, at (202) 366-1407.

Attachment

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INDEPENDENT AUDITORS' REPORT

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

Independent Auditors' Report

Administrator, Federal Aviation Administration
Inspector General, 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, 2015 and 2014, 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. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 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.

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 U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) as of September 30, 2015 and 2014, 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 Note 16, 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 Airport and Airway Trust Fund expires on March 31, 2016. Our opinion is not modified with respect to this matter.

Other Matters

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

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 FASAB 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, Foreword, Messages from the Administrator and the 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 audit 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 as of and for the year ended September 30, 2015, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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. 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 of compliance disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 15-02.

***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

Washington, DC
November 9, 2015

MANAGEMENT'S RESPONSE TO THE FY 2015 INDEPENDENT AUDITORS' REPORT

November 9, 2015

U.S. Department
of Transportation
Federal Aviation Administration

Office of Financial Services/CFO

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

NOV 0 9 2015

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 2015 consolidated financial statements.

We appreciate working in partnership with you in support of an efficient and effective audit, and are pleased that our continuous focus on improving financial management has resulted in not only an unmodified audit with no material weaknesses, but also no significant deficiencies. We remain committed to continuous improvement and providing excellent services to stakeholders and taxpayers.

Thank you for your recognition of our efforts, your candor, and the professional manner in which you and your team have conducted your audits.

Sincerely,

Mark House

Mark House

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U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED BALANCE SHEETS

As of September 30
(Dollars in Thousands)

	2015	2014
Assets		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,195,055	$ 3,309,473
Investments, net (Note 3)	14,942,387	14,974,934
Accounts receivable, prepayments, and other (Note 4)	222,934	226,220
Total intragovernmental	18,360,376	18,510,627
Accounts receivable, prepayments, and other, net (Note 4)	52,669	49,988
Inventory, operating materials, and supplies, net (Note 5)	695,755	680,951
Property, plant, and equipment, net (Note 6 and 9)	13,201,766	13,323,531
Total assets	$ 32,310,566	$ 32,565,097
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 14,114	$ 17,819
Employee related and other (Note 8)	383,233	371,034
Total intragovernmental liabilities	397,347	388,853
Accounts payable	292,839	377,343
Grants payable	742,418	719,251
Environmental (Note 7, 15, and 16)	962,237	1,010,343
Employee related and other (Note 8, 9, and 16)	866,218	866,187
Federal employee benefits (Note 10)	864,801	927,453
Total liabilities	4,125,860	4,289,430
Commitments and contingencies (Note 9 and 16)		
Net position		
Unexpended appropriations – funds from dedicated collections (Note 12)	1,163,953	1,147,857
Unexpended appropriations – all other funds	–	29,016
Subtotal unexpended appropriations	1,163,953	1,176,873
Cumulative results of operations—funds from dedicated collections (Note 12)	16,232,376	16,617,670
Cumulative results of operations—all other funds	10,788,377	10,481,124
Subtotal cumulative results of operations	27,020,753	27,098,794
Total net position	28,184,706	28,275,667
Total liabilities and net position	$ 32,310,566	$ 32,565,097

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)

	2015	2014
Line of business programs (Note 11)		
Air Traffic Organization		
Expenses	$ 11,218,862	$ 11,378,241
Less earned revenues	(270,181)	(302,085)
Net costs	10,948,681	11,076,156
Aviation Safety		
Expenses	1,401,631	1,350,611
Less earned revenues	(14,668)	(12,846)
Net costs	1,386,963	1,337,765
Airports		
Expenses	3,159,617	3,189,449
Less earned revenues	–	(19)
Net costs	3,159,617	3,189,430
Commercial Space Transportation		
Expenses	19,582	18,144
Net costs	19,582	18,144
Non-line of business programs		
Regions and Center Operations and other programs		
Expenses	760,483	848,208
Less earned revenues	(288,011)	(372,020)
Net costs	472,472	476,188
Net cost of operations		
Total expenses	16,560,175	16,784,653
Less earned revenues	(572,860)	(686,970)
Total net cost	$ 15,987,315	$ 16,097,683

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					
	2015			2014		
	Funds from dedicated collections (Note 12)	All other funds	Totals	Funds from dedicated collections (Note 12)	All other funds	Totals
Beginning balances	$ 1,147,857	$ 29,016	$ 1,176,873	$ 932,877	$ 29,039	$ 961,916
Budgetary financing sources						
Appropriations received (Note 14)	1,145,700	–	1,145,700	3,156,214	–	3,156,214
Rescissions, cancellations and other	(33,570)	(29,016)	(62,586)	(73,215)	–	(73,215)
Appropriations used	(1,096,034)	–	(1,096,034)	(2,868,019)	(23)	(2,868,042)
Total budgetary financing sources	16,096	(29,016)	(12,920)	214,980	(23)	214,957
Ending balances	$ 1,163,953	$ –	$ 1,163,953	$ 1,147,857	$ 29,016	$ 1,176,873

	Cumulative Results of Operations					
	2015			2014		
	Funds from dedicated collections (Note 12)	All other funds	Totals	Funds from dedicated collections (Note 12)	All other funds	Totals
Beginning balances	$16,617,670	$10,481,124	$27,098,794	$15,513,924	$10,601,945	$ 26,115,869
Budgetary financing sources						
Appropriations used	1,096,034	–	1,096,034	2,868,019	23	2,868,042
Non-exchange revenue – excise taxes and other	14,553,812	16,809	14,570,621	13,764,362	41,025	13,805,387
Transfers-in/out without reimbursement	(271,606)	–	(271,606)	(236,868)	–	(236,868)
Other financing sources						
Donations and forfeitures of property	–	40,902	40,902	–	43,784	43,784
Transfers-in/out without reimbursement	(1,653,457)	1,741,128	87,671	(1,515,812)	1,581,995	66,183
Imputed financing from costs absorbed by others (Note 13)	347,742	55,076	402,818	521,436	55,595	577,031
Other	(220)	(16,946)	(17,166)	(1,347)	(41,604)	(42,951)
Total financing sources	14,072,305	1,836,969	15,909,274	15,399,790	1,680,818	17,080,608
Net cost of operations	14,457,599	1,529,716	15,987,315	14,296,044	1,801,639	16,097,683
Net change	(385,294)	307,253	(78,041)	1,103,746	(120,821)	982,925
Ending balances	$16,232,376	$ 10,788,377	$ 27,020,753	$16,617,670	$ 10,481,124	$ 27,098,794

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)

	2015	2014
Budgetary resources (Note 14)		
Unobligated balance brought forward, transfers and other	$ 4,036,519	$ 3,606,802
Recoveries of prior year obligations	372,325	298,606
Other changes in unobligated balance	(85,625)	(93,199)
Unobligated balance from prior year budget authority	4,323,219	3,812,209
Appropriations	12,513,836	12,385,464
Contract authority	3,220,000	3,480,000
Spending authority from offsetting collections	9,284,128	7,371,311
Total budgetary resources	$ 29,341,183	$ 27,048,984
Status of budgetary resources		
Obligations incurred	$ 25,506,172	$ 23,012,474
Apportioned	1,576,262	1,602,316
Unapportioned	2,258,749	2,434,194
Total status of budgetary resources	$ 29,341,183	$ 27,048,984
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,364,175	$ 8,517,924
Obligations incurred	25,506,172	23,012,474
Gross outlays	(24,957,959)	(22,919,911)
Recoveries of prior year obligations	(372,325)	(298,606)
Change in uncollected customer payments from federal sources	30,854	52,294
Obligated balance, net, end of period	$ 8,570,917	$ 8,364,175
Budget authority and outlays		
Budget authority, gross	$ 25,017,964	$ 23,236,775
Actual offsetting collections	(9,314,982)	(7,423,605)
Change in uncollected customer payments from federal sources	30,854	52,294
Budget authority, net	$ 15,733,836	$ 15,865,464
Outlays		
Gross outlays	$ 24,957,959	$ 22,919,911
Collections, net of offsetting receipts	(9,314,982)	(7,423,605)
Distributed offsetting receipts	(7,849)	(5,700)
Net outlays	$ 15,635,128	$ 15,490,606

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 (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. 15-02, Audit Requirements for Federal Financial Statements.

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

B. Appropriations and Reporting Entity

Created in 1958, the FAA is a component of the DOT, a cabinet-level agency of the executive branch of the federal government. The FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and safety. As the leading authority in the international 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 2015 and 2014, the FAA was accountable for amounts made available per 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 authorized by congressional action and apportioned by the OMB.

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

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

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

- The AATF, a fund from dedicated collections, 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 are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts 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.* 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 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 FAA programs, as well as other improvements designed to enhance the safety and capacity of the national airspace system.
  - 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, 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, was established to provide premium and non-premium insurance to meet the needs of the U.S. domestic airline industry not adequately met by the commercial insurance market as a result of the terrorist attacks on September 11, 2001. However, today, the aviation insurance market offers insurance products that meet the needs of the vast majority of the world's air carriers. Accordingly, on December 11, 2014, Congress allowed the FAA's authority to provide premium war risk insurance to expire. The FAA continues to provide non-premium war risk insurance which includes hull loss and passenger, crew, and third-party liability coverage for certain U.S. Government contracted air carrier operations, as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2011. This non-premium insurance authority expires on December 31, 2018. The remaining balance in the Aviation Insurance Revolving Fund will be used to support the non-premium program (see Note 16).
- *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 drawn 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 the Facilities, Engineering & Development General Fund and general fund miscellaneous receipts accounts established for receipts from non-recurring activities, 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 intragovernmental revenue with costs that are incurred to produce public and intragovernmental 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 aviation user 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 allocations prepared by its Office of Tax Analysis (OTA). These allocations are based on historical excise tax data applied to current excise tax receipts.

The FAA's September 30, 2015 financial statements reflect excise taxes certified (as actual collections) by the IRS through June 30, 2015, and excise taxes allocated by the OTA for the period July 1 through September 30, 2015, 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, 2015, will not be available from the IRS until February 2016. When actual amounts are certified by the IRS, generally four to five months after the end of each quarter, adjustments are made to the AATF to account for the difference. Additional information on this subject is disclosed in Note 12.

The AATF also earns interest from investments in U.S. Government securities. Interest income on investments is recognized as revenue on an 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, through December 11, 2014 when FAA's authority to provide premium war risk insurance expired, were 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 the U.S. 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 monthly in amounts needed to provide cash for the FAA appropriation accounts, to the extent authorized. Aviation Insurance Revolving Fund investments are intended to be held to maturity, but may be liquidated to pay insurance claims when necessary. Investments, redemptions, and reinvestments are held and managed under the direction of the FAA by the U.S. Treasury.

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, aviation user 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 that 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 costs include material, labor, and applicable manufacturing overhead and are 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. Raw materials and work in progress is primarily comprised of materials used to bring repairable inventory components to a re-useable or serviceable condition along with the labor and overhead incurred during the refurbishing process.

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

Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA owned aircraft. They are valued based on the 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." An allowance of 50 percent has been established for operating materials and supplies "held for repair" based on historical experience.

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

K. Property, Plant and Equipment

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 FAA's capitalization threshold, 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.

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

The FAA spends a significant amount of time to research and develop new technologies to support the 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. Leases

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 contractual agreements.

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.

M. 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.

N. Liabilities

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

O. 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.

P. Annual, Sick, and Other Leave

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

Q. 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.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in the CSRS contribute 7 percent of their pay and are beneficiaries of the FAA's matching contribution program, 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. The costs are covered through a combination of FAA appropriations and imputed costs. 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. Reporting of the assets and liabilities associated with the retirement plans is the responsibility of the administering agency, OPM. Therefore, FAA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

S. Grants

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreement, they request payment by the FAA, typically made via an electronic payment process. Expenses are recorded at the time

of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the Airports line of business.

T. Use of Estimates

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

U. Environmental Liabilities

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

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

V. Contingencies

A contingent liability represents a potential cost to FAA depending on the outcome of future events. Three categories of contingent liabilities—probable, reasonably possible, and remote—determine the appropriate accounting treatment. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 16) when the conditions for liability recognition are not met but are reasonably possible. Contingent liabilities that are considered remote are not disclosed.

In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

W. Funds from Dedicated Collections

The FAA's financial statements include the following funds, considered to be "funds from dedicated collections":

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

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

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by

the U.S. Congress. Once appropriated for use, the FAA transfers the AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations AATF 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 those that come from 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.

X. Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation.

NOTE 2: Fund Balance with Treasury

Fund Balance with Treasury account balances as of September 30, 2015 and 2014 were:

	2015	2014
Trust funds	$ 1,300,668	$ 1,382,492
General funds	1,522,152	1,534,216
Revolving funds	365,570	373,671
Other fund types	6,665	19,094
Total	$ 3,195,055	$ 3,309,473
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 1,576,262	$ 1,602,316
Not available	2,258,749	2,434,194
Obligated balance not yet disbursed	8,570,917	8,364,175
Investments and Contract Authority supporting obligated and unobligated balances	(9,215,691)	(9,107,936)
Non-budgetary FBWT	4,818	16,724
Total	$ 3,195,055	$ 3,309,473

Unobligated fund balances are reported as not available when they are not legally available to the FAA for obligation. However, balances that are not available 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. Additionally, the aviation insurance premiums collected by FAA overtime are shown as not available until authorized to pay insurance claims.

The FAA is funded with appropriations from the AATF and the General Fund of the Treasury. While amounts appropriated from the General Fund of the Treasury are included in fund balance with Treasury, AATF investments are not. AATF investments are redeemed as needed to meet FAA's cash disbursement needs, at which time the funds are transferred into fund balance with Treasury. The FAA also receives contract authority which allows obligations to be incurred in advance of an appropriation. The contract authority is subsequently funded as authorized from the AATF allowing for the liquidation of the related obligations. Thus, investments and contract authority are not part of fund balance with Treasury; however, their balances will be transferred from the AATF to fund balance with Treasury over time to liquidate obligated balances and unobligated balances as they become obligated, and thus are necessarily included in the Status of fund balance with Treasury section of this footnote.

NOTE 3: Investments

As of September 30, 2015 and 2014, the FAA's investment balances were as follows:

	2015			
Intragovernmental Securities	Cost	Unamortized Premium	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 12,715,552	$ –	$ 12,715,552	$ 12,715,552
Non-marketable market-based	2,125,792	39,678	2,165,470	2,171,014
Subtotal	14,841,344	39,678	14,881,022	14,886,566
Accrued interest	61,365	–	61,365	–
Total Intragovernmental Securities	$ 14,902,709	$ 39,678	$ 14,942,387	$ 14,886,566

	2014			
Intragovernmental Securities	Cost	Unamortized Premium	Investments (Net)	Market Value Disclosure
Non-marketable par value	$ 12,758,889	$ –	$ 12,758,889	$ 12,758,889
Non-marketable market-based	2,137,204	15,921	2,153,125	2,154,366
Subtotal	14,896,093	15,921	14,912,014	14,913,255
Accrued interest	62,920	–	62,920	–
Total Intragovernmental Securities	$ 14,959,013	$ 15,921	$ 14,974,934	$ 14,913,255

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, 2015 and 2014, $12.7 billion and $12.8 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 Fiscal Services 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 Fiscal Services. 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, 2015, mature on various dates through June 30, 2016, and investments as of September 30, 2014, matured on various dates through June 30, 2015. 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 2015 and FY 2014 was 2.0 percent and 1.9 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, 2015, these nonmarketable, market-based securities have maturity dates ranging from December15, 2016 to May 15, 2018 and have an average rate of return of approximately 1.6 percent. As of September 30, 2014, these nonmarketable, market-based securities had maturity dates ranging from October 15, 2014 to May 15, 2017 and had an average rate of return of approximately 1.3 percent.

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

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA redeems these securities, the federal government finances those expenditures 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 federal government finances all other expenditures.

NOTE 4: Accounts Receivable, Advances and Other Assets

Intragovernmental prepayments represent advance payments to other federal government entities for agency expenses not yet incurred or for goods or services not yet received. The allowance for uncollectible accounts is determined by using the aging method on transactions with the public. Accounts receivable from the public are shown net of allowances for uncollectible amounts of $9.9 million and $11.8 million, as of September 2015 and 2014, respectively.

Intragovernmental	**2015**	**2014**
Accounts receivable	$ 26,824	$ 58,421
Prepayments and other	196,110	167,799
Intragovernmental total	222,934	226,220
With the public		
Accounts receivable, net	51,519	48,911
Prepayments	710	549
Other assets	440	528
With the public total	52,669	49,988
Total accounts receivable, prepayments, and other	$ 275,603	$ 276,208

NOTE 5: Inventory, Operating Materials, and Supplies

As of September 30, 2015 and 2014, inventory, operating materials, and supplies were:

	2015		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 85,472	$ –	$ 85,472
Held for repair	661,004	(139,315)	521,689
Raw materials and work in progress	31,649	(1,742)	29,907
Excess, obsolete, and unserviceable	9,595	(9,595)	–
Inventory total	787,720	(150,652)	637,068
Operating materials and supplies			
Held for use	42,790	–	42,790
Held for repair	30,729	(15,365)	15,364
Excess, obsolete, and unserviceable	1,772	(1,239)	533
Operating materials and supplies total	75,291	(16,604)	58,687
Total inventory, operating materials, and supplies	$ 863,011	$ (167,256)	$ 695,755

	2014		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 91,178	$ –	$ 91,178
Held for repair	636,312	(140,018)	496,294
Raw materials and work in progress	38,189	(1,957)	36,232
Excess, obsolete, and unserviceable	7,456	(7,456)	–
Inventory total	773,135	(149,431)	623,704
Operating materials and supplies			
Held for use	42,000	–	42,000
Held for repair	29,074	(14,540)	14,534
Excess, obsolete, and unserviceable, net	2,086	(1,373)	713
Operating materials and supplies total	73,160	(15,913)	57,247
Total inventory, operating materials, and supplies	$ 846,295	$ (165,344)	$ 680,951

Inventory and operating materials are 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. The Excess, obsolete, and unserviceable valuation allowance is typically set at 100 percent of gross book value.

NOTE 6: Property, Plant, and Equipment, Net

Property, plant, and equipment balances as of September 30, 2015 and 2014 were:

	2015		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 6,361,418	$ (3,655,174)	$ 2,706,244
Personal property	21,299,076	(12,330,715)	8,968,361
Assets under capital lease (Note 9)	107,288	(45,889)	61,399
Construction in progress	1,465,762	–	1,465,762
Total property, plant and equipment	$ 29,233,544	$ (16,031,778)	$ 13,201,766

	2014		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 6,215,592	$ (3,534,321)	$ 2,681,271
Personal property	20,930,003	(12,292,853)	8,637,150
Assets under capital lease (Note 9)	112,647	(45,750)	66,897
Construction in progress	1,938,213	–	1,938,213
Total property, plant and equipment	$ 29,196,455	$ (15,872,924)	$ 13,323,531

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 has fully deployed 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, 2015, construction in progress includes $101 million related to the ERAM system. This primarily relates to upgraded software scheduled to be placed in service in November 2015. The ERAM system replaced four legacy air traffic systems that were retired in FY 2015. The net acquisition cost of the legacy systems is $141 and $417 million as of September 30, 2015 and 2014, respectively.

NOTE 7: Environmental Liabilities

The FAA's environmental liabilities as of September 30, 2015 and 2014 were:

	2015	2014
Environmental remediation	$ 651,700	$ 711,289
Environmental cleanup and decommissioning	310,537	299,054
Total environmental liabilities	$ 962,237	$ 1,010,343

Remediation is performed at contaminated sites where FAA has liability due to past operations or waste disposal activities. To help manage the cleanup of the contaminated sites, FAA established an Environmental Cleanup Program that includes three service areas which are responsible for oversight of the contaminated sites. The service area personnel use sophisticated cost estimating tools to estimate the environmental remediation liability.

The Environmental cleanup and decommissioning liability is estimated using a combination of actual costs and project specific cost proposals for certain targeted facilities. FAA uses the average decommissioning and cleanup costs of the targeted facilities as the cost basis for the other like facilities to arrive at the estimated environmental liability for decommissioning and cleanup.

A description of the two categories of environmental liabilities can be found in Note 1.U. Information on contingencies related to environmental liabilities can be found in Note 16.

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

NOTE 8: Employee Related and Other Liabilities

As of September 30, 2015 and 2014, the FAA's employee-related and other liabilities were:

	2015		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ –	$ 135,403	$ 135,403
Accrued payroll & benefits payable to other agencies	–	53,198	53,198
Liabilities covered by budgetary resources	–	188,601	188,601
Federal Employees' Compensation Act payable	100,288	82,724	183,012
Other	–	11,620	11,620
Liabilities not covered by budgetary resources	100,288	94,344	194,632
Intragovernmental total	100,288	282,945	383,233
With the public			
Advances received and other	–	101,946	101,946
Accrued payroll & benefits payable to employees	–	184,230	184,230
Liabilities covered by budgetary resources	–	286,176	286,176
Accrued unfunded annual & other leave & assoc. benefits	–	415,599	415,599
Accrued sick leave buy back option for eligible employees	58,888	4,142	63,030
Capital leases (Notes 9 and 15)	59,146	8,085	67,231
Legal claims	–	14,050	14,050
Other accrued liabilities	–	20,132	20,132
Liabilities not covered by budgetary resources	118,034	462,008	580,042
Public total	118,034	748,184	866,218
Total employee related and other liabilities	$ 218,322	$ 1,031,129	$ 1,249,451

	2014		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ –	$ 138,012	$ 138,012
Accrued payroll & benefits payable to other agencies	–	21,787	21,787
Liabilities covered by budgetary resources	–	159,799	159,799
Federal Employees' Compensation Act payable	101,819	86,761	188,580
Other	–	22,655	22,655
Liabilities not covered by budgetary resources	101,819	109,416	211,235
Intragovernmental total	101,819	269,215	371,034
With the public			
Advances received and other	–	107,796	107,796
Accrued payroll & benefits payable to employees	–	182,457	182,457
Liabilities covered by budgetary resources	–	290,253	290,253
Accrued unfunded annual & other leave & assoc. benefits	–	410,482	410,482
Accrued sick leave buy back option for eligible employees	65,029	3,145	68,174
Capital leases (Notes 9 and 15)	64,542	8,648	73,190
Legal claims	–	9,700	9,700
Other accrued liabilities	–	14,388	14,388
Liabilities not covered by budgetary resources	129,571	446,363	575,934
Public total	129,571	736,616	866,187
Total employee related and other liabilities	$ 231,390	$ 1,005,831	$ 1,237,221

"Accrued payroll and benefits payable to other agencies" consists of FAA contributions payable to other federal agencies for employee benefits. These include FAA contributions payable toward life, 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, 2015, includes workers' compensation benefits paid by DOL during the periods July 1, 2013, through June 30, 2015, and accrued liabilities for the quarter July 1, 2015, through September 30, 2015. The FAA's accrued liability as of September 30, 2014, included workers' compensation benefits paid by the DOL during the period July 1, 2012, through June 30, 2014, and accrued liabilities for the quarter July 1, 2014, through September 30, 2014.

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 $63 million and $68 million as of September 30, 2015 and 2014, respectively.

The FAA estimated that 100 percent of its $14.1 million and $9.7 million legal claims liabilities as of September 30, 2015 and 2014, 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 are composed primarily of accruals for utilities, leases, and travel. Total liabilities not covered by budgetary resources are presented in Note 15.

NOTE 9: Leases

The FAA has both capital and operating leases.

Capital Leases

Following is a summary of FAA's assets under capital lease as of September 30, 2015 and 2014:

	2015	2014
Land, Buildings, and Machinery	$ 107,288	$ 112,647
Accumulated Depreciation	(45,889)	(45,750)
Assets Under Capital Lease, net	$ 61,399	$ 66,897

As of September 30, 2015, FAAs' 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 2016)	$ 8,085
Year 2 (FY 2017)	8,085
Year 3 (FY 2018)	8,085
Year 4 (FY 2019)	8,092
Year 5 (FY 2020)	7,593
After 5 Years	45,590
Less: Imputed interest	(18,299)
Total capital lease liability	$ 67,231

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, 2015 were:

Fiscal year	
Year 1 (FY 2016)	$ 173,956
Year 2 (FY 2017)	155,884
Year 3 (FY 2018)	96,410
Year 4 (FY 2019)	71,367
Year 5 (FY 2020)	52,558
After 5 Years	285,961
Total future operating lease payments	$ 836,136

Operating lease expense incurred during the years ended September 30, 2015 and 2014 was $222.4 million and $222.7 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, 2015 and 2014, FECA actuarial liabilities were $864.8 million and $927.5 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 unreported 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 in the Consolidated Statements of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated based on commonly used metrics such as number of personnel or square footage utilized.

The following are net costs for the years ended September 30, 2015 and 2014 by strategic priorities:

	For the Year Ended September 30, 2015				
	Strategic Priorities				
	Make Aviation Safer and Smarter	Deliver Benefits Through Technology and Infrastructure	Enhance Global Leadership	Empower and Innovate with FAA's People	Total
Line of Business programs					
Air Traffic Organization	$ 9,213,344	$ 1,566,044	$ 2,358	$ 166,935	$ 10,948,681
Aviation Safety	1,329,458	3,646	30,248	23,611	1,386,963
Airports	1,658,279	1,500,060	19	1,259	3,159,617
Commercial Space Transportation	15,950	1,037	90	2,505	19,582
Non-Line of Business programs					
Regions and Center Operations and other	350,997	88,402	(2,163)	35,236	472,472
Net cost	$ 12,568,028	$ 3,159,189	$ 30,552	$ 229,546	$ 15,987,315

	For the Year Ended September 30, 2014				
	Strategic Priorities				
	Make Aviation Safer and Smarter	Deliver Benefits Through Technology and Infrastructure	Enhance Global Leadership	Empower and Innovate with FAA's People	Total
Line of Business programs					
Air Traffic Organization	$ 9,086,410	$ 1,803,369	$ 2,776	$ 183,601	$ 11,076,156
Aviation Safety	1,279,611	2,357	31,399	24,398	1,337,765
Airports	1,673,788	1,514,369	8	1,265	3,189,430
Commercial Space Transportation	15,496	942	69	1,637	18,144
Non-Line of Business programs					
Regions and Center Operations and other	311,355	119,442	(2,463)	47,854	476,188
Net cost	$ 12,366,660	$ $3,440,479	$ $31,789	$ 258,755	$ 16,097,683

The following is the FAA's distribution of FY 2015 and FY 2014 net costs by intragovernmental related activity versus "with the public":

	For the Year Ended September 30, 2015		
	Intragovernmental	With the Public	Total
Line of Business programs			
Air Traffic Organization			
Expenses	$ 2,245,530	$ 8,973,332	$ 11,218,862
Less earned revenues	(226,249)	(43,932)	(270,181)
Net costs	2,019,281	8,929,400	10,948,681
Aviation Safety			
Expenses	331,164	1,070,467	1,401,631
Less earned revenues	(2,957)	(11,711)	(14,668)
Net costs	328,207	1,058,756	1,386,963
Airports			
Expenses	37,851	3,121,766	3,159,617
Net costs	37,851	3,121,766	3,159,617
Commercial Space Transportation			
Expenses	3,922	15,660	19,582
Net costs	3,922	15,660	19,582
Non-Line of Business programs			
Regions and Center Operations and other programs			
Expenses	131,902	628,581	760,483
Less earned revenues	(105,020)	(182,991)	(288,011)
Net costs	26,882	445,590	472,472
Net cost of operations			
Total expenses	2,750,369	13,809,806	16,560,175
Less earned revenues	(334,226)	(238,634)	(572,860)
Total net costs	$ 2,416,143	$ 13,571,172	$ 15,987,315

	For the Year Ended September 30, 2014		
	Intra-governmental	With the Public	Total
Line of Business programs			
Air Traffic Organization			
Expenses	$ 2,252,856	$ 9,125,385	$ 11,378,241
Less earned revenues	(237,444)	(64,641)	(302,085)
Net costs	2,015,412	9,060,744	11,076,156
Aviation Safety			
Expenses	327,686	1,022,925	1,350,611
Less earned revenues	(3,941)	(8,905)	(12,846)
Net costs	323,745	1,014,020	1,337,765
Airports			
Expenses	55,999	3,133,450	3,189,449
Less earned revenues	–	(19)	(19)
Net costs	55,999	3,133,431	3,189,430
Commercial Space Transportation			
Expenses	3,741	14,403	18,144
Net costs	3,741	14,403	18,144
Non-Line of Business programs			
Regions and Center Operations and other programs			
Expenses	147,422	700,786	848,208
Less earned revenues	(73,770)	(298,250)	(372,020)
Net costs	73,652	402,536	476,188
Net cost of operations			
Total expenses	2,787,704	13,996,949	16,784,653
Less earned revenues	(315,155)	(371,815)	(686,970)
Total net costs	$ 2,472,549	$ 13,625,134	$ 16,097,683

NOTE 12: Funds from Dedicated Collections

The FAA's funds from dedicated collections are reported in the Consolidated Statements of Changes in Net Position are presented on pages 95–96 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 "All other funds from dedicated collections" is comprised of the financial statement balances of all the related funds that receive funding from the AATF and includes 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 "All 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 category of "All 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 remain with 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 allocates the amount collected and subsequently adjusts the allocation to reflect actual collections quarterly.

As discussed in Note 1.E., FY 2015 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters of the year and amounts allocated by OTA for the fourth quarter of the year.

All Other Funds from Dedicated Collections

- Until the congressional authority to collect insurance premiums expired on December 11, 2014, FAA had authority under the Aviation Insurance Program to insure commercial airlines that may have been called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance was not available commercially or was available only on unreasonable terms and conditions. The insurance issued, commonly referred to as war-risk insurance, covered losses resulting from war, terrorism, or other hostile acts. The stoppage of premium collections in early December 2014 are reflected in the revenue totals for FY 2015. The FAA reported premium insurance revenues of $2.6 million and $131.8 million for the periods ended September 30, 2015 and 2014, respectively. The Aviation Insurance Program activity is reported on pages 95–96 in "All other funds from dedicated collections."
- The Aviation Insurance Program is discussed in further detail in Notes 1.B and 16.
- Aviation user fees are charged to commercial airlines that fly in U.S. controlled air space, but neither take off nor land in the U.S. The FAA reported aviation user fees of $103.7 million and $86.3 million for the periods ended September 30, 2015 and 2014, respectively. Aviation user fees activity is reported below in all other funds from dedicated collections.

Fiscal data as of, and for the years ended, September 30, 2015 and 2014, are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

	2015		
	AATF	All other funds from dedicated collections	Total funds from dedicated collections
Balance Sheet			
Assets			
Fund balance with Treasury	$ 906,750	$ 1,930,529	$ 2,837,279
Investments, net	12,769,545	2,172,842	14,942,387
Accounts receivable, net	–	4,326,128	4,326,128
Other assets	–	2,428,663	2,428,663
Total assets	$ 13,676,295	$ 10,858,162	$ 24,534,457
Liabilities and net position			
AATF amounts due to the FAA	$ 4,263,521	$ –	$ 4,263,521
Other liabilities	–	2,874,607	2,874,607
Unexpended appropriations	–	1,163,953	1,163,953
Cumulative results of operations	9,412,774	6,819,602	16,232,376
Total liabilities and net position	$ 13,676,295	$ 10,858,162	$ 24,534,457
Statement of net cost			
Program costs	$ –	$ 14,802,413	$ 14,802,413
Less earned revenue:			
Aviation insurance premiums	–	(2,627)	(2,627)
Overflight user fees	–	(103,726)	(103,726)
Other revenue	–	(238,461)	(238,461)
Net cost of operations	$ –	$ 14,457,599	$ 14,457,599
Statement of changes in net position			
Cumulative results beginning of period	$ 9,556,238	$ 7,061,432	$ 16,617,670
Non-exchange revenue:	–	–	–
Passenger ticket tax	9,837,876	–	9,837,876
International departure tax	3,310,720	–	3,310,720
Investment income	272,683	–	272,683
Fuel taxes	641,836	–	641,836
Waybill tax	496,672	–	496,672
Tax refunds and credits	(19,052)	–	(19,052)
Other revenue	22,552	(9,475)	13,077
Budgetary financing sources	(14,706,751)	15,531,180	824,429
Other financing sources	–	(1,305,936)	(1,305,936)
Net cost of operations	–	(14,457,599)	(14,457,599)
Cumulative results end of period	9,412,774	6,819,602	16,232,376
Unexpended appropriations	–	1,163,953	1,163,953
Net position end of period	$ 9,412,774	$ 7,983,555	$ 17,396,329

	2014		
	AATF	All other funds from dedicated collections	Total funds from dedicated collections
Balance Sheet			
Assets			
Fund balance with Treasury	$ 843,426	$ 2,072,116	$ 2,915,542
Investments, net	12,813,678	2,161,256	14,974,934
Accounts receivable, net	–	4,188,818	4,188,818
Other assets	–	2,749,563	2,749,563
Total assets	$ 13,657,104	$ 11,171,753	$ 24,828,857
Liabilities and net position			
AATF amounts due to the FAA	$ 4,100,866	$ –	$ 4,100,866
Other liabilities	–	2,962,464	2,962,464
Unexpended appropriations	–	1,147,857	1,147,857
Cumulative results of operations	9,556,238	7,061,432	16,617,670
Total liabilities and net position	$ 13,657,104	$ 11,171,753	$ 24,828,857
Statement of net cost			
Program costs	$ –	$ 14,779,539	$ 14,779,539
Less earned revenue:			
Aviation insurance premiums	–	(131,757)	(131,757)
Overflight user fees	–	(86,317)	(86,317)
Other revenue	–	(265,421)	(265,421)
Net cost of operations	$ –	$ 14,296,044	$ 14,296,044
Statement of changes in net position			
Cumulative results beginning of period	$ 8,375,676	$ 7,138,248	$ 15,513,924
Non-exchange revenue:			
Passenger ticket tax	9,286,011	–	9,286,011
International departure tax	3,197,616	–	3,197,616
Investment income	240,204	–	240,204
Fuel taxes	579,940	–	579,940
Waybill tax	465,288	–	465,288
Tax refunds and credits	(16,341)	–	(16,341)
Other revenue	–	11,644	11,644
Budgetary financing sources	(12,572,156)	15,203,308	2,631,152
Other financing sources	–	(995,724)	(995,724)
Net cost of operations	–	(14,296,044)	(14,296,044)
Cumulative results end of period	9,556,238	7,061,432	16,617,670
Unexpended appropriations	–	1,147,857	1,147,857
Net position end of period	$ 9,556,238	$ 8,209,289	$ 17,765,527

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, 2015 and 2014, imputed financing was as follows:

	2015	2014
Office of Personnel Management	$ 391,301	$ 566,575
Treasury Judgment Fund	11,517	10,456
Total imputed financing sources	$ 402,818	$ 577,031

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:

	2015	2014
Combined Statement of Budgetary Resources–budget authority, net	$ 15,733,836	$ 15,865,464
Less amounts made available to the FAA from AATF dedicated collections	(14,571,750)	(12,707,816)
Less other dedicated resources	(16,386)	(1,434)
Consolidated Statement of Changes in Net Position–appropriations received	$ 1,145,700	$ 3,156,214

The FAA had rescissions of budgetary resources of $260 million in FY 2015 and $26.2 million in FY 2014.

As of September 30, 2015 and 2014, the FAA had available contract authority in the amount of $1.0 million and $2.0 million, respectively.

As of September 30, 2015 and 2014, the amount of budgetary resources obligated for undelivered orders was $7.5 billion and $7.3 billion, respectively.

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

	For the Year Ended September 30, 2014		
	Budgetary Authority	Obligations Incurred	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 15,866	$ 23,012	$ 15,491
Items included in the Combined Statement of Budgetary Resources, but excluded from the President's budget:			
Obligation from Trust Funds	–	(6,495)	–
Distributed Offsetting Receipts	–	–	6
Obligations of non-reimbursable expired funds	–	(70)	–
Obligations of reimbursable expired funds and Franchise fund	–	(470)	–
Other		(1)	(3)
Budget of the United States Government	$ 15,866	$ 15,976	$ 15,494

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

There is no difference between Budgetary Authority as reported in FAA's FY 2014 Combined Statement of Budgetary Resources and the Budget of the United States Government.

FAA's Combined Statement of Budgetary Resources includes obligations resulting from transfers between the AATF and FAA Operations General Fund which are excluded from the Budget of the U.S. Government. In addition, obligations incurred on the FY 2014 Combined Statement of Budgetary Resources includes $70 million of expired funds and $470 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the U.S. Government. As a result, the FAA's FY 2014 Combined Statement of Budgetary Resources differs from the FY 2014 "actuals" reported in the appendix of the FY 2016 Budget of the U.S. Government. (The Budget of the U.S. Government is available on OMB's Internet web site.) As of the date of issuance of the FAA's FY 2015 Combined Statement of Budgetary Resources, the Budget of the U.S. Government for FY 2017, which will contain "actual" FY 2015 amounts, was not yet published. The OMB is expected to publish this information early in calendar year 2016.

The FAA does not have obligations classified as "exempt from apportionment." However, during FY 2015 and FY 2014, 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:

	2015			2014		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 9,170,216	$ 491,953	$ 9,662,169	$ 7,058,887	$ 451,907	$ 7,510,794
Category B	15,608,844	235,159	15,844,003	15,247,898	253,782	15,501,680
Total	$ 24,779,060	$ 727,112	$ 25,506,172	$ 22,306,785	$ 705,689	$ 23,012,474

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 2014, $7.8 million of obligated balances were in appropriation accounts that were cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2015. Transfers in FY 2015 to the DOT for Essential Air Services also reduced balances available for obligation.

NOTE 15: Liabilities not Covered by Budgetary Resources

Liabilities not covered by budgetary resources are liabilities for which congressional action is needed before budgetary resources can be provided. The following table shows liabilities not covered by budgetary resources as of September 30, 2015 and 2014.

	2015	2014
Intragovernmental		
Federal Employees' Compensation Act payable (Note 8)	$ 183,012	$ 188,580
Other accrued liabilities	11,620	22,655
Total intragovernmental	194,632	211,235
FECA actuarial (Note 10)	864,801	927,453
Unfunded annual & other leave & assoc. benefits (Note 8)	415,599	410,482
Sick leave compensation benefits for eligible employees (Note 8)	63,030	68,174
Legal claims (Note 8 and 16)	14,050	9,700
Environmental liabilities (Note 7 and 16)	962,237	1,010,343
Capital Leases (Note 8 and 9)	67,231	73,190
Other accrued liabilities (Note 8)	20,132	14,388
Total liabilities not covered by budgetary resources	2,601,712	2,724,965
Total liabilities covered by budgetary resources	1,524,148	1,564,465
Total liabilities	$ 4,125,860	$ 4,289,430

NOTE 16: Commitments, Contingencies, and Other Disclosures

Continuing Resolution and Reauthorization. Effective October 1, 2015, the FAA is operating under a continuing resolution (CR), Public Law 114-53 for its FY 2016 appropriation and many of its programmatic and financing authorities. The CR will be in effect through December 11, 2015, unless superseded by enactment of specified appropriations legislation and includes a provision that allows the FAA to collect aviation-related excise taxes and to continue spending at FY 2015 rates. It also provides sufficient contract authority to the Airport Improvement Program.

In addition, the passage of the Airport and Airway Extension Act of 2015, Public Law 114-55, 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 March 31, 2016.

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, 2015, the FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2015, the FAA had obligated $6.4 billion of this total amount, leaving $1.0 billion unobligated.

As of September 30, 2014, the FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2014, the FAA had obligated $6.2 billion of this total amount, leaving $1.2 billion unobligated.

Aviation Insurance Program. Until December 2014, the Aviation Insurance Revolving Fund, a fund from dedicated collections, provided insurance products to address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. On December 11, 2014, Congress allowed the FAA's authority to provide Premium War Risk Insurance to expire.

The FAA continues to provide war risk insurance for certain U.S. Government contracted operations as permitted by 49 USC 44305. Coverage is provided without premium to air carriers at the written request of other U.S. Government agencies. The scope of coverage under this Non-Premium War Risk Insurance program includes hull, bodily injury, personal injury, and property damage. The FAA is currently providing coverage only for certain U.S. Department of Defense (DOD), United States Transportation Command contracted air carrier operations.

Insurance policies are issued on a "standby" basis and become effective for specific air carrier operations only when the FAA activates the policy through a Notice of Effective Coverage. Therefore, total coverage in force fluctuates throughout the fiscal year. The coverage in force at any given point in time does not represent a potential liability against the Aviation Insurance Revolving Fund because the Secretary of Defense has entered into an indemnity agreement with the Secretary of Transportation and will fully reimburse the Fund for all losses paid by the FAA on behalf of DOD.

Legal Claims. As of September 30, 2015 and 2014, the FAA's contingent liabilities for asserted and pending legal claims probable were estimated at $14.1 million and $9.7 million respectively. Pending legal claims reasonably possible as of September 30, 2015 and 2014 were estimated at $94.2 million and $15.6 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, 2015, the FAA estimated contingent liabilities, categorized as reasonably possible at $227.5 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.

The FAA is a party to environmental remediation sites in the Pacific Islands in which the extent of liability is unknown. Studies to determine the magnitude and scope of the remediation required at these sites have not yet commenced. The FAA is also a party to certain environmental remediation sites in New Jersey for which remediation is the responsibility of other federal agencies; therefore, a liability has not been recorded for these sites.

NOTE 17: Reconciliation of the Net Cost of Operations to Budget

The FAA records transactions on both an accrual accounting basis (also called financial or proprietary accounting), and a budgetary accounting basis. The following schedule presents a reconciliation of the resources available to the FAA to finance operations (budgetary accounting basis) and the net cost of operating the FAA programs (financial or proprietary accounting basis).

	2015	2014
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 25,506,172	$ 23,012,474
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	9,674,137	7,660,000
Obligations, net of offsetting collections	15,832,035	15,352,474
Other resources		
Donations and forfeitures of property	40,902	43,784
Transfers in/(out) without reimbursement	87,671	66,183
Imputed financing from costs absorbed by others	402,818	577,031
Other	(16,740)	(42,950)
Net other resources used to finance activities	514,651	644,048
Total resources used to finance activities	16,346,686	15,996,522
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	246,101	104,649
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities)	129,723	167,238
Resources that finance the acquisition of assets	1,222,294	1,350,366
Other resources or adjustments to net obligated resources that do not affect net cost of operations	142,500	78,680
Total resources used to finance items not part of net cost of operations	1,740,618	1,700,933
Total resources used to finance net cost of operations	14,606,068	14,295,589
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	4,763	261,926
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,312,258	1,243,865
Revaluation of Assets or Liabilities	(75,651)	163,821
Other	139,877	132,482
Total components of net cost of operations that will not require or generate resources	1,376,484	1,540,168
Total components of net cost of operations that will not require or generate resources in the current period	1,381,247	1,802,094
Net cost of operations	$ 15,987,315	$ 16,097,683

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	2015	2014	2013	2012	2011
Alabama	$ 58,003	$ 68,873	$ 69,580	$ 54,765	$ 41,267
Alaska	150,992	196,013	211,385	234,242	185,504
Arizona	55,673	70,454	59,764	73,272	81,577
Arkansas	28,517	37,698	54,673	35,746	58,152
California	294,193	247,861	231,174	212,080	242,701
Colorado	70,830	88,470	95,027	74,102	115,029
Connecticut	25,031	12,527	21,374	16,637	20,654
Delaware	3,772	8,645	15,745	5,352	8,240
District of Columbia	14,549	32,924	5,354	44,565	7,862
Florida	185,794	132,904	159,803	160,509	143,266
Georgia	59,366	61,635	69,999	90,864	84,877
Hawaii	30,589	59,741	29,153	29,024	29,391
Idaho	35,386	32,652	23,593	18,813	21,529
Illinois	143,517	177,562	178,873	161,320	120,826
Indiana	59,537	70,292	79,478	42,460	68,204
Iowa	33,382	42,889	58,577	41,221	31,191
Kansas	31,642	34,803	51,988	31,476	24,293
Kentucky	46,917	33,301	37,744	24,432	25,941
Louisiana	37,298	34,447	50,276	55,676	63,079
Maine	24,057	19,712	35,512	18,257	26,882
Maryland	38,188	25,256	32,286	15,011	21,000
Massachusetts	37,243	60,985	53,349	66,044	55,491
Michigan	76,793	69,114	72,910	76,900	85,698
Minnesota	38,233	34,448	53,843	48,313	54,819
Mississippi	37,642	38,658	41,555	35,713	60,065
Missouri	41,382	46,280	55,522	46,445	38,719
Montana	29,158	27,503	44,474	48,128	36,530
Nebraska	48,299	30,446	31,781	34,711	50,130
Nevada	42,394	31,310	36,441	50,051	45,926
New Hampshire	10,756	10,940	17,623	21,070	14,752
New Jersey	39,491	59,786	99,443	47,444	75,939
New Mexico	28,783	22,869	27,787	26,163	26,387

(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	2015	2014	2013	2012	2011
New York	$ 83,194	$ 72,170	$ 98,699	$ 94,424	$ 93,252
North Carolina	75,198	75,162	101,080	51,337	77,725
North Dakota	45,644	37,970	53,066	28,723	23,127
Ohio	63,469	57,037	81,205	79,962	97,423
Oklahoma	34,523	30,764	59,213	37,892	41,488
Oregon	33,364	51,353	58,929	36,671	56,134
Pennsylvania	71,483	69,832	53,146	82,029	91,215
Rhode Island	42,722	16,190	11,939	3,675	8,059
South Carolina	49,729	37,411	54,621	49,512	56,367
South Dakota	27,702	25,208	39,320	32,712	29,846
Tennessee	73,043	70,404	84,893	59,545	75,136
Texas	217,574	239,187	235,366	195,321	240,380
Utah	49,761	57,880	59,188	42,705	49,029
Vermont	18,028	11,964	8,661	9,998	26,103
Virginia	40,712	50,364	60,272	42,571	32,379
Washington	67,474	61,151	79,861	89,797	120,976
West Virginia	26,942	19,037	24,015	26,544	27,167
Wisconsin	58,612	56,064	75,601	51,167	65,061
Wyoming	35,191	26,084	30,746	20,108	22,845
American Samoa	5,839	1,743	2,795	4,952	12,315
Guam	-	13,550	10,324	3,238	11,952
Northern Mariana Island	9,662	9,657	17,070	5,714	10,502
Puerto Rico	7,720	11,820	18,303	11,492	6,569
Virgin Islands	9,327	10,640	31,012	2,545	16,076
Marshall Island	5,132	7,157	4,226	2,669	4,463
Administration	150,165	148,652	143,312	133,576	127,202
Totals	$ 3,159,617	$ 3,189,449	$ 3,602,949	$ 3,139,685	$ 3,388,712

The FAA makes project grants for airport planning and development under the Airport Improvement Program, in order 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	2015	2014	2013	2012	2011
Applied Research	$ 106,363	$ 155,883	$ 119,952	$ 133,932	$ 129,954
Development	93,972	40	312	1,311	2,238
Administration	34,321	32,572	35,929	37,482	35,875
R&D Plant	17,711	12,479	26,086	18,974	5,848
Total	**$ 252,367**	**$ 200,974**	**$ 182,279**	**$ 191,699**	**$ 173,915**

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 improved aircraft structures and materials; enhanced fire and cabin safety; greater crash injury protection; more sensitive explosive detection systems; ground de-icing operations and less in-flight ice buildup; better tools to predict and warn of weather hazards, turbulence, and wake vortices; aviation medicine; and optimized human factors. 'Human factors' refers to research on how people (e.g., air traffic controllers, pilots, and others) perform when interacting with, for example, aviation technology and equipment, under various stressful conditions. Optimizing this interaction will contribute to safer air travel.

The Development of a Flame Propagation Test Method for Composite Fuselage Structure

The increasing use of composite materials as primary and secondary structures in commercial airplanes presents unique certification challenges for the FAA. FAA's cabin interior fire test requirements have increased in recent years to protect against fires in inaccessible areas. raditional metallic structures do not react with fires and, therefore, have not been required to meet any of the FAA's cabin interior fire test requirements. However, a composite airplane has large surface areas of composite materials in inaccessible areas, potentially introducing flammability hazards into those areas, where fire detection and extinguishment is difficult. By mandating that the composite structural materials must be resistant to propagating flames and self-extinguishing when exposed to a moderately sized fire, the FAA can ensure that a fire in an inaccessible area will be localized and short-lived, allowing for continued safe flight and landing of the airplane.

To date, the FAA has imposed special conditions to certify composite fuselage airplanes for flame propagation resistance. These special conditions are typically met by placing a moderately sized fire adjacent to a representative composite skin and structure test article. After the fire source is burned completely, the test article is inspected for visible evidence of flame propagation along its surface, which is evidenced by regions of delamination and exposed carbon fibers. If the fire remained in a localized area and did not travel extensively along the composite, then the material is considered to be safe for use in inaccessible areas. Although the Special Conditions are an adequate safety determination means, a more standardized and universally-applicable evaluation method was developed to use for future composite fuselage certification applications.

A recent study, detailed in FAA report *DOT/FAA/TC-TN15/1*, at: (***http://www.fire.tc.faa.gov/pdf/TC-TN-15-1.pdf***) evaluated the effect of the composite panel thickness and external ambient conditions on inboard surface flame propagation. A variety of composite samples were evaluated, all produced from the same unidirectional carbon epoxy prepregs with toughened 350°F epoxy system, ranging in thickness from 0.044-inch to 0.3675-inch for the solid laminates and a honeycomb panel with 4 plies of carbon epoxy bonded to a 1-inch thick aramid honeycomb core. The results from this test series indicate that the relative flammability of a composite material is dependent on the rate of heat dissipation from the flame-impinged surface.

Rapid Decompression as a Worst Case Scenario

Sudden decompression of an airliner passenger cabin due to structural failure or damage is unlikely, but it poses a potentially life-threatening event for occupants. The Aerospace Medical Research Division of the Civil Aerospace Medical Institute investigated a worst-case scenario, where the passenger fails to receive supplemental oxygen during a rapid decompression and the subsequent emergency descent to 25,000 ft. required by FAA policy.

The research question was whether an individual's oxygen stores will be depleted prior to the aircraft descending to an altitude that will permit inward fluxes of oxygen that exceed the resting oxygen consumption requirement. The experimental protocol included the following: exposure of 24 human subject volunteers to normobaric (sea level) instantaneous decompressions to a simulated altitude of 35,000 ft. The peak altitude was maintained for 10 s, followed by a 5000 ft. /min descent to 25,000 ft. Resting oxygen consumption was measured prior to the hypoxia exposure. During each trial, tidal volume, respiratory rate, breath-by-breath inhalation, and end-tidal oxygen, carbon dioxide, and nitrogen tensions were measured. The net directional oxygen flux was also computed.

All subjects had an initial reversal of the direction of oxygen flux following the rapid decompression that persisted until after the descent commenced with outward flux predominating at higher altitudes of the profile. Return to net inward flux almost always occurred near 29,000 ft., the altitude at which the mixed venous and alveolar oxygen partial pressure gradient approximates nil. The inward flux of oxygen approached but never surpassed each subject's resting oxygen consumption as the altitude approached the 25,000 ft. endpoint. Based on these data, computational methods were used to predict the oxygen fluxes that would have occurred during normobaric exposures to 40,000 and 45,000 ft., along with Boyle's law effects expected during an actual rapid decompression.

Shown was that in a cohort of 24 healthy young adults, exposure to a normobaric rapid decompression to simulated 35,000 ft., followed by the two-min FAA flight profile, the total inward oxygen flux was less than resting oxygen consumption requirements but did not exceed theoretical exchangeable reserves. These data are unique—the first to result from actual human exposure to the descent profile required by FAA policy.

Permitting airplanes to fly above 40,000 ft. does offer real and tangible benefits to the aerospace industry, the traveling public, and the U.S. economy by reducing air traffic congestion, pollution, and improving fuel economy. The results of this research serve to quantitatively define the risk associated with a high altitude decompression and may be useful in future policy decisions.

Self DA, Shaffstall RM, Mandella JG, Paskoff LM, White V, Burian D. *Human Responses to a Simulated 35,000Foot Instantaneous Decompression and the Subsequent Descent Profile Required by FAA Policy*. DOT/FAA/AM-15/8 (April 2015).

Develop Methods to Account for Regional Climate Impact of Aviation Emissions

Metrics are commonly used for quantifying the impact of human activity on climate. Metrics, such as the Global Warming Potential, are tools for aggregating information and for placing emissions of different components on a common scale. They are particularly useful when comparing and evaluating the climate effects of several species; sources or sectors and they are frequently applied to assess the global consequences of possible mitigation measures. Traditionally, metrics use globally-averaged input to produce globally-averaged measures and give no information about the spatial variability of the impact. Many perturbations of atmospheric species, especially short-lived ones, produce a distinctly heterogeneous radiative forcing and response, and the latter can be strongly dependent on the location of the forcing. Therefore, metrics to provide estimates of impacts on a regional scale need to be developed.

One of the metrics to provide estimates of impacts on a sub-global scale is the Regional Temperature Change Potential (RTP). RTP is an emission metric that provides time-varying surface temperature response to emissions in four latitude bands, accounting for the regional radioactive forcing caused by the emissions. The RTP is analogous to the Global Temperature change Potential, which provides an estimate of the global mean temperature response to a given emission based on that emission's global mean radioactive forcing as a function of time. The RTP provides additional insight into the spatial pattern of temperature response to inhomogeneous forcing beyond that available from traditional global metrics.

REQUIRED SUPPLEMENTARY INFORMATION

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

DEFERRED MAINTENANCE AND REPAIRS

As of September 30, 2015
Unaudited

Category	Description	Facility condition is <	Cost to return to acceptable condition: Beginning balance	Cost to return to acceptable condition: Ending balance
Staffed Facilities				
Tier 1	ARTCCs, ATCT/TRACONs at major airports	95%	$ 143,880	$ 163,907
Tier 2	WJHTC and MMAC	95%	33,390	38,003
Tier 3	ATCT/TRACONs at all non-major airports	90%	42,260	47,471
Unstaffed Facilities				
Tier 1	Long range radars	95%	57,240	65,000
Tier 2	Unstaffed infrastructure and fuel storage tanks	90%	499,600	565,700
	Total		$ 776,370	$ 880,081

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.

Effective beginning in FY 2015, the FAA adopted SFFAS No. 42, *Deferred Maintenance and Repairs: Amending SFFAS No. 6, 14, 29, and 32*. Consistent with SFFAS No. 42, the FAA's reporting of deferred maintenance includes facilities critical to the operations of our national's airspace that have a Facilities Condition Index (FCI) score between 90-95 percent--meaning that they must be maintained at 90-95 percent of prescribed levels to be considered in fair condition or better. Long range radar facilities and fuel storage tank facilities are also included.

Deferred maintenance and repair is estimated using condition assessment surveys to establish FCI scores and life cycle cost forecasts. The estimates include the following FAA buildings, structures, and facilities: Air Route Traffic Control Centers (ARTCCs), Air Traffic Control Towers (ATCTs), Terminal Radar Approach Control (TRACON) facilities, the William J Hughes Technical Center (WJHTC), the Mike Monroney Aeronautical Center (MMAC), long range radar facilities, fuel storage tanks, and unstaffed infrastructure facilities.

Deferred maintenance is reported among two categories: staffed facilities and unstaffed facilities. Staffed facilities that directly support air traffic control operations are assessed for deferred maintenance and lifecycle costs on a rotating basis by a qualified engineering firm. Deferred maintenance for unstaffed infrastructure facilities is determined by facility surveys and are assessed as poor, fair, good or excellent.

Deferred maintenance estimates for long range radar facilities supporting critical airspace system facilities were computed through actual on site facility assessments based on the Plant (facility) Replacement Value (PRV) as estimated by the long-range radar planning and requirements specialist located in FAA's service centers. Deferred maintenance calculations for fuel storage tanks are determined based on the age of the structure.

The FAA recognizes maintenance and repair expenses as incurred.

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

RISK ASSUMED INFORMATION

As of September 30, 2015

Unaudited

As discussed in Note 16 on page 100, the FAA has authority to provide non-premium war risk insurance to commercial airlines for certain operations contracted by the U.S. Government. Insurance policies are "standby" and become effective when the FAA activates the policy on an episodic basis for operations contracted by the U.S. Department of Defense, United States Transportation Command. FAA management does not consider the net present value of risks assumed from Aviation Insurance Program coverage to be material to the financial statements.

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2015
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	$ 144,175	$ 1,322,493	$ 71,762	$ 2,145,164	$ 185,648	$ 136,648	$ 30,629	$ 4,036,519
Recoveries of prior year obligations	164,521	82,880	1,939	74	39,881	82,926	104	372,325
Other changes in unobligated balance	–	(21,220)	(1,332)	–	–	(33,570)	(29,503)	(85,625)
Appropriations	–	2,600,000	156,761	–	–	1,145,700	8,611,375	12,513,836
Contract authority	3,220,000	–	–	–	–	–	–	3,220,000
Spending authority from offsetting collections	845	64,731	2,814	(6,212)	450,692	8,771,011	247	9,284,128
Total Budgetary Resources	$ 3,529,541	$ 4,048,884	$ 231,944	$ 2,139,026	$ 676,221	$ 10,102,715	$ 8,612,852	$ 29,341,183
Status of Budgetary Resources								
Obligations incurred	$ 3,514,187	$ 2,757,941	$ 165,706	$ 7,484	$ 491,953	$ 9,957,901	$ 8,611,000	$ 25,506,172
Apportioned	988	1,238,702	62,105	41,414	177,706	53,812	1,535	1,576,262
Unapportioned	14,366	52,241	4,133	2,090,128	6,562	91,002	317	2,258,749
Total Status of Budgetary Resources	$ 3,529,541	$ 4,048,884	$ 231,944	$ 2,139,026	$ 676,221	$ 10,102,715	$ 8,612,852	$ 29,341,183
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,209,502	$ 1,475,001	$ 131,565	$ 1,727	$ 177,611	$ 1,366,694	$ 2,075	$ 8,364,175
Obligations incurred	3,514,187	2,757,941	165,706	7,484	491,953	9,957,901	8,611,000	25,506,172
Gross outlays	(3,140,932)	(2,681,408)	(158,953)	(7,955)	(454,783)	(9,900,958)	(8,612,970)	(24,957,959)
Recoveries of prior year obligations	(164,521)	(82,880)	(1,939)	(74)	(39,881)	(82,926)	(104)	(372,325)
Change in uncollected customer payments from federal sources	–	(3,224)	(314)	–	(1,688)	36,080	–	30,854
Obligated Balance, net, end of period	$ 5,418,236	$ 1,465,430	$ 136,065	$ 1,182	$ 173,212	$ 1,376,791	$ 1	$ 8,570,917
Budget Authority and Outlays								
Budget authority, gross	$ 3,220,845	$ 2,664,731	$ 159,575	$ (6,212)	$ 450,692	$ 9,916,711	$ 8,611,622	$ 25,017,964
Actual offsetting collections	(845)	(61,506)	(2,501)	6,212	(449,004)	(8,807,092)	(246)	(9,314,982)
Change in uncollected customer payments from federal sources	–	(3,225)	(314)	–	(1,688)	36,081	–	30,854
Budget Authority, net	$ 3,220,000	$ 2,600,000	$ 156,760	$ –	$ –	$ 1,145,700	$ 8,611,376	$ 15,733,836
Net Outlays								
Gross outlays	$ 3,140,932	$ 2,681,408	$ 158,953	$ 7,955	$ 454,783	$ 9,900,958	$ 8,612,970	$ 24,957,959
Collections, net of offsetting receipts	(845)	(61,506)	(2,500)	6,212	(449,004)	(8,807,092)	(247)	(9,314,982)
Distributed offsetting receipts	–	–	–	–	–	–	(7,849)	(7,849)
Net Outlays	$ 3,140,087	$ 2,619,902	$ 156,453	$ 14,167	$ 5,779	$ 1,093,866	$ 8,604,874	$ 15,635,128

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2014
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	$ 15,363	$ 1,168,784	$ 90,343	$ 2,011,747	$ 121,129	$ 149,005	$ 50,431	$ 3,606,802
Recoveries of prior year obligations	112,479	55,973	3,151	–	24,569	102,358	76	298,606
Other changes in unobligated balance	–	(29,131)	(1,829)	–	–	(42,372)	(19,867)	(93,199)
Appropriations	–	2,600,000	132,646	–	–	3,156,214	6,496,604	12,385,464
Contract authority	3,480,000	–	–	–	–	–	–	3,480,000
Spending authority from offsetting collections	634	61,965	2,315	147,374	491,858	6,667,139	26	7,371,311
Total Budgetary Resources	$ 3,608,476	$ 3,857,591	$ 226,626	$ 2,159,121	$ 637,556	$ 10,032,344	$ 6,527,270	$ 27,048,984
Status of Budgetary Resources								
Obligations incurred	$ 3,464,301	$ 2,535,098	$ 154,873	$ 13,957	$ 451,907	$ 9,895,697	$ 6,496,641	$ 23,012,474
Apportioned	1,956	1,262,020	67,186	32,942	185,649	52,485	78	1,602,316
Unapportioned	142,219	60,473	4,567	2,112,222	–	84,162	30,551	2,434,194
Total Status of Budgetary Resources	$ 3,608,476	$ 3,857,591	$ 226,626	$ 2,159,121	$ 637,556	$ 10,032,344	$ 6,527,270	$ 27,048,984
Change in Obligated Balances								
Obligated balance, net, beginning of period	$ 5,117,315	$ 1,775,217	$ 131,083	$ 1,601	$ 146,206	$ 1,345,184	$ 1,318	$ 8,517,924
Obligations incurred	3,464,301	2,535,098	154,873	13,957	451,907	9,895,697	6,496,641	23,012,474
Gross outlays	(3,259,635)	(2,806,609)	(150,283)	(13,831)	(409,688)	(9,784,043)	(6,495,822)	(22,919,911)
Recoveries of prior year obligations	(112,479)	(55,973)	(3,151)	–	(24,569)	(102,358)	(76)	(298,606)
Change in uncollected customer payments from federal sources	–	27,269	(957)	–	13,755	12,227	–	52,294
Obligated Balance, net, end of period	$ 5,209,502	$ 1,475,002	$ 131,565	$ 1,727	$ 177,611	$ 1,366,707	$ 2,061	$ 8,364,175
Budget Authority and Outlays								
Budget authority, gross	$ 3,480,634	$ 2,661,965	$ 134,961	$ 147,374	$ 491,858	$ 9,823,353	$ 6,496,630	$ 23,236,775
Actual offsetting collections	(634)	(89,234)	(1,358)	(147,374)	(505,613)	(6,679,366)	(26)	(7,423,605)
Change in uncollected customer payments from federal sources	–	27,269	(957)	–	13,755	12,227	–	52,294
Budget Authority, net	$ 3,480,000	$ 2,600,000	$ 132,646	$ –	$ –	$ 3,156,214	$ 6,496,604	$ 15,865,464
Net Outlays								
Gross outlays	$ 3,259,635	$ 2,806,609	$ 150,283	$ 13,831	$ 409,688	$ 9,784,043	$ 6,495,822	$ 22,919,911
Collections, net of offsetting receipts	(634)	(89,234)	(1,358)	(147,374)	(505,613)	(6,679,366)	(26)	(7,423,605)
Distributed offsetting receipts	–	–	–	–	–	–	(5,700)	(5,700)
Net Outlays	$ 3,259,001	$ 2,717,375	$ 148,925	$ (133,543)	$ (95,925)	$ 3,104,677	$ 6,490,096	$ 15,490,606

OTHER INFORMATION

NASA's Orion spacecraft floats in the Pacific Ocean after splashdown from its first flight test in Earth orbit, to test systems critical to crew safety, including the launch abort system, the heat shield and the parachute system. December 5, 2014, San Diego, California. Photo credit: NASA/Tony Gray

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Financial Statement 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 2015 audit.

TABLE 1: Summary of Financial Statement Audit

Audit Opinion	FY 2015-unmodified				
	FY 2014-unmodified				
Restatement	No				
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	0	0	0	0	0

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					
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

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

Conform with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Systems conformance to financial management system requirements					
Non-conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Conformance of 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
	Yes	Yes
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	No noncompliance noted	No noncompliance noted
3. USSGL at Transaction Level	No noncompliance noted	No noncompliance noted

SUMMARY OF IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002 (P. L. 107-300) 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 (P. L. 111-204). IPERA strengthens the requirements for government agencies to carry out cost-effective programs for identifying and recovering overpayments, also known as "recapture auditing." Throughout FY 2015, the FAA continued implementing the most recent amendment to IPIA, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P. L. 112-248). The FAA has completed the implementation of the new reporting requirements created by IPERIA for FY 2015.

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 IPERIA. 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.

The OMB issued M-13-07, Accountability for Funds Provided by the Disaster Relief Appropriations Act (DRAA), dated March 12, 2013 that required agencies to manage DRAA funds with the same discipline and rigor as programs that are traditionally designated as susceptible to significant improper payments under IPERIA. These Facilities and Equipment—DRAA funds were part of a separate population sampled and ultimately tested to the same extent as the high-risk programs.

FY 2015 Improper Payment Challenges

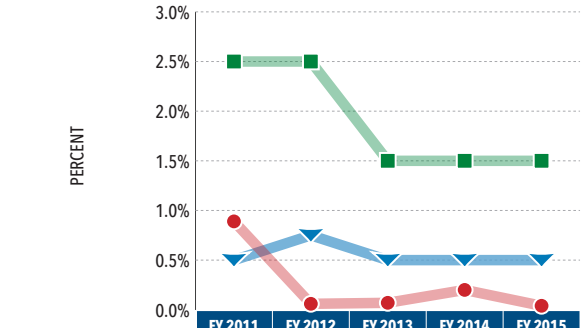
The FAA's Airport Improvement Program (AIP) provides grants for airport planning and development to help maintain a safe and efficient nationwide system of public airports. Grants are issued to maintain and enhance airport safety, preserve existing infrastructure, and expand capacity and efficiency throughout the system. FY 2015 outlays for the program were $3.13 billion.

The applicable laws define a program as susceptible to significant improper payments when estimated improper payments (as determined by a statistical computation) exceed 1.5 percent and $10 million of outlays, or $100 million regardless of the error rate. The FAA has worked aggressively to maintain a low level of improper payments. For FY 2015, AIP reports an improper payments estimate of 0.04 percent—four hundredths of one percent. In other words, of every $10,000 of AIP grant payments, about $4 is estimated to be improper. This is substantially lower than government-wide improper payments estimates and the statutory improper payments threshold. AIP has been considered susceptible to significant improper payments—not because of historical improper payment rates—but because of the large size of the program and the diversity of the grant recipients.

Each year, the improper payments target is to be reduced from the prior year's estimated improper payments. However, with an improper payments rate at four hundredths of one percent, there is limited opportunity to reduce the level further. The FAA is concerned that continuing to reduce the targets toward zero could cost more in administrative resources than the further reduction would justify. Moreover, administrative funding for managing the program remains flat, while operating expenses increase with inflation, thereby effectively reducing the resources available to achieve progressively reduced improper payment rates.

The chart below presents AIP improper payment rates from FY 2011 to FY 2015. The upper line marks the statutory improper payments (IP) threshold, the bottom line marks the statistical computation of estimated AIP improper payments, and the middle line denotes the improper payments reduction target. As the chart illustrates, there is literally little space left beneath FY 2015 estimated improper payments for establishing further reduced targets.

FAA AIRPORT IMPROVEMENT PROGRAM
Improper Payment Rates



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
IP% Statistically Projected IP Estimate	0.89%	0.06%	0.07%	0.20%	0.04%
IP % Reduction Target	0.50%	0.75%	0.50%	0.50%	0.50%
IP % Statutory Threshold	2.50%	2.50%	1.50%	1.50%	1.50%

In FY 2012, AIP achieved an improper payments estimate of .065 percent. Recognizing the limited opportunity for continued reductions, FAA established a baseline target beginning in FY 2013 of .5 percent. While this was an aggressive target and lower than the FY 2012 target, it was not less than the FY 2012 estimate. In FY 2014 and FY 2015, given the disproportionate expenditure of limited resources needed to progressively reduce the target, FAA flat lined the target at .5 percent. FAA continued to work diligently and in FY 2015, the improper payments estimate of .04 percent was the lowest in the history of measuring the rate. Moving away from the flat lined target to a reduction target below the historical low achieved in FY 2015 brings the FY 2016 target down to .038 percent—no more than $3.80 of every $10,000 of AIP grant payments. While FAA strives to ensure that no improper payments ever occur, the criteria in the laws require that, for example, payments insufficiently documented are included in the improper payments estimate. The primary cause for AIP payments considered to be improper has been insufficient documentation maintained by AIP grant recipients. This renews concerns that progressively reducing targets approaching zero requires a disproportionate expenditure of limited resources and is perhaps not cost beneficial. As a result, in FY 2016, the FAA plans to engage in discussions with OMB regarding alternatives to the current reporting and reduction target requirements.

Federal Aviation Administration (FAA) Process

The FAA's process for complying with IPERIA 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 occurrence of future improper payments

For FY 2015 reporting, the FAA conducted the above four-step process for the 12-month period of October 1, 2013 to September 30, 2014 for high risk programs and for the same 12-month period for Facilities and Equipment—DRAA funds.

I. Risk Assessment

The DOT has completed a department-wide risk assessment for reporting in FY 2015, which includes FAA programs and funding activities. This assessment identified AIP as high-risk for FY 2015 due to the volume of payments made annually, coupled with the fact that federal funds within these programs are further administered outside the agency by local governments and/or airport sponsors. During the FY 2015 department-wide improper payment risk assessment, the following FAA funding activities were reviewed:

- Airport Improvement Program (AIP)
- Franchise Fund
- Facilities and Equipment (F&E)
- Operations General Fund
- Personnel Compensation & Benefits
- Research, Engineering and Development

The susceptibility of programs making significant improper payments is determined by qualitative and quantitative factors. For quantitative factors, DOT reviewed the total expenditures for each funding activity to determine if the volume of transactions

may result in an error rate of 1.5 percent and $10 million, or $100 million. The qualitative factors were developed in accordance with the IPERA requirements and included the following:

- Payment processing controls
- Age of the program
- Operating environment
- Quality of internal monitoring controls
- Complexity of the program
- Additional grant program factors
- Human Capital
- Nature of payments and recipients
- Contract Payment Management

Based on the results of this risk assessment, the FAA has determined that AIP is still considered the only FAA high-risk program that should also be classified as high-risk for the purposes of improper payment reporting.

While a risk assessment was not performed for FAA's DRAA activities, these disbursements are considered high-risk based on the DRAA and were thus included in FAA's scope for testing for FY 2015.

II. Statistical Sampling

The FAA obtained the data extracts from a single source, the DOT's financial system of record, Delphi. The AIP sampling approach did not change significantly from last year. However, DRAA funds sampling approach was changed from a multi-stage to a single-stage approach. This decision was made because a multi-stage sampling approach in FY 2014 yielded a lower sample size than anticipated. DOT's Office of Financial Management (OFM) recertified and submitted the DRAA funds sample plan to OMB.

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.

III. Improper Payment Reporting

Table 1 summarizes improper payments for the FAA's high risk programs, AIP and the DRAA. Improper payment percent (IP%) and improper payment dollar (IP$) results are provided from the prior year's as well as the current year's testing of payments. Data for the projected future year is based on the timing and significance of completing corrective actions

TABLE 1: Improper Payments Reduction Outlook
(Dollars in Millions)

Program or Activity	PY Outlays*	PY IP %	PY IP $	CY Outlays	CY IP %	CY IP $	CY Over-payment $	CY Under-payment $	CY + 1 Est. Outlays	CY + 1 Est. IP %	CY + 1 Est. IP $	CY + 2 Est. Outlays	CY + 2 Est. IP %	CY + 2 Est. IP $	CY + 3 Est. Outlays	CY + 3 Est. IP %	CY + 3 Est. IP $
	2014 Testing (Based on FY 2013/FY 2014 Actual Data)			2015 Testing (Based on FY 2014 Actual Data)					2016 Testing (Based on FY 2015 Actual and Estimated Data)			2017 Testing (Based on FY 2016 Estimated Data)			2018 Testing (Based on FY 2017 Estimated Data)		
FAA AIP	$2,752.150	0.20%	$5.600	$3,117.078	0.04%	$1.265	$1.190	$0.075	$3,168.372	0.038%	$1.204	$3,652.000	0.037%	$1.351	$3,428.000	0.036%	$1.234
FAA F&E - DRAA	$ 4.430	0.00%	$ –	$ 9.582	0.00%	$ –	$ –	$ –	$ 5.428	0.00%	$ –	$ 2.810	0.00%	$ –	$ –	0.00%	$ –
Total	$2,756.580	0.20%	$5.600	$3,126.660	0.04%	$1.265	$1.190	$0.075	$3,173.800	0.038%	$1.204	$3,654.810	0.037%	$1.351	$3,428.000	0.036%	$1.234

**The testing period for 2014 Testing was 4/1/2013 to 3/31/2014.*

IV. Improper Payment Root Cause Categories

Beginning in FY 2015, OMB requires agencies report their improper payments in more detail. The following table (Table 2) includes the required categories and reports the results of the AIP and DRAA program funds testing for FY 2015.

TABLE 2: Improper Payment Root Cause Category Matrix
(Dollars in Millions)

Reason for Improper Payment		FAA AIP		FAA F&E - DRAA	
		Overpayments	Underpayments	Overpayments	Underpayments
Program Design or Structural Issue		$ –	–	$ –	$ –
Inability to Authenticate Eligibility		$ –	–	$ –	$ –
Failure to Verify:	Death Data	$ –	–	$ –	$ –
	Financial Data	$ –	–	$ –	$ –
	Excluded Party Data	$ –	–	$ –	$ –
	Prisoner Data	$ –	–	$ –	$ –
	Other Eligibility Data	$ –	–	$ –	$ –
Administrative or Process Error Made by:	Federal Agency	$ –	–	$ –	$ –
	State or Local Agency	$ 0.000	0.075	$ –	$ –
	Other Party	$ –	–	$ –	$ –
Medical Necessity		$ –	–	$ –	$ –
Insufficient Documentation to Determine:		$ –		$ –	
Federal Agency		$ –		$ –	
State or Local Agency		$ 1.190		$ –	
Other Party		$ –		$ –	
Other Reason (a) *(explain)*		$ –	–	$ –	$ –
Other Reason (b) *(explain)*		$ –	–	$ –	$ –
Total		$ 1.190	$ 0.075	$ –	$ –

V. Corrective Actions

Because improper payments were beneath the high risk threshold, formal corrective action plans will not be developed. However, FAA will work with grantees for which improper payments were identified due to administrative errors and lack of sufficient documentation, to further reduce the risk of improper payments.

VI. Internal Control Over Payments

Beginning in FY 2015, and consistent with OMB A-123, Appendix C guidance, FAA has summarized the status of internal controls over improper payments using: (1) a narrative explaining efforts undertaken to provide reasonable assurance that controls are in place and working; and (2) the Status of Internal Controls. Since the reported improper payments were under the threshold of being considered high-risk, FAA is not required to publish the Status of Internal Controls Table.

VII. Accountability

The FAA's goals and requirements of IPERIA were communicated to personnel at all levels of the organization that are held responsible and accountable for reducing and recovering improper payments, including grantees.

The FAA has an existing control process with the OMB Circular A-123, Appendix A, Management's Responsibility for Internal Control, 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 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 and a sponsor-level risk assessment performed by FAA, 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. Barriers

The FAA does not have or foresee statutory or regulatory barriers that may limit FAA's corrective actions in reducing improper payments.

X. Recapture of Improper Payments Reporting

DOT's OFM performed a Department-wide payment recapture audit which included FAA's programs and activities. OFM worked with the Enterprise Services Center (ESC) to initiate recovery of any FAA overpayments and identify payment process weaknesses. In FY 2015, OFM and ESC detected a rise in overpayments associated DOT's Delphi eInvoicing System. DOT plans to take corrective action by developing preventive controls that identify potential overpayments prior to payment. Since the overpayments identified in FY 2015 were of immaterial amounts, DOT determined that it was not cost-effective to break them down by agency (i.e., FAA) and therefore reported results at the departmental level only (in the DOT's Agency Financial Report).

XI. Additional Comments

The FAA is implementing lessons learned from the past seven years of testing AIP improper payments. For example, the FAA continues to communicate and train grantees on areas of improvement to prevent improper payments. These efforts have resulted in a low improper payment percentage rate and dollar amount for the current year. In FY 2016, FAA plans to discuss our future year outlook goals with OMB and may adjust them by determining a baseline threshold rather than showing each year as a further reduction. Results are already significantly below the statutory threshold so the FY2015 future goals may not be realistic.

XII. Agency reduction of improper payments with the Do Not Pay Initiative

FAA and grant recipients are all aware of the Do Not Pay Initiative. Statements in both the AIP Master Grant Agreement, along with numerous mentions in each recipient's individual grant agreement, display FAA's commitment to maintaining compliance with the Do Not Pay Initiative requirements. Additionally, at the DOT level, commitment to prioritizing the Do Not Pay Initiative can be seen through the implementation of the reporting requirements of IPERIA Section 5, and the agency-wide risk assessment to identify high risk programs tri-annually. DOT determined that it was not cost-effective to report this review by agency and therefore reported results at the departmental level (in the DOT's Agency Financial Report).

COMBINED SCHEDULE OF SPENDING

The following schedule presents an overview of the major categories of FAA's obligations and spending. The data used to populate this schedule are the same underlying data reported in the Statement of Budgetary Resources. For the years ended September 30, 2015 and 2014, total budgetary resources and spending (obligations) were:

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION
Unaudited

	For the Years Ended September 30	
	2015	**2014**
Total resources available to spend	$ 29,341,183	$ 27,048,984
Less amount available but not agreed to be spent	1,576,262	1,602,316
Less amount not available to be spent	2,258,749	2,434,194
Total amounts agreed to be spent	$ 25,506,172	$ 23,012,474
Major spending categories		
Personnel compensation and benefits	$ 7,597,842	$ 7,432,515
Contractual services and supplies	5,484,502	5,368,636
Acquisition of assets	391,688	362,530
Grants and fixed charges	3,424,343	3,357,093
Other	8,607,797	6,491,700
Total amounts agreed to be spent	$ 25,506,172	$ 23,012,474
Total amounts agreed to be spent	$ 25,506,172	$ 23,012,474

FREEZE THE FOOTPRINT

In FY 2013, the Office of Management and Budget (OMB) enacted a "Freeze the Footprint" policy to control utilization and spending associated with real property. Federal agencies must maintain—and eventually reduce—the total square footage of their domestic office and warehouse inventory compared to a baseline of FY 2012 reported levels. The goal is to control taxpayer expense by reducing real property costs through reduction of square footage and leasing costs while utilizing space more efficiently.

The policy led to the establishment of new controls affecting the FAA's space management.

Over the past two years, the DOT has enhanced its real property stewardship by moving toward an approach of managing its entire portfolio of real estate collectively—across all component operating administrations of the department rather than lease-by-lease, building-by-building, or by operating administration (such as the FAA). We have supported the "Freeze the Footprint" initiative and the DOT-wide Real Property Efficiency Plan, by actively pursuing the reduction of FAA real estate space, thereby decreasing our square footage. We anticipate further space reductions as we move into the next phase of the initiative called "Reduce the Footprint" effective in FY 2016. Some of the significant efforts are as follows:

- We are participating in DOT-wide, cross organizational reviews of administrative space, to pursue multiple space consolidation opportunities. We are doing this, for example, through participating in GSA's Client Portfolio Planning (CPP) at the FAA level, and through strategic planning. These efforts have produced projects (both in progress and planned) such as the FAA's regional office consolidations/reductions of space in New York, Seattle, Los Angeles, Alaska, Fort Worth and Atlanta; consolidation of several cross-organizational DOT offices into the Fallon Federal Building in Baltimore; and, consolidation of FAA's headquarters leases in Washington, D.C.
- To control lease costs, new and renewed leases have been placed under increased scrutiny to ensure assets are being efficiently utilized, assets support a broader portfolio strategic plan, and negotiated lease terms are competitive with market rates.
- We also have been disposing of certain legacy unmanned navigation and communication sites, thereby reducing the inventory of real property assets and associated operating costs.

FAA's FY 2014 annual operating costs related to direct leased and owned space as reported in the DOT-wide Federal Real Property Profile (FRPP) were:

Annual Operating Costs
(Dollars in Thousands)

	2014
Leased space*	$ 79,929
Owned and otherwise managed space	5,169
Total annual operating costs	$ 85,098

**The annual operating costs of leased space consist of $66,368 thousand of annual rent to lessors and $13,561 thousand of other operating costs.*

Table 1 is a summary of the total square footage of owned and direct lease assets in FY 2014 as compared to the FY 2012 baseline, and shows that FAA's space has been reduced by 251 thousand square feet over that time period. Table 2 presents progress with reducing annual operating costs by $3,742 thousand.

TABLE 1: Freeze the Footprint Progress
FY 2012 Baseline to FY 2014
Owned and Direct Lease Real Property
(Square Footage in Thousands)

	FY 2012	FY 2014	Change
Square Footage	9,292	9,041	(251)

TABLE 2: Freeze the Footprint Progress
FY 2012 Baseline to FY 2014
Annual Operating Costs of Owned and Direct Lease Real Property
(Dollars in Thousands)

	FY 2012	FY 2014	Change
Operation and Maintenance Costs	$ 88,840	$ 85,098	$ (3,742)

CIVIL MONETARY PENALTY INFLATION ADJUSTMENTS

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

The Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. Following are the civil penalties that FAA may impose, the authority for imposing the penalty, the dates of inflation adjustments, and the current penalty level.

Penalty	Authority	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level[2]
Violation of hazardous materials transportation law	49 U.S.C. 5123(a), subparagraph (1)	November 2010	July 2012 (reset by statute)	$75,000
Violation of hazardous materials transportation law resulting in death, serious illness, severe injury, or substantial property destruction	49 U.S.C. 5123(a), subparagraph (2)	November 2010	July 2012 (reset by statute)	$175,000
Violation of hazardous materials transportation law relating to training	49 U.S.C. 5123(a), subparagraph (3)	November 2010	July 2012 (reset by statute)	$75,000
Violation by a person other than an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B)	49 U.S.C. 46301(a)(1)	December 2003	November 2010	$27,500
Violation by an airman serving as an airman under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered by 46301(a)(5)(A) or (B))	49 U.S.C. 46301(a)(1)	N/A	December 2003 (reset by statute)	$1,100
Violation by an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered in 49 U.S.C. 46301(a)(5))	49 U.S.C. 46301(a)(1)	N/A	December 2003 (reset by statute)	$1,100
Violation of 49 U.S.C. 47107(b) (or any assurance made under such section) or 49 U.S.C. 47133	49 U.S.C. 46301(a)(3)	N/A	N/A	Increase above otherwise applicable maximum amount not to exceed 3 times the amount of revenues that are used in violation of such section
Violation by an individual or small business concern (except an airman serving as an airman) under 49 U.S.C. 46301(a)(5)(A)(i) or (ii)	49 U.S.C. 46301(a)(5)(A)	December 2003 (reset by statute)	June 2006	$11,000
Violation by an individual or small business concern related to the transportation of hazardous materials	49 U.S.C. 46301(a)(5)(B)(i)	December 2003 (reset by statute)	June 2006	$11,000
Violation by an individual or small business concern related to the registration or recordation under 49 U.S.C. chapter 441, of an aircraft not used to provide air transportation	49 U.S.C. 46301(a)(5)(B)(ii)	December 2003 (reset by statute)	June 2006	$11,000
Violation by an individual or small business concern of 49 U.S.C. 44718(d), relating to limitation on construction or establishment of landfills	49 U.S.C. 46301(a)(5)(B)(iii)	December 2003 (reset by statute)	June 2006	$11,000
Violation by an individual or small business concern of 49 U.S.C. 44725, relating to the safe disposal of life-limited aircraft parts	49 U.S.C. 46301(a)(5)(B)(iv)	December 2003 (reset by statute)	June 2006	$11,000
Tampering with a smoke alarm device	49 U.S.C. 46301(b)	January 1997	November 2010	$3,200

1 This refers to the last time the penalty was actually changed. All penalty amounts were reviewed in 2010, and are reviewed during each inflation adjustment, but only some were adjusted under the formula.

2 This schedule was prepared as of September 30, 2015. The next adjustments were scheduled for publication in October 2015, at which time the following penalties were expected to be adjusted: 5123(a)(1) and (3) to $85,000; 5123(a)(2) to $185,000; 46301(a)(1) (person other than an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B)) to $32,500; and 46318 to $32,500.

Penalty	Authority	Date of Previous Adjustment[1]	Date of Current Adjustment	Current Penalty Level[2]
Knowingly providing false information about alleged violation involving the special aircraft jurisdiction of the United States	49 U.S.C. 46302	January 1997	November 2010	$16,000
Interference with cabin or flight crew	49 U.S.C. 46318	April 2000 (set by statute)	June 2006	$27,500
Permanent closure of an airport without providing sufficient notice	49 U.S.C. 46319	December 2003 (set by statute)	June 2006	$11,000
Violation of 49 U.S.C. 47528-47530, relating to the prohibition of operating certain aircraft not complying with stage 3 noise levels	49 U.S.C. 47531	N/A	N/A	See 49 U.S.C. 46301(a)(1)(A) and (a)(5), above
Violation of a requirement of the Commercial Space Launch Act, as amended, a regulation issued under the Act, or any term or condition of a license or permit issued or transferred under the Act	51 U.S.C. 50917	June 2010	October 2014	$120,000

ADMINISTRATIVE SERVICES FRANCHISE FUND

Background

The Department of Transportation and Related Agencies Appropriation Act of 1997 authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). Through the Franchise Fund, the FAA is able to competitively provide a wide variety of support services to various government entities. The FAA's provision of services to various government entities results in the consolidation and shared use of like functions and the utilization of economies of scale. All of these measures help the government use its resources more efficiently.

The FAA's Franchise Fund is composed of several programs, through which it offers many different services to various parts of the government. These services include accounting, travel, duplication, multimedia, information technology, logistics and material management, acquisition, aircraft maintenance, international training, and management training. The Franchise Fund's major customers are programs in the FAA's lines of business. Other customers include Department of Transportation (DOT) entities, non-DOT government agencies, and international government entities.

Description of Programs and Services

The Enterprise Services Center (ESC) is based at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City, OK. The ESC is designed to be a full service financial management provider. The efficiencies and economies of scale created by this integration make it an attractive option to government customers seeking a provider of financial management services. There are three components of the ESC, all falling within the FAA 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 Office of Management and Budget (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 DOT agencies, and a number of other non-DOT Executive Branch agencies, including the Securities and 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).

In January 2009, the OMB named the ESC one of only four government-wide information systems security shared-service providers. In May 2014, the OMB designated the ESC one of four government-wide financial management shared service providers to provide core accounting and other services to federal agencies. Using a financial management shared service provider helps customer agencies reduce the risks inherent in new system implementation, allows for faster and less expensive technological innovation, and provides long-term cost savings. A shared service provider allows customer agencies to focus resources directly on mission-related efforts.

The FAA Logistics Center is also located at the Aeronautical Center in Oklahoma City and provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public, to satisfy the critical needs of the nation's airspace system, and to meet 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 to repair and maintain the nation's airspace and related equipment. The Logistics Center also maintains the Department of Homeland Security's (DHS) Customs and Border Protection 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 to the DHS.

The Aeronautical Center is also home to the Aircraft Maintenance and Engineering Group, a part of the office of Aviation System Standards. The group 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 the U.S. Army. Provided are preventative services, as well as aircraft repair, overhaul, and modification services and reliability and maintainability studies. The Aircraft Maintenance and Engineering

Group has the flexibility to provide either full or partial support, depending upon customer requirements, ranging from short-term preventative maintenance or one-time engineering tasks to more involved activities, such as a full complement of maintenance services, complete with quality assurance and engineering support.

The FAA Leadership and Learning Institute (FLLI), previously known as the FAA University, is located in Washington, D.C. The FLLI provides non-technical training in support of the FAA mission. This institute designs and delivers face-to-face centralized training both onsite and at field locations. Historically, students have completed more than 5,000 distance learning programs each year. The federal, professional, and local communities also recognize the FLLI as a premier resource for leadership and teambuilding training.

The International Training Division (ITD), an element of the FAA Academy, is located at the Aeronautical Center in Oklahoma City, OK, and 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, and revision, technical training evaluations, and consulting services tailored to meet the specifically defined needs of the FAA and its international customers.

The Franchise Fund also houses a branch of acquisition services that supports the acquisition activities of the Franchise Fund organizations, as well as other activities.

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	
	2015	**2014**
Assets		
Fund balance with Treasury	$ 357,480	$ 363,259
Accounts receivable, net	20	13
Inventory and related property, net	624,245	610,515
General property, plant, and equipment, net	48,637	53,525
Other	2,814	2,290
Total assets	$ 1,033,196	$ 1,029,602
Liabilities		
Accounts payable	$ 28,705	$ 28,679
Advances from others	248,088	240,631
Employee related	17,081	15,942
Other	613	863
Total liabilities	294,487	286,115
Net position		
Cumulative results of operations	738,709	743,487
Total net position	738,709	743,487
Total liabilities and net position	$ 1,033,196	$ 1,029,602

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	
	2015	**2014**
Enterprise Services Center		
Revenues	$ 169,577	$ 148,701
Expenses	206,824	147,647
Profit (loss)	(37,247)	1,054
Corp Services		
Revenues	1,052	1,253
Expenses	884	413
Profit (loss)	168	840
Aircraft Maintenance and Engineering Group		
Revenues	64,273	58,635
Expenses	70,890	65,996
Profit (loss)	(6,617)	(7,361)
FLLI		
Revenues	7,029	5,450
Expenses	8,050	5,979
Profit (loss)	(1,021)	(529)
International		
Revenues	3,403	3,368
Expenses	4,381	4,339
Profit (loss)	(978)	(971)
FAA Logistics Center		
Revenues	257,482	270,516
Expenses	246,470	232,728
Profit (loss)	11,012	37,788
Acquisitions		
Revenues	6,393	8,064
Expenses	9,839	10,903
Profit (loss)	(3,446)	(2,839)
Total Consolidated		
Revenues	509,209	495,987
Expenses	547,338	468,005
Profit (loss)	$ (38,129)	$ 27,982

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 As of September 30	
	2015	**2014**
Beginning balance, net position	$ 743,487	$ 694,255
Financing sources		
Transfers-in/out without reimbursement	(21,725)	(34,345)
Imputed financing from costs absorbed by others	55,076	55,595
Total financing sources	33,351	21,250
Profit (loss)	(38,129)	27,982
Ending balance, net position	$ 738,709	$ $743,487

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 highlights urgent issues for the Department as a whole. The IG's report that will summarize the challenges that DOT will face during FY 2016 is expected to be issued within two weeks after publication of this performance and accountability report, and will be available on the IG's Internet web site at ***https://www.oig.dot.gov/***. Approximately a year ago, on November 17, 2014, the IG issued its memorandum identifying the top management challenges that the Department would be facing in FY 2015. The IG's memorandum is provided below. The pages immediately following contain a summary of the challenges specifically applicable to the FAA and the actions that the FAA took during FY 2015 to address those challenges. The FAA provides this summary in order to present a comprehensive perspective on the FAA's FY 2015 performance activities.

Memorandum

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

Subject: **INFORMATION:** DOT's Fiscal Year 2015 Top Management Challenges Department of Transportation Report Number PT-2015-007

Date: November 17, 2014

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

The safe and efficient movement of people, goods, and information is vital to our Nation's economic growth, global partnerships, and quality of life. The Department of Transportation (DOT) spends more than $70 billion each year on programs to protect and manage U.S. transportation systems and prepare them for increasing travel demands. It is critical that DOT carry out this mission within a framework of diligent stewardship of taxpayer funds, and we continue to support the Department's efforts through our audits and investigations.

DOT is working to address both continuing and emerging challenges with its efforts to modernize the Nation's air transportation system. A key issue is setting investment priorities and realistic plans for the Next Generation Air Transportation System (NextGen). Sustained management attention will be critical to effectively deploy NextGen foundational programs, evaluate needed changes to air traffic facilities, and safely integrate Unmanned Aircraft Systems. To maintain the Nation's excellent aviation safety record, the Department will need to better leverage safety data to reduce risks, address weaknesses with aircraft certification processes, bolster oversight of repair stations at home and abroad, and improve runway safety.

With regard to surface transportation, the Department must continue to address our prior recommendations as well as newer safety oversight requirements enacted in the Moving Ahead for Progress in the 21st Century Act (MAP-21). Key priorities include proactively identifying vehicle safety defects and unsafe motor carriers; following through on data-driven, risk-based oversight for bridges; creating a national tunnel safety program; and ensuring robust oversight of pipelines and hazardous materials. The Department is also working to fulfill other MAP-21 requirements to accelerate

surface infrastructure projects nationwide and employ performance-based management. DOT must also finalize two significant infrastructure initiatives so that it is well positioned to implement a comprehensive national rail plan and an emergency relief program that effectively addresses disasters impacting public transportation.

A critical part of DOT's efforts to ensure the safety and continued improvement of transportation programs is effectively securing and channeling investments to finance them. This will require the Department to work with stakeholders to stabilize the Highway Trust Fund and strengthen credit programs that can leverage private investment for transportation projects. At the same time, DOT must better manage its own sizeable annual investments in contracts and grants to maximize program performance; meet Federal requirements; and prevent fraud, waste, and abuse of taxpayer funds.

Finally, we continue to find opportunities for the Department to better protect the hundreds of information systems it relies on to operate our Nation's transportation framework. To mitigate the risk of cybercrime and system failures, DOT will need to resolve longstanding vulnerabilities with its privacy protection policies as well as carry out Presidential directives to improve physical access controls and implement effective system monitoring and cloud computing.

We remain committed to assisting the Department as it works to improve the management and execution of its programs and protect its resources. We considered several criteria in identifying the Department's top management challenges for fiscal year 2015, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Modernizing the National Airspace System and Addressing Organizational Challenges
- Enhancing Safety and Oversight of a Diverse and Dynamic U.S. Aviation Industry
- Increasing Efforts To Promote Highway, Vehicle, Pipeline, and Hazmat Safety
- Improving Oversight, Project Delivery, and System Performance of Surface Transportation Programs
- Leveraging Existing Funding Mechanisms To Finance Surface Transportation Projects in a Challenging Fiscal Environment
- Managing Acquisitions and Grants To Maximize Performance and Save Federal Funds
- Securing Information Technology Resources

We appreciate the Department's commitment to taking prompt actions in response to the issues we have identified. 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 Auditing and Evaluation, at (202) 366-1427.

#

cc: DOT Audit Liaison, M-1

In FY 2015, the FAA was tasked by DOT to address three of the seven primary challenges identified by the Inspector General (IG). Subcomponents of these three primary challenges are ten underlying key challenges, which were assigned to the FAA. Among these primary challenges and underlying key challenges are:

- **Modernizing the National Airspace System and Addressing Organizational Challenges**
  - Addressing Underlying Causes for Limited NextGen Progress
  - Implementing NextGen Investment Priorities
  - Deploying Key Controller Automation Systems and Resolving Vulnerabilities
  - Integrating Unmanned Aircraft Systems
  - Consolidating FAA's Vast Network of Facilities
- **Enhancing Safety and Oversight of a Diverse and Dynamic Aviation Industry**
  - Leveraging Data to Reduce Risk
  - Managing FAA's Aircraft Certification Process
  - Bolstering Oversight of Aircraft Repair Stations
  - Improving Runway Safety
- **Managing Acquisitions and Grants to Maximize Performance and Save Funds**
  - Improving Acquisition Practices for Managing Support Services

Soon after the IG report was issued, the FAA developed an action plan for each of the 10 key underlying challenges. Included in these action plans are detailed steps and timelines for addressing the challenges. At the end of FY 2015, the FAA submitted "actions taken" reports to DOT. These reports detail FAA progress made throughout FY 2015 in addressing each of the key challenges. These year-end actions-taken reports, FAA action plans and the comprehensive report identifying the IG Top Management Challenges for FY 2015 are posted on FAA's website at ***http://www.faa.gov/about/plans_reports/*** under the DOT IG Top Management Challenges section.

ADDRESSING UNDERLYING CAUSES FOR LIMITED NEXTGEN PROGRESS

Key Challenge

ADDRESSING UNDERLYING CAUSES FOR LIMITED NEXTGEN PROGRESS

Why is this issue significant?

NextGen is a major modernization effort underway to transform the legacy National Airspace System (NAS). It's important for the FAA to track the progress of key NextGen planning activities and investment priorities to ensure its successful implementation. The agency has taken a series of actions to effectively document and set NextGen investment priorities.

Actions taken in FY 2015

- **NAS Enterprise Architecture (EA):** The NAS EA documents levels of planning in keeping with the maturity of the investment, the likely path for the evolution of the NAS, and projected milestones with schedules and cost based estimates for near-and long-term investments. On January 30, 2015 the 2015 NAS EA was published on the NAS EA Portal. This publication includes updates to the NAS service roadmaps, infrastructure roadmaps, the NAS Segment Implementation Plan (NSIP), and mid-term EA views.
- **NAS Segment Implementation Plan (NSIP):** The NSIP is updated annually to reflect the evolution of program management to support portfolio-level decision-making. The NSIP 2015 was published on January 30, 2015. The NSIP identifies and helps manage incremental improvements necessary to develop, integrate, and implement NextGen capabilities and NAS sustainment activities. This year the NSIP was virtualized into an integrated web-accessible platform that allows NSIP updates to be managed and reported in real-time.
- **Portfolio Management Reviews (PfMRs):** This year, FAA continued to host regular PfMRs across multiple FAA lines of business to promote information flow and communication. The PfMRs ensure transparency and provide updates on current portfolio activities. Senior management is briefed on each portfolio quarterly and status reports are given to the NextGen Management Board on a semi-annually basis. FAA plans to continue hosting such PfMRs in FY 2016 to further monitor and communicate agency efforts regarding NextGen investment priorities.

Actions remaining and expected completion date

FAA will continue to update the NAS EA and the NSIP annually to reflect key planning initiatives to ensure the successful implementation of NextGen. FAA will continue to conduct regular PfMRs to examine, evaluate, and communicate NextGen activities and milestones.

Results or expected results

- Development of an annual comprehensive segmented approach to develop and baseline programs to manage major capital acquisitions
- Reduction of risk and incremental implementation of operational capabilities
- Increased intra-agency communication and collaboration
- Streamlined and standardized agency program plans
- Increased transparency
- Common understanding of portfolio activities

Key Challenge

IMPLEMENTING NEXTGEN INVESTMENT PRIORITIES

Why is this issue significant?

The FAA has worked with aviation community stakeholders, through the NextGen Advisory Committee NextGen Integration Working Group, to identify those capabilities in the agency's overall NextGen plan that will deliver the most near-term benefits to national airspace system users. The FAA and industry have jointly met a majority of the FY 2015 commitments in the NextGen Priorities Joint Implementation Plan (the Joint Implementation Plan), which was the outcome of that collaboration. The Joint Implementation Plan includes both operational implementations of NextGen capabilities and pre-implementation activities, such as feasibility assessments, introduction of new national standards, and safety cases. While operational capabilities will be available for NAS users immediately, the full benefit of these capabilities will be realized when operators begin to use them on a routine basis. Through the NextGen Integration Working Group process, industry has committed to equip an adequate number of aircraft necessary for meaningful operational capability performance levels.

The outcome has been so successful that the FAA and industry have decided to continue to collaborate using the NextGen Integration Working Group process and make adjustments to the Joint Implementation Plan based on operational needs.

Actions taken in FY 2015

The Joint Implementation Plan includes activities in four focus areas scheduled to be completed over a three year period through 2017. Details of those activities and schedules of milestones can be found on the NextGen Priorities website (***www.faa. gov/nextgen/snapshots/priorities***). FAA completed 29 of 32 milestones planned for FY 2015.

- Multiple Runway Operations: 10 of 12 milestones completed.
- Performance Based Navigation: 4 of 4 milestones completed.
- Surface Operations and Data Sharing: 10 of 11 milestones completed, including 3 industry milestones.
- Data Communications: 5 of 5 milestones completed, including 1 industry milestone.

Based on the outcome of completed pre-implementation activities and planned implementations in FY 2015, the FAA and industry agreed to additional Joint Implementation Plan milestones:

- Multiple Runway Operations: Dual Independent Parallel Operations w/Offset and Triple Independent Parallel operations in Chicago (both in Q1 CY 2016)
- Performance Based Navigation: Las Vegas Study Team completion (Q1 CY 2016)
- Surface Operations and Data Sharing: Advanced Electronic Flight Strips in Newark (Q2 CY 2016) and Departure Management in Charlotte (Q4 CY 2017)
- Data Communications: Final Investment Decision for En Route Services (Q4 CY 2015)

Three milestones planned for completion in FY 2015 will be revised or removed from the Joint Implementation Plan:

- While the FAA has completed work on a Multiple Runway Operations milestone to enable operations on closely-spaced parallel runways at Boston, implementation will be delayed due to pending public comment resolution of an environmental noise assessment. A new date has not been scheduled.
- Wake Recategorization scheduled to be implemented at San Francisco in FY 2015 was shifted to FY 2016 so as not to adversely impact completion of Metroplex activities, to interfere with preparations for the shift in winter weather traffic flows,

and to avoid negatively impacting surrounding airports during the Superbowl.

- Distribution of surface surveillance event data using Airport Surface Surveillance Capability is being re-planned. A safety risk management decision determined that the implementation may not provide air traffic controllers a complete picture of the airport surface. The milestones for sharing surface surveillance data from Airport Surface Surveillance Capacity sites will be removed from the Joint Implementation Plan.

Actions remaining and expected completion date

None.

Results or expected results

NextGen Priorities commitments are expected to provide a variety of benefits including, but not limited to, increased efficiency, capacity and safety throughout the NAS. Each focus area is designed to provide specific benefits to NAS users as outlined in the NextGen Priorities Joint Implementation Plan.

We are already seeing benefits from implemented capabilities. For example, the increased runway capacity and throughput due to the implementation of wake recategorization in Atlanta (part of the Multiple Runway Operations focus area) is increasing efficiency and reducing flight delays, which Delta Airlines reports is saving up to $38 million a year.

Through the NextGen Advisory Committee, the FAA and industry have committed to analyzing the benefits gained from NextGen Priorities capabilities at locations where the implemented capabilities have been in use for a sufficient amount of time for data to be available.

Key Challenge

DEPLOYING KEY CONTROLLER AUTOMATION SYSTEMS AND RESOLVING VULNERABILITIES

Why is this issue significant?

The FAA is focused on the En Route Automation Modernization (ERAM) and Terminal Automation Modernization and Replacement (TAMR) programs to ensure the baselined schedule and budget are appropriately managed, while maintaining the schedule of other programs in various stages of delivery that rely on integrating with both ERAM and TAMR. The ERAM baseline system deployment is complete, and already has NextGen capabilities integrated into it such as re-routing and Automatic Dependent Surveillance—Broadcast (ADS-B). TAMR is implementing the Standard Terminal Automation Replacement System (STARS) as the common automation system for terminal airspace and [where deployed] is enabling NextGen capabilities like ADS-B.

Actions taken in FY 2015

The ERAM program office has achieved operations at each of its 20 air route traffic control center facilities, and commissioned the ERAM system into the NAS for full-time use. The successful commissioning of the baseline ERAM system is due to (1) improved software quality through institutionalization of enhanced early site test processes, (2) continued collaboration with key National Air Traffic Controller Association (NATCA) (including the signing of a new Memorandum of Understanding on July 15, 2015 to extend their collaborative governance model with the program) and Professional Aviation Safety Specialist (PASS) unions, (3) strengthened performance incentives and quality controls in the renegotiated prime vendor contract, and (4) enhanced local planning processes at sites that provide consistent data to proactively plan necessary software release components.

As cited in the action plan, the FAA has completed the following:

- **ERAM**—finalized engineering and benefits analysis associated with potential enhancements to continue to strengthen overall system reliability and stability.
- **ERAM**—implemented system stability and reliability improvements as planned through the ERAM System Enhancements & Tech Refresh program baseline
- **TAMR**—completed collaborative processes through the STARS User Team Event to identify additional functionality needed for operational suitability and engage stakeholders in regular communications to promote a smooth transition to STARS.
- **TAMR**—implemented a test strategy and collaborative governance model consistent with ERAM best-practices.

Actions remaining and expected completion date

There are no outstanding actions remaining. The Agency plans additional process improvements to strengthen both the ERAM and TAMR programs.

Results or expected results

On March 27, 2015, ERAM successfully completed last-site Operational Readiness Date at all 20 air route traffic control

centers. The ERAM program expects continued improvements in schedule and cost performance, thus addressing the issues raised in the report. The program has seen a decline in software and technology related issues (such as high reliability and a drastic reduction in discrepancies and trouble tickets from the sites), and is expecting to see more improvements. Additionally, while performance monitoring mentioned above indicates ERAM is meeting design requirements, FAA is committed to minimizing instances of exception-based failures or other unique sets of circumstances that introduce potential risk to the operation.

Based on the approach outlined above, the TAMR program continues to expect improvements in schedule and cost performance, thus addressing the issues raised in the report. In order to continue to mitigate additional potential long-term risks, the FAA is undertaking a three-pronged approach:

- The TAMR program office facilitated a series of planning workshops with multiple stakeholder communities and updated the Estimate to Complete in Q3 FY 2014. This estimate is under review by the agency and was successfully presented to the Joint Resource Council in FY 2015, thus positioning TAMR on a risk-reduced plan moving forward.
- The TAMR program office established a new Terminal Automation Systems Enhancement budget line within the Capital Investment Plan to accommodate newly identified perfective and corrective changes required to meet the needs of the terminal users in any of the program segments. Formal approval for this new funding line has recently been approved at the TAMR FY 2015 Joint Resource Council.
- As part of the forecasted need, there are a series of controls and preventative measures that are in progress to reduce future financial risk. This includes improved requirements and issues disposition through standup of a formal Article 48 of the NATCA Contract dated June 2, 2013, and Article 13 Working Group of the PASS Contract dated December 16, 2012. Both deal with technological changes to the NAS.

Key Challenge

INTEGRATING UNMANNED AIRCRAFT SYSTEMS

Why is this issue significant?

The *FAA Modernization and Reform Act of 2012* (FMRA) requires FAA to integrate UAS into the NAS by 2015. In addition, UAS integration is forecasted to have significant positive direct economic benefits for the U.S. economy.

Actions taken in FY 2015

As of September 30, 2015, the FAA granted 1,850 petitions for exemptions or amendments for commercial UAS operations under Section 333 of the FMRA of 2012.

On December 30, 2013, Administrator Huerta announced the selection of six UAS test sites. The test sites, mandated by the FMRA, were established as a research program to support safe integration of UAS into the NAS. The test sites have been given the opportunity to have Designated Airworthiness Representatives that allows them to issue Special Airworthiness Certificates in the Experimental Category (SAC-ECs) for civil UAS research and development conducted at the test sites. On December 19, 2014, the State of Nevada Test Site issued the first SAC-EC under the FAA Designated Airworthiness Representatives Program for UAS test sites.

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 and Command and Control. The FAA continued to participate on Radio Technical Commission for Aeronautics Special Committee 228 which focuses on standards development for Sense (Detect) and Avoid and Command and Control systems.

The UAS Executive Committee approved documents identifying operational and certification requirements that must be developed and implemented to enable public UAS routine operations within the NAS. These requirements will be used in support of the FAA's efforts to comply with Section 334 "Public Unmanned Aircraft Systems," subsection (b) "Standards for Operation and Certification" of the FMRA. This section requires that the Administrator of the FAA "develop and implement operational and certification requirements for the operation of public unmanned aircraft systems in the NAS" not later than December 31, 2015.

Actions remaining and expected completion date

On November 7, 2015, FAA will publish the third edition of the UAS Roadmap. The roadmap outlines the efforts needed to safely integrate UAS into the NAS. It discusses items such as new or revised regulations, policies, procedures, guidance material, training, and understanding of systems and specifications to support routine UAS operations. The roadmap is updated annually.

FAA continues to make progress in integrating UAS into the NAS. A major initiative is completing the adjudication of comments received on the small UAS Notice of Proposed Rulemaking by the end of Calendar Year 2015.

FAA continues to receive petitions for exemptions under Section 333, Special Rules for Certain Unmanned Aircraft Systems, to operate UAS for commercial purposes.

Results or expected results

Integration of UAS into the NAS is incremental. 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 NAS, higher and higher levels of UAS integration will be possible. The NAS is constantly evolving and changing and with those changes, aircraft will evolve, allowing even greater integration and utilization.

Key Challenge

CONSOLIDATING FAA'S VAST NETWORK OF FACILITIES

Why is this issue significant?

Section 804 of the FAA Modernization and Reform Act of 2012 requires the FAA to develop a National Facilities Realignment and Consolidation Report containing recommendations for potential realignment scenarios that support the transition to NextGen and reduce costs without affecting safety. The FAA leadership, in coordination with NATCA and PASS labor unions, established a Section 804 collaborative workgroup to develop criteria and the process for future realignment decisions. The process involves holding working sessions with facility representatives, conducting site surveys in the field, and collecting input from labor unions and industry stakeholders.

Actions taken in FY 2015

Site surveys and analysis for Year 1 scenarios were completed in FY 2015. The workgroup completed the realignment recommendations for the first two facilities under analysis (known as transfers), presented its recommendations to the Administrator and Labor leadership, and documented the findings in the National Facilities Realignment and Consolidation Report (Year 1, Part 1). The first two transfers under analysis were Cape (K90) TRACON and Abilene (ABI) TRACON. The Year 1, Part 1 report recommends (1) realigning K90 TRACON operations to Boston (A90) Consolidated TRACON and (2) formalizing a TRACAB configuration at ABI to provide Approach Control services from the Control Tower Cab.

The Year 1, Part 1 report was published in the Federal Register for public comments, and submitted to Congress.

The workgroup continued realignment analysis for the 11 additional transfer facilities (a list of Year 1, Part 2 potential transfers and receivers is found under Section IV) and drafted recommendations for the National Facilities Realignment and Consolidation Report (Year 1, Part 2). The Year 1, Part 2 report includes recommendations for realignment to two receiver sites that are prior Agency investments (Cleveland Tower/TRACON and Kalamazoo Tower/TRACON), which were built to accommodate TRACON operations from multiple facilities.

Year 2 analysis includes five potential realignment transfer candidates and seven potential receiver facilities. The workgroup has completed working sessions and site surveys, and is in the process of drafting technical documentation.

Actions remaining and expected completion date

The workgroup anticipates delivering the National Facilities Realignment and Consolidation Report (Year 1, Part 2) to agency and labor leadership in late 2015, followed by Federal Register publication and submission to Congress. As mandated by Congress, each National Facilities Realignment and Consolidation Report contains recommendations of the Administrator as well as:

- Justification/projected costs & savings
- Proposed timing of implementation for each realignment

The workgroup will draft the Year 2 report with the intention of reviewing with agency and labor leadership in Spring 2016.

The first Year 3 working session is planned for October 2015.

Results or expected results

If a joint resolution of disapproval is not enacted by Congress for the Year 1, Part 1 report, and the report recommendations are

approved by the FAA Administrator, implementation activities related to relocation of functions, services, or personnel positions may begin in FY 2016.

The FAA anticipates submission of the Year 1, Part 2 recommendations to Congress in mid-2016, after public comment in the Federal Register and agency review of comments.

Year 1, Part 2 scenarios

1. Toledo (TOL) Terminal Radar Approach Control (TRACON) operations for potential realignment to Cleveland (CLE) Tower/TRACON, Detroit (D21) TRACON, or Kalamazoo (AZO) Tower/TRACON
2. Erie (ERI) TRACON operations for potential realignment to Buffalo (BUF) Tower/TRACON, CLE, or to Pittsburg (PIT) Tower/TRACON
3. Akron-Canton (CAK) TRACON operations for potential realignment to PIT or CLE
4. Youngstown (YNG) TRACON operations for potential realignment to PIT or CLE
5. Mansfield (MFD) TRACON operations for potential realignment to PIT, CLE or Columbus (CMH) Tower/TRACON
6. Grand Rapids (GRR) Tower/TRACON operations for potential realignment to Kalamazoo (AZO) Tower/TRACON, or South Bend (SBN) Tower/TRACON
7. Muskegon (MKG) TRACON operations for potential realignment to AZO, SBN, or Milwaukee (MKE) Tower/TRACON
8. Lansing (LAN) TRACON operations for potential realignment to AZO or D21
9. Flint (FNT) TRACON operations for potential realignment to AZO or D21
10. Saginaw (MBS) TRACON operations for potential realignment to AZO or D21
11. Fort Wayne (FWA) TRACON operations for potential realignment to AZO or SBN

ENHANCING SAFETY AND OVERSIGHT OF A DIVERSE AND DYNAMIC U.S. AVIATION INDUSTRY

Key Challenge

LEVERAGING DATA TO REDUCE RISKS

Why is this issue significant?

The mission of the FAA is to provide the safest and most efficient aerospace system in the world. In order to continue increasing safety and mitigating risk, the FAA must continue to build upon its success in reducing aviation accidents and incidents. Given the current trends in global aviation growth and dynamics, the FAA must use every available resource to the maximum balance of efficiency and effectiveness in providing oversight and surveillance of commercial aviation to ensure continued improvement. This includes regulation, personnel (inspector workforce), and tools (Voluntary Disclosure Reporting Program, ASIAS, Safety Management System), as well as compliance policies. These items comprise a system that integrate and synchronize the FAA's safety mission and newly adopted compliance philosophy.

Actions taken in FY 2015

The FAA has taken many actions to ensure that aviation safety remains paramount and the gold-standard of the world. These actions include upgrading Voluntary Disclosure Reporting Program (VDRP) to ensure viability and integration with NAS-wide data to analyze and identify risk(s).

In August 2015, the FAA announced the roll-out of the NextGen ASIAS Fusion model that will integrate multiple de-identified voluntary safety programs and multiple FAA and NAS systems, allowing analysts, inspectors, and managers access to actionable analysis in an effort to increase aviation safety.

The Commercial Aviation Safety Team, which is made up of the primary commercial aviation stakeholders and subject matter experts, continues to coordinate, collaborate, and provide valued recommendations on safety enhancements that includes changes to regulation, training, and systems/equipment with the goal of increasing aviation safety.

The Office of Accident Investigation and Prevention and Flight Standard Service ASIAS Work Group continue to meet monthly and on an ad-hoc basis to review actionable information gleaned

from ASIAS data. Working group members also continue to attend Joint Implementation Measurement Data Analysis Team (JIMDAT), Commercial Aviation Safety Team, ASIAS Executive Board meetings along with InfoShare to learn of emerging air carrier safety issues relative to Flight Standards oversight responsibilities.

Actions remaining and expected completion date

- Issue notice to inspectors and senior office managers on the changes and new procedures concerning the VDRP upgrade. This has been delayed (estimate release by August 2016) due to the Administrator's release of the new FAA Compliance Philosophy, which will have significant impact on VDRP.
- The NextGen ASIAS fusion feasibility model was demonstrated in August 2015 and the next step will be gaining the approval of the ASIAS Executive Board in September 2015. This will lead to a two year demonstration period for the program.

Results or expected results

The expected results of both the VDRP upgrades and the NextGen ASIAS fusion program are to provide inspectors, analysts, stakeholders, and management tools to focus on both root cause analysis and prevent unintentional/non-criminal, non-compliance from occurring or re-occurring.

Key Challenge

MANAGING THE FAA'S AIRCRAFT CERTIFICATION PROCESS

Why is this issue significant?

Given the expected continued growth of the aviation industry, it is critical for FAA to establish clear standards and increase efficiency for all of its certification processes.

Actions taken in FY 2015

The FAA revised the Certification Services Oversight Process (CSOP), Standard Operating Procedure (revision 4, dated May 28, 2014) and updated the CSOP SharePoint site to align with Revision 5 of the CSOP standard operating procedure. The CSOP SharePoint site enhances the tracking of all certification activities at the field office level and enhances the visibility and reporting at both the regional office and National Headquarters levels.

The FAA developed an audit tool to support validation of data collection that documents field office and regional compliance with CSOP process.

The FAA revised CSOP standard operating procedure revision 5 (AFS-002-900-S1) on April 9, 2015 to include the following sentence *"Regional POCs must review the CSOP report for wait-list each month to monitor the regions' ability to perform certification projects."*

Results or expected results

The changes made to the CSOP has allowed field and regional office managers improved flexibility and efficiency in addressing certification projects.

Key Challenge

BOLSTERING OVERSIGHT OF AIRCRAFT REPAIR STATIONS

Why is this issue significant?

In 2011, the United States and the European Union (EU) entered into an aviation safety agreement that directed the FAA to begin transferring oversight of its repair stations to the national aviation authorities of 18 EU countries to minimize duplicative oversight efforts. The national aviation authority safety inspectors oversee more than 400 EU repair stations performing maintenance on U.S.-registered aircraft for the FAA. The Office of the Inspector General (OIG) recently reported that FAA's initial assessments to evaluate the national aviation authorities' capabilities to perform inspections on its behalf were incomplete and the results of these assessments were not adequately substantiated. In addition, the OIG also noted that inspector training, procedural and data quality weaknesses have impeded FAA's ability to effectively monitor EU repair stations to ensure they continue to meet FAA standards.

Actions taken in FY 2015

The FAA reviewed and incorporated numerous revisions to the Maintenance Annex Guidance (MAG) requirements to ensure the FAA inspection procedures and audit reports are comparable in content to the European Aviation Safety Agency (EASAs). Additionally, the FAA inspector guidance in FAA Order 8900.1 was revised to reflect Revision 5 of the MAG. Some of the revisions include the development standardized instructions for FAA and foreign authority inspectors to properly complete the revised audit reports/checklist which are consistent with the audit report requirements used by EASA, and enhanced guidance to the FAA coordinator on the assessment of the foreign authority's oversight capabilities.

The FAA and EASA conducted workshops to all members of the EU aviation authorities and to the FAA coordinators. The workshops highlighted on the training requirements prior to assuming FAA oversight responsibilities and the related changes to Revision 5 of the MAG and the FAA Order 8900.1.

Actions remaining and expected completion date

The FAA revised the inspector guidance in the FAA Order 8900.1, to reflect the recent changes incorporated into the MAG on the evaluation of a foreign authority's oversight capabilities prior to assuming FAA oversight responsibilities of FAA-certificated repair stations. These revisions will move forward for publication which is expected to be by March 31, 2016.

Results or expected results

The FAA works closely with EASA and continues to make significant improvements to enhance the procedures as a result of the agreements between the United States, EU, and national aviation authority safety inspectors who oversee repair stations in the EU on the FAA's behalf. The FAA and EASA recently made significant changes to the MAG to ensure the continuation of the high level of regulatory cooperation and harmonization between the U.S. and the EU. The FAA revised the inspector guidance in the FAA Order 8900.1 that reflects the current changes in the MAG. These enhancements will result in more consistent inspection practices that will improve the detection of systemic deficiencies and increase the effectiveness of repair station safety oversight performed by the FAA, EASA, and aviation authorities that oversee repair stations in the EU. Additionally, this will lead to continuity in the sharing and coordination of elevated risks, corrective action plans, and follow-up assessments among various aviation authorities under the new aviation safety agreements.

Key Challenge

IMPROVING RUNWAY SAFETY

Why is this issue significant?

Mitigating risk to acceptable levels at the nation's airports, specifically on and around the runway, is vital to improving the safety of the flying public.

Actions taken in FY 2015

- Runway Safety Focus Airports. The action plans for each of the ten Fiscal Year 2015 Runway Safety Focus Airports Programs were published prior to September 30, 2015 and are recorded in an FAA internal database called the Runway Safety Tracking System.

  On June 10, 2015, Lincoln Airport held a local Runway Safety Action Team meeting and subsequently developed an action plan with six action items to mitigate risk. On June 29, 2015, the FAA conducted a Regional Runway Safety Team meeting for the Alaskan airport identified by the Runway Safety Focus Airports Program and a subsequent action plan was developed. On July 15, 2015 the FAA conducted a Regional Runway Safety Team meeting for the Western-Pacific region airports identified by the Runway Safety Focus Airports Program and a subsequent action plan was developed.

- Local Runway Safety Action Team (LRSAT) meetings. All of the required towered airports (over 500) held a local Runway Safety Action Team meeting. A runway safety action plan was completed after each meeting and over 215 localized action items were developed to help mitigate risk.

- Runway Status Lights (RWSL) implementation. The FAA commissioned the Minneapolis–Saint Paul International Airport RWSL system on August 13, 2015, the Charlotte Douglas International Airport RWSL system on March 25, 2015, and the Fort-Lauderdale-Hollywood International Airport system on May 7, 2015.

- Surface System Event Rate metric. The FAA gathered a full fiscal year of runway safety data using the Surface Risk Analysis Process such as, but not limited to, the safety barriers that were in place during the time of the event and the rate of closure between two aircraft or vehicles.

  Runway Safety Call to Action. Since the 2007 Call to Action Safety Summit, serious runway incursions, "A" and "B" incidents, have dropped by 44 percent. Seven years have passed since the last runway collision at a major airport and nine years since the last fatal runway collision. Despite this long-standing trend, A and B events have recently began to increase. On June 24, 2015, the FAA held a *Runway Safety Call to Action* to address an increase in the number of runway incursions this year. The meeting was attended by 108 representatives from industry, labor, and government. The event focused on mitigating visual, communication, and procedural challenges that occur on the surface environment. There were a total of 32 recommendations received at the end of the Call to Action. The collaboratively developed recommendations include, but are not limited to, developing focused outreach, conducting a human factors analysis

of runway incursions, establishing workgroups to develop safety enhancements, and supporting the development of safety technologies. A summary of the event, along with the recommendations, were published in a report on July 31, 2015 as Phase 1 - Runway Safety Call to Action.

Actions remaining and expected completion date

The FAA will monitor the identified action items within each action plan to completion. An expected completion date varies due to the scope of the action items.

Each towered airport is required to hold a local Runway Safety Action Team meeting every fiscal year and develop an action plan. The FAA will continue to monitor these activities to completion.

Twelve of the 17 Runway Status Light production systems are operational. The remaining operational schedule is as follows: John F. Kennedy International Airport – December 2015, Chicago O'Hare International Airport and Newark Liberty International Airport – March 2016, Baltimore/Washington International Thurgood Marshall Airport and San Francisco International Airport – March 2017.

The FAA will analyze the gathered data and develop a risk based metric by July 31, 2016. The metric will allow the FAA to set a baseline target to meet every fiscal year by October 1, 2016 and monitor the effectiveness of the programs, processes, and procedures related to surface safety.

The FAA, in collaboration with labor and industry teams, are in the process of developing detailed implementation plans which will be incorporated into a Phase 2 - Runway Safety Call to Action report detailing short, medium, and long-term corrective actions including dates for implementation. The report will be available on November 31, 2015.

Results or expected results

The FAA expects that with proper mitigations in place, the level of surface risk will be reduced. Once a risk-based runway safety metric is implemented, the rate of these improvements will be reflected in the rate beginning in FY 2017. The ultimate goal is a reduction in surface events on and around the runway.

MANAGING ACQUISITIONS AND GRANTS TO MAXIMIZE PERFORMANCE AND SAVE FEDERAL FUNDS

Key Challenge

IMPROVING ACQUISITION PRACTICES FOR MANAGEMENT SUPPORT SERVICES

Why is this issue significant?

The Federal Aviation Administration (FAA) addressed recommendations provided by the OIG to improve the management of the Air Traffic Control Optimum Training Solutions (ATCOTS) contract, which was awarded in 2008. The contract provides controller training support to train new air traffic controllers during a 10-year period. In testimony before the Senate Subcommittee on Financial and Contracting Oversight, the OIG highlighted the following in their 2013 report: (1) lack of clearly defined training requirements; (2) insufficient contract funding for training innovations; (3) ineffective cost incentives and award fees; and (4) inadequate contract oversight and ineffective communication with contract oversight staff.

This issue is significant to ensure (1) contract management, oversight and monitoring of contract support in the delivery of Controller Training; (2) resources and funding is available to meet the demand and requirements of controller training across the FAA; and (3) cost are contained within established funding levels within the contract.

Actions taken in FY 2015

In April 2015, the program office awarded the new Controller Training Contract. This contract is a fixed-firm price and time & materials contract that is in alignment with the program office's goals of Controller Training delivery.

The Transition Plan was completed in June 2015 and outlined the new contractor's process for hiring, staffing, badging, and as well as other activities for an effective transition on September 9, 2015. Based on the transition plan, the program office did not have to execute the H.8 – Continuity of Services clause under the ATCOTS contract. This clause could extend the contract for up to 365 days for phase-out activities.

The program office implemented a newly developed Training Requirements Tool which captures training requirements for the FAA Academy and field offices for the monitoring and management of the contract. This tool is effective in capturing all training requirements in the field and at the FAA Academy while maintaining costs within the contract.

The first program management review was held August 20, 2015, whereby the contractor provided an overview of their activities for transitioning on September 9, 2015. This meeting will be held on a quarterly basis and is part of the management and monitoring activities under the contract.

The CTC contract successfully transitioned on September 9, 2015. The transition was smooth with no disruption to training delivery and contractor support across the field and FAA Academy. The program office will continue to develop and standup processes to monitor contractor performance and continue to hold weekly status meetings with the contractor on monthly activities.

In 2015, the program office increased its oversight activities using a labor-hour method that easily identifies problems in contract oversight. This method provides discrepancy findings and reporting that will indicate the contract needs improvement. Other oversight activities include the Performance Work Statement, which specifies how the Air Traffic Organization will achieve its performance objectives and the Field Requirements Tool. The Performance Work Statement consist of specifications and other portions of the contract that describe the required delivery of air traffic controller training services provided by the service provider.

Actions remaining and expected completion date

- Conduct contract closeout activities on the ATCOTS Contract in December 2015.

Results or expected results

The FAA will monitor the controller training contract performance through implementation of weekly status meetings, Quarterly Status Reviews, Training Requirements Tool reporting, quality audits, evaluations and financial reports.

The FAA will continue ATCOTS closeout activities until completion.

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
AFN	Finance and Management Staff Office (FAA staff office)
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
ANG	NextGen Office (FAA staff office)
AOA	Angle of Attack
AOC	Communications (FAA staff office)
APL	Policy, International Affairs, and Environment (FAA staff office)
ARP	Airports (FAA line of business)
ARTCC	Air Route Traffic Control Center
ASH	Security and Hazardous Materials Safety (FAA staff office)
ASIAS	Aviation Safety Information Analysis and Sharing
AST	Commercial Space Transportation (FAA line of business)
ASTM	American Society for Testing and Materials
ATCOTS	Air Traffic Control Optimum Training Solution
ATCT	Air Traffic Control Tower
ATO	Air Traffic Organization (FAA line of business)
AVS	Aviation Safety (FAA line of business)
BNSF Railway	Burlington Northern Santa Fe Railway
CAST	Commercial Aviation Safety Team
CDM	Continuous Diagnostics & Mitigation
CFO	Chief Financial Officer
CIP	Construction in Progress
CLEEN	Continuous Lower Energy, Emissions and Noise
CNN	Cable News Network
CO_2	Carbon Dioxide
COE	Center of Excellence
CPP	GSA's Client Portfolio Planning
CR	Continuing resolution
CRDA	Cooperative Research & Development Agreement
CSOP	Certification Services Oversight Process

ACRONYM	NAME
CSRS	Civil Service Retirement System
CTC	Controller Training Contract
CY	Calendar year
CyTF	NextGen Cyber Security Test Facility
Data Comm	Data Communications
DHS	Department of Homeland Security
DNL	Day-night average sound level
DOD	U.S. Department of Defense
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
DRAA	Disaster Relief & Appropriations Act
EA	Enterprise Architecture
EASA	European Aviation Safety Agency
ELSO	Equivalent Lateral Spacing Operations
ERAM	En Route Automation Modernization
ESC	Enterprise Services Center
EU	European Union
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FAAST	FAA Safety Team
FACT3	Future Airport Capability Task 3 Report
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCI	Facilities Condition Index
FECA	Federal Employees' Compensation Act
FedView	Federal Employee Viewpoint Survey
FERS	Federal Employees Retirement System
FFMIA	Federal Financial Management Improvement Act
FLLI	FAA Leadership and Learning Institute
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMRA	FAA Modernization and Reform Act
FRPP	DOT-wide Federal Real Property Profile
FY	Fiscal Year
GA	General Aviation
GAJSC	General Aviation Joint Steering Committee
GIM-S	En Route Ground-based Interval Management for Spacing
GPS	Global Positioning System
GSA	General Services Administration

ACRONYM	NAME
HIRMT	Hazard Identification Risk Management Tool
ICAO	International Civil Aviation Organization
IG	Inspector General
IOC	Initial Operating Capability
IP$	Improper payment dollar
IP%	Improper payment percent
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
IT	Information Technology
ITD	International Training Division (FAA Academy)
JIMDAT	Joint Implementation Measurement Data Analysis Team
LOC	Loss of Control
LoSS	Losses of Standard Separation
LRSAT	Local Runway Safety Team
MAG	Maintenance Annex Guidance
MMAC	Mike Monroney Aeronautical Center
MOC	Memorandum of Cooperation
NAS	National airspace system
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NESS	NAS Efficient Streamlined Services
NextGen	Next Generation Air Transportation System
NIEC	NextGen Integration and Evaluation Capability Laboratory
NPRM	Notice of Proposed Rulemaking
NSIP	National Airspace System Segment Implementation Plan
NTSB	National Transportation Safety Board
NVS	NAS Voice System
NWP	NextGen Weather Processor
OFM	DOT's Office of Financial Management
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPD	Optimized Profile Descents
OPM	Office of Personnel Management
ORD	Operational readiness decision
OTA	Office of Tax Analysis

ACRONYM	NAME
PAR	Performance and Accountability Report
PFC	Passenger Facility Charge
PfMR	Portfolio Management Review
PIV	Personal identify verification
PP&E	Property, Plant, and Equipment
PRISM	Internet-based Acquisition System Integrated with Delphi
PRV	Plant Replacement Value
R&D	Research and Development
RAE	Risk Analysis Events
RE&D	Research, Engineering, and Development
RIM	Runway Incursion Mitigation
RTP	Regional Temperature Change Potential
RVSM	Reduced Vertical Separation Minimum
RWSL	Runway Status Lights
SAC-EC	Special Airworthiness Certificates in the Experimental Category
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SDI	Space Data Integrator
SESAR	Single European Sky ATM Research (NextGen's European counterpart)
SFFAS	Statement of Federal Financial Accounting Standards
SMS	Safety Management System
SpaceX	Space Exploration Technologies, Inc.
SRER	System Risk Event Rate
STARS	Standard Terminal Automation Replacement System
SWIM	System Wide Information Management
TAMR	Terminal Automation Modernization and Replacement
TBD	To Be Determined
TSS	Terminal Spacing and Sequencing
TRACON	Terminal Radar Approach Control
UAS	Unmanned Aircraft Systems
VDRP	Voluntary Disclosure Reporting Program
V&V	Verification & Validation
WAAS	Wide Area Augmentation System
WJHTC	William J. Hughes Technical Center

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WE WELCOME YOUR COMMENTS

Thank you for your interest in the FAA's FY 2015 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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LinkedIn: **www.linkedin.com/company/faa**

CRS-6 First Stage Landing. Falcon 9 first stage approaches Just Read the Instructions in the Atlantic Ocean after successfully launching CRS-6 to the International Space Station, April 14, 2015. Photo: SpaceX

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