Office of Inspector General

Audit Report

QUALITY CONTROL REVIEW OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS 2014 AND 2013

Federal Aviation Administration

Report Number: QC-2015-010

Date Issued: November 14, 2014

Memorandum

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

Subject: **ACTION:** Quality Control Review of Audited Financial Statements for Fiscal Years 2014 and 2013, Federal Aviation Administration
Report Number: QC-2015-010

Date: November 14, 2014

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: Federal Aviation Administrator

We respectfully submit our report on the quality control review (QCR) of the Federal Aviation Administration's (FAA) audited financial statements for fiscal years 2014 and 2013.

KPMG LLP of Washington, DC, under contract to the Office of Inspector General (OIG), completed the audit of FAA's financial statements as of and for the years ended September 30, 2014, and September 30, 2013 (see attachment). The contract required the audit to be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 14-02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2014, and September 30, 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG's Fiscal Year 2014 Audit Report

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

> **Lack of Sufficient Controls over Property, Plant, and Equipment Retirements** – FAA did not have an adequate process in place to timely record or estimate general ledger adjustments for disposal of legacy air traffic system assets following the deployment in fiscal year 2013 of the

> En Route Automation Modernization (ERAM) system at two locations. As a result, FAA's beginning balances in fiscal year 2014 for property, plant, and equipment acquisition value and accumulated depreciation were overstated by $259.7 million and $187.4 million, respectively.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report dated November 7, 2014, 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.

KPMG made one recommendation to strengthen FAA's controls over property, plant, and equipment retirements. FAA officials concurred with KPMG's findings on the significant deficiency. FAA also committed to submitting to OIG, by December 31, 2014, a detailed action plan to address the findings contained in KPMG's audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of FAA's representatives, the Office of Financial Management, and KPMG. If we can answer any questions, please contact me at x61959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

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, 2014 and 2013 and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Aviation Administration as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1 and 12, the consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2014, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Forward, 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, 2014, we considered the FAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described as item 2014-01 in the accompanying schedule of findings in Exhibit I, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FAA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

FAA's Response to Findings

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

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the FAA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 7, 2014

2014-01 Lack of Sufficient Controls over Property, Plant, and Equipment Retirements

Criteria

The Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, states, "Reporting entities should ensure that information in the financial statements is presented in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the requirements of this Circular. Preparers of financial statements seeking additional guidance on matters involving the recognition, measurement, and disclosure requirements should refer to the specific FASAB standards governing those requirements."

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Standards) states, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

The Standards further state, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

Condition

During our fiscal year (FY) 2014 audit, we identified errors in the Property, Plant, and Equipment (PP&E) and Accumulated Depreciation beginning balances that were primarily the result of the untimely retirement of assets associated with legacy air traffic systems due to the deployment of the En Route Automation Modernization (ERAM) system at two sites in FY 2013. FAA did not have an adequate process in place to timely record the related asset disposals associated with the legacy air traffic systems, or to estimate the adjustment required in the general ledger.

Cause

Existing processes and internal controls related to the FAA's review of assets identified for disposal were not operating at an appropriate level of precision to ensure that significant events affecting the financial statements were identified, documented, and recorded. Furthermore, the FAA informed us that their consideration of the impact these disposals would have to future periods was based on the impact to the PP&E, Net, balance, instead of on the gross PP&E and Accumulated Depreciation balances disclosed in the notes to the financial statements.

Effect

As of October 1, 2013, the impact of these errors in the FAA's consolidated financial statements and notes was as follows:

- PP&E – Acquisition Value was overstated by $259.7 million
- PP&E – Accumulated Depreciation was overstated by $187.4 million

Recommendation

We recommend that the FAA improve existing processes and internal controls to ensure that PP&E retirements are identified, documented, and recorded timely.

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

Office of Financial Services/CFO

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

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 2014 consolidated financial statements and offer the following comments.

We concur with the significant deficiency contained in your report. To improve the timeliness of recording the retirements and disposals of fixed assets, the Office of Financial Services will coordinate with other FAA offices as necessary to develop a corrective action plan, and will submit it to the Office of Inspector General no later than December 31, 2014. I will monitor implementation of the plan throughout the corrective action process.

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

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

Sincerely,

Mark House

Mark House

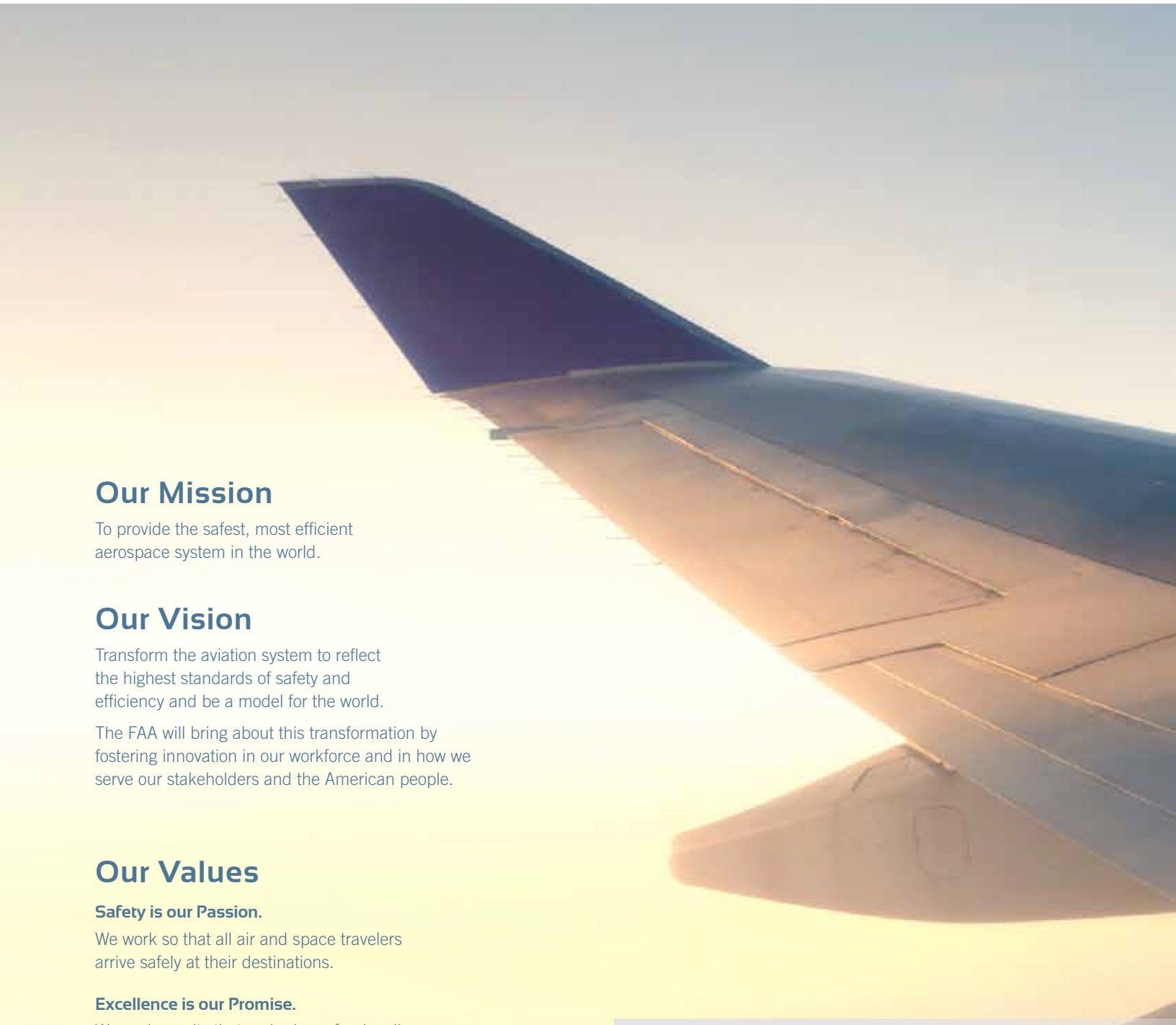
FAA's fiscal year 2014 Performance and Accountability Report (PAR) is attached in its entirety. Refer to PAR page 8 for the Management Discussion and Analysis section and PAR page 60 for the Financial Results section including the Financial Statements and Notes.

U.S. Department of Transportation
Federal Aviation Administration

FAA

fiscal year 2014 Performance and Accountability Report

The FAA. *Evolving Technology. Advancing Aviation.*



Our Mission

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

Our Vision

Transform the aviation system to reflect the highest standards of safety and efficiency and be a model for the world.

The FAA will bring about this transformation by fostering innovation in our workforce and in how we serve our stakeholders and the American people.

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.

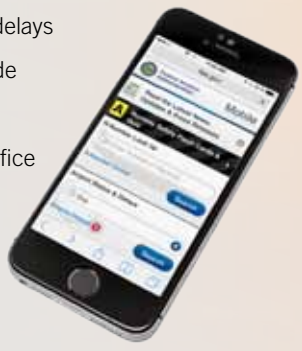
Our success depends on the respect, diversity, collaboration, and commitment of our workforce.

Innovation is our Signature.

We foster creativity and vision to provide solutions beyond today's boundaries.

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



Contents

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

FAA By the Numbers

45,543 employees

36,939 Regional and Field Offices

3,762 Headquarters **Washington, DC**

3,428 Mike Monroney Aeronautical Center **Oklahoma City, OK**

1,414 William J. Hughes Technical Center **Atlantic City, NJ**

$15.8 billion budget in **FY 2014**

$3.35 billion Grants in Aid for Airports

$0.16 billion Research, Engin & Development

$9.65 billion Operations

$2.60 billion Facilities & Equipment

Foreword

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

Last year, we were proud to receive our tenth prestigious Certificate of Excellence in Accountability Reporting award for our PAR from the Association of Government Accountants (AGA). This award is indicative of the progress we have made in reporting financial and program performance and in candidly assessing our results.

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

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

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 **Oversees** a system that transports 739.3 million passengers annually on U.S. carriers

A Message from the Administrator

Michael P. Huerta

In August 1958, more than 50 years after brothers Orville and Wilbur Wright made the world's first sustained, powered flight near Kitty Hawk, NC, President Dwight Eisenhower signed into law the Federal Aviation Act, which established our agency—now known as the Federal Aviation Administration (FAA). This new agency would be responsible for overseeing an aviation system that had to be both safe and efficient. In the half century since the FAA was established, aviation has evolved beyond what anyone could have imagined, and the FAA has served as both its overseer and its proponent. Today, as discussed throughout this FY 2014 Performance and Accountability Report (PAR), the United States continues to lead the world in aviation safety, introducing new systems, technologies, and procedures that will take aviation to the next level worldwide.

Less than a year from now, it will be time once again to reauthorize the FAA. We will work closely with Congress to ensure the reauthorization process goes smoothly. Nevertheless, like many other agencies that provide a significant public benefit, we are subject to political dynamics. This will be especially challenging for us as we strive to maintain our complex, older air traffic control system, while introducing the new benefits of NextGen. The air traffic services we provide are fundamental to our economy. At the same time, modernizing our system is an investment that is critical to our future. We can best fulfill both missions with a stable level of funding, so that we can predictably plan and build our nation's aviation infrastructure.

Strategic Priorities

As an agency, we have a tremendous opportunity to make a difference in the near term to our stakeholders, while addressing the long-term challenges that this changing industry faces. That is why we announced this year that we are advancing four strategic priorities that will set aviation and the FAA on the right course for the future. These priorities are:

- **Make aviation safer and smarter.** We are advancing risk-based decision making by using consistent data-informed approaches to make smarter system-level, risk-based decisions.
- **Deliver benefits through technology and infrastructure.** We are laying the foundation for the national airspace of the future by delivering prioritized NextGen benefits, integrating new users into the airspace (such as unmanned aircraft systems (UAS) and commercial space launches), and providing more efficient services.
- **Enhance global leadership.** We are better targeting FAA's resources and efforts to shape global standards, enhance collaboration, and harmonize airspace between nations.
- **Empower and innovate with the FAA's workforce.** We are preparing the FAA's people for the future by identifying, recruiting, and training a workforce that will have the leadership, technical, and functional skills they need.

This is a bold aspiration for the FAA, one that will take the agency well beyond the next four years. However, we are committed to seeing measurable and steady progress toward this vision by 2018. One of the key measures of success is to change the culture of the FAA and how we do business. Change is coming to the aviation industry in rapid waves. There are technological opportunities, an uncertain fiscal environment, an evolving workforce, and the global backdrop. All combine to make a compelling case for transformational change, and that is what we expect to achieve.

Make Aviation Safer and Smarter

The core of our mission is safety. We continue to operate in one of the safest periods ever in aviation history. That's not just a tribute to how well we maintain the infrastructure. It also clearly indicates that all the players are bringing their "A-game" to work. Pilots, mechanics, flight attendants, dispatchers, technicians, engineers, and controllers—every person who "touches" the airplane has a direct hand in the safety of the system. Yet despite this success, we strive for ways to keep improving.

Using the principles of Safety Management Systems, we recognize and mitigate hazards proactively, before they become a problem. This depends upon employees voluntarily reporting hazards they see in the system. It also depends upon industry sharing operational data so that we can see patterns in how we operate. These databases contain information from flight data recorders, radar, and voluntary reports from pilots, air traffic controllers, technical specialists, and other safety professionals on the front line. Risk-based decision making will enable us to further improve safety in our aviation system. Creating an environment where people feel they can safely talk about issues and problems and where industry can share data is one of the most important aspects of a robust safety culture.

We're putting measures in place to enable us to share safety data among all of the players—within the FAA, with industry, and with our international peers. This will make a broader spectrum of data available and put us in a position to make even smarter decisions.

Deliver Benefits Through Technology and Infrastructure

NextGen

NextGen will transform the radar-based air traffic control system of today into a satellite-based system that will be more efficient, safer, and more environmentally friendly.

Already, the FAA is significantly improving safety, capacity, and efficiency in our nation's skies and airports through the "invisible" infrastructure of NextGen, namely new air traffic control procedures. The FAA is rolling out environmentally friendly procedures that reduce fuel burn and carbon emissions, most notably through our Metroplex initiatives, including Houston and North Texas, and other airspace redesigns across the country, such as Denver and Seattle.

The FAA has also made significant progress in laying the foundational elements from which an entire suite of NextGen

capabilities will grow. In March we completed installation of the ground infrastructure for Automatic Dependent Surveillance–Broadcast (ADS-B), the new surveillance system that uses GPS signals to determine an aircraft's location. With ADS-B, controllers get an update of the aircraft position almost continuously, compared to five seconds or longer with radar. This improves the precision of our tracking and leads to enhanced safety, greater efficiency, and ultimately a smoother flow of air traffic across the nation.

Transmitting data every second may not sound like a big deal, but it is when you're talking about knowing the exact location of more than 30,000 commercial flights a day. And it's important in congested airspace to better control the flow of aircraft and reduce delays.

General aviation pilots with proper equipment have taken advantage of ADS-B to receive free traffic and weather information in the cockpit. These services are available nationwide and have already been shown to increase safety by enhancing pilots' awareness of surrounding aircraft in flight, while also keeping them apprised of significant weather, such as thunderstorms, and important information, such as Notices to Airmen and Temporary Flight Restrictions.

What makes ADS-B capabilities possible are the upgrades we are making to our air traffic control automation software. We are on track to complete En Route Automation Modernization (ERAM) by 2015 in 20 centers that control high altitude traffic. ERAM will replace the legacy computer system that the FAA has been using since the 1970s. For more information on our ERAM progress in FY 2014, please see page 48.

By FY 2017 we also expect to update the automation platform at eleven of our major Terminal Radar Approach Control facilities that control traffic approaching and departing our nation's airports. This program is called Terminal Automation Modernization and Replacement (TAMR).

Our legacy system has been limited by its relatively slow processing speed, and by the relatively small number of radar inputs it could accept. With ERAM and TAMR, we can process more data, more efficiently, from more sensors. This has already allowed us to fuse radar and ADS-B in dozens of facilities. All of this leads to a greater capacity for air traffic controllers to more effectively handle the aircraft in their sectors. Ultimately, it leads to improved efficiency for our entire airspace.

These accomplishments represent significant progress and will generate benefits for the aviation community. They do not, however, represent the end of NextGen. Rather, these technology upgrades will work in concert with ADS-B and other NextGen programs still in development—such as Data Communications and a suite of traffic management and decision-support tools—that will provide new ways to move aircraft safely and efficiently through our airspace.

Unmanned Aircraft Systems

As the provider of air traffic services, the FAA must ensure the safety and efficiency of the entire airspace, including all aircraft, people, and property—both manned and unmanned—in the air and on the ground. We recognize that the expanded use of unmanned aircraft presents great opportunities, including tangible economic benefits. However, all the associated safety issues must be carefully considered. To learn more about our UAS accomplishments in FY 2014, please see page 12.

Enhance Global Leadership

The FAA has traditionally been the "gold standard" for aviation safety and technology, but we cannot take that position for granted. Aviation is a global industry and other countries are expanding their systems at a greater rate than the United States. We need to stay engaged to ensure that we are at the table to help set standards. That requires a good deal of engagement with our international partners.

One of the first steps we took in implementing the Global Leadership Initiative was to create a new governance structure consisting of the FAA's International Advisory Board and International Steering Committee so that we can make decisions about international efforts in a data-informed, collaborative manner.

This new structure will drive the creation and implementation of an agency-wide international strategy. With this cross-organizational structure, we will be better positioned to make data-informed decisions together, align our resources, prioritize our international activities, and track our progress.

Empower and Innovate with the FAA's People

Meeting our strategic priorities requires that the FAA harness the collective strength of the agency's employees. The FAA's people are the ultimate drivers of success, which means that the FAA must attract and develop the best and the brightest talent with the appropriate leadership and technical skills. This year we made good progress on a new training program for our future leaders. The FAA Leadership and Learning Institute—which replaces the FAA's Center for Management and Executive Leadership—offers a wide range of management and leadership courses for newly-promoted FAA managers. Please see page 18 for more details about the transition to this new training program and how it performed during its first year of operation.

2014 Performance Highlights

To date, we have year-end data on 11 of 12 FY 2014 performance measures, all of which were successfully achieved. We await final data on one measure (FedView Rankings). Each performance measure is linked to one of our four strategic priorities. A summary of our performance results can be found in the Management's Discussion and Analysis chapter, which begins on page 8. More detailed information on performance measures can be found in the Performance Results section, which begins on page 36.

We continue to be successful in the area of commercial aviation safety. Based on our preliminary results, we achieved our FY 2014 target. We were also successful in achieving our goal related to the general aviation fatal accident rate. Despite this success, the rate remains unacceptably high. We must continue our efforts to reduce this number. We were also successful in meeting our targeted rate in the area of serious runway incursions. All three of these performance measures (commercial, general aviation, and serious runway incursions) support a Department of Transportation (DOT) Agency Priority Goal. More information about all of our "Making Aviation Safer and Smarter" performance measures can be found beginning on page 38.

We want to be sure that the modernization of our nation's airspace is creating benefits. Therefore, we have performance metrics that can help determine the impact our work is having on airlines and passengers—our stakeholders. In FY 2014, our ERAM performance measure, which also supports a DOT Agency Priority Goal, focused on operational readiness decisions at remaining sites. We were successful in meeting our target in this area. More detail about this performance measure can be found beginning on page 48.

Accountability

We take pride that in FY 2014, for the seventh consecutive year, independent auditors gave the FAA an unmodified audit opinion with no material weaknesses on our financial statements. We remain committed to ensuring our agency's transparency and accountability to the American taxpayer. Our unqualified statement of assurance can be found on page 32.

This year's PAR, which can also be found at *www.faa.gov/about/plans_reports,* provides a detailed accounting of our performance and financial management. A document summarizing this year's PAR can also be found by using the same link.

Conclusion

Since the days when the Wright brothers first gave life to the age-old dream of flight, aviation has seen great advances. It has become central to the way we live and do business. Now transformational progress is once again before us. The challenges posed by the rapid changes in aviation technology, airline business models, a generational change in our workforce and the move towards harmonizing aviation standards around the globe, make a compelling case for new thinking about the agency. Without new thinking and a change in culture, this indispensable transformational progress cannot take place. The FAA's dedicated staff is committed to meeting these challenges while delivering on our mission to provide the safest, most efficient airspace system in the world.

Michael P. Huerta
Administrator
November 7, 2014

Management's Discussion and Analysis

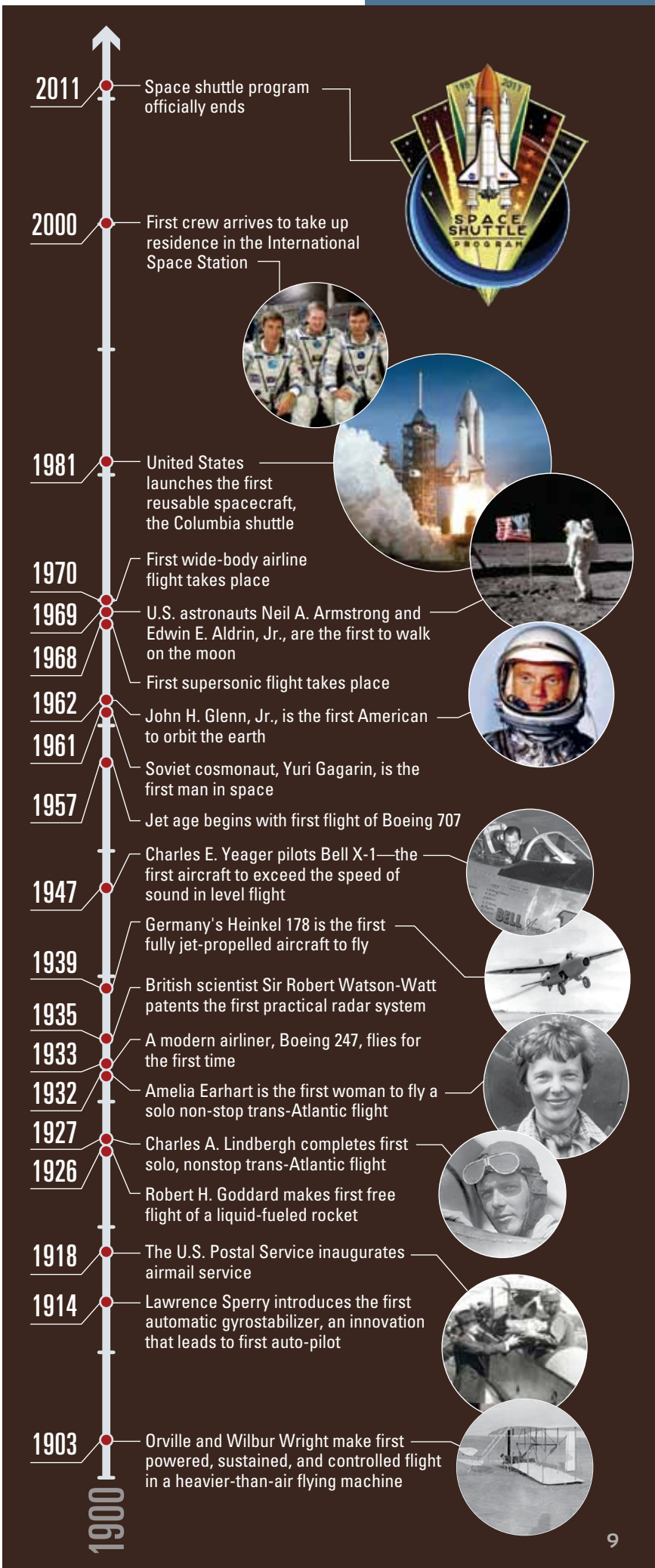
History of Modern Aviation

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 also proved its effectiveness as a military tool and, with the advent of early airmail service, showed great promise for commercial applications.

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

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

Accidents like these spurred passage of the Federal Aviation Act of 1958, which transferred Civil Aeronautics Administration functions to a new independent body, the Federal Aviation Agency, which became the Federal Aviation Administration in 1967.



Our Organization

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

- **Air Traffic Organization (ATO).** Moves air traffic safely and efficiently. The customers of the world's largest air navigation service provider are commercial, private, and military aviation. More than 32,000 ATO employees provide services to these customers.
- **Airports (ARP).** Provides leadership in planning and developing a safe, secure, and efficient airport system. Manages the Airport Improvement Program (AIP), which provides grants to public agencies and, in some cases, to private owners and entities, for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Enhances environmental quality related to airport development; develops standards for the design and construction of airport facilities; establishes regulations for the safe operation of commercial service airports; and inspects airports for compliance.
- **Aviation Safety (AVS).** Oversees the safety of aircraft and the credentials and competencies of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make air travel one of the safest modes of transportation in history.
- **Commercial Space Transportation (AST).** Oversees the safety of commercial space transportation activities; regulates the U.S. commercial space transportation industry, including human space flight; and encourages, facilitates, and promotes U.S. commercial space transportation.

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

- **Finance and Management (AFN).** Consolidates support services and provides a centralized focus for finance, acquisition, information services, and region and center operations. The streamlining of agency functions coordinated by AFN enables the FAA to be a more responsible steward of its resources. AFN is comprised of the following offices:
  - **Financial Services**
  - **Acquisitions and Business Services**
  - **Information Services**
  - **Regions and Center Operations**
    - **Aeronautical Center.** The Mike Monroney Aeronautical Center in Oklahoma City, OK, provides logistics, enterprise business services, software design, training, course design, and acquisition services. The Aeronautical Center also trains the air traffic control

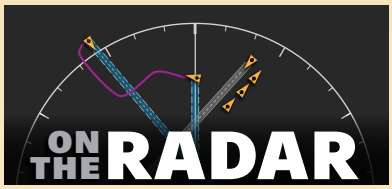
workforce and the technician workforce, as well as provides technological training, national partnerships, logistics support, simulation, and medical research—all to move the NextGen transformation forward.

- **NextGen (ANG).** The NextGen Office provides leadership in planning and developing the Next Generation Air Transportation System. This office coordinates NextGen initiatives, programs, and policy development across the FAA.
  - **Technical Center.** The William J. Hughes Technical Center, located in Atlantic City, NJ, supports the NextGen office and serves as the national scientific test base for the FAA. The Technical Center focuses on research and development, including long-range development of innovative aviation systems and concepts; development of new air traffic control equipment and software; and modification of existing systems and procedures. The Technical Center also verifies and validates air traffic control, communications, navigation, airports, aircraft safety, and security systems.

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

The FAA **Operates** and **Maintains** facilities and equipment at almost **13,000** sites nationwide

The FAA **Awards/Grants** to improve up to **3,300** eligible public-use airports in the United States



Strategic Sustainment: Maintaining the FAA's Critical Infrastructure

The FAA operates a vast network of facilities and equipment that supports the nation's airspace, much of it decades old. NextGen is bringing new systems to our airspace, but existing infrastructure must still be maintained, so that it is safe to operate and remains in proper working order.

The FAA continues to prioritize all investments, including those aimed at extending the life of existing infrastructure. In order to prioritize these needs, the agency has developed a plan with a backlog of critical projects.

As part of this plan, the FAA identified a list of 25 critical projects for the near, middle, and far term. We determined the need based on the following factors, identified in the order of relative importance: risk to employee safety; impact on the nation's airspace; impact on the environment; and cost to the taxpayer. We also determined whether the risk was systemic (affecting not just one, but many facilities).

Identifying critical sustainment projects is just one element of the plan. We are gathering inputs from all stakeholders so that we can identify shared goals and improve our processes for undertaking and managing these efforts.

We made significant progress in FY 2014. We accomplished numerous goals in the plan, including replacing 42 engine generators and modernizing 70 fuel systems needed for backup power at air traffic control facilities. We also awarded major construction projects at three en route centers and awarded a contract to replace 18 radio towers.

Our current infrastructure has served us well for many decades. With proper maintenance and sustainment, it will serve as the foundation for a safe workplace and a vibrant airspace system as we advance toward our NextGen future.

Major Accomplishments

Unmanned Aircraft Systems (UAS)

The FAA Modernization and Reform Act of 2012 requires the FAA to safely integrate UAS into the nation's airspace by 2015. This year we had several noteworthy accomplishments in our efforts to meet this goal.

Soon after the beginning of this fiscal year we released our first roadmap (*www.faa.gov/uas/media/UAS_Roadmap_2013.pdf*), which outlines the efforts that will be needed to safely integrate UAS into the nation's airspace system. The roadmap addresses current and future policies, regulations, technologies, and procedures that will be required as public demand moves the country from today's limited accommodation of UAS operations to the extensive future integration of UAS into NextGen.

Six UAS Test Entities Selected

We also announced the selection of the six congressionally mandated public entities that will administer UAS research at related test sites around the country. In selecting the six test site operators, the FAA considered geography, climate, location of ground infrastructure, research needs, airspace use, safety, aviation experience, and risk. In totality, these six test sites achieve cross-country geographic and climatic diversity and will enable the FAA to meet its UAS research needs.

The six test site operators are all now up and running and are conducting research in many different areas in support of UAS integration. They are actively seeking partners in the UAS industry to expand their research portfolios. Below is a brief description of the test sites and the research they propose to conduct:

- **University of Alaska.** The University of Alaska proposal contained a set of test site locations that were diverse both in terms of climate and geography, including seven climate zones. In addition to Alaska, test site range locations include Hawaii and Oregon. The research plan includes the development of a set of standards for unmanned aircraft categories, state monitoring, and navigation. Alaska also plans to work on safety standards for UAS operations.
- **State of Nevada.** Nevada's project objectives concentrate on UAS standards and operations, as well as operator standards and certification requirements. The applicant's research will also focus on the way in which air traffic control procedures will evolve with the introduction of UAS into the civil environment and the way these aircraft will be integrated under NextGen. Nevada's selection contributes to geographic and climatic diversity.
- **New York's Griffiss International Airport.** Griffiss International plans to work on developing test and evaluation, as well as verification and validation processes under FAA safety oversight. The applicant also plans to research UAS sense-and-avoid capabilities. Its sites will aid in researching the complexities of integrating UAS into the congested Northeast airspace.
- **North Dakota Department of Commerce.** North Dakota plans to develop UAS airworthiness essential data and validate high-reliability, data link technology. This applicant will also conduct human factors research. North Dakota's application was the only one to offer a test range in the temperate climate zone of the continental United States. It also included a variety of different kinds of airspace, which will benefit many users.
- **Texas A&M University—Corpus Christi.** Texas A&M plans to develop system safety requirements for UAS vehicles and operations. These requirements include protocols and procedures for airworthiness testing. The selection of Texas A&M contributes to geographic and climactic diversity.
- **Virginia Polytechnic Institute and State University (Virginia Tech).**Virginia Tech plans to conduct UAS failure mode testing and identify and evaluate operational and technical risk areas. This proposal includes test site range locations in both Virginia and New Jersey.

UAS Partnerships with Industry

In June, we gave approval for energy corporation BP and UAS manufacturer AeroVironment to fly an AeroVironment Puma AE for aerial surveys in Alaska. This is important because it is the first time the FAA has authorized a commercial UAS operation over land.

The Puma AE is a small, hand-launched UAS, approximately 4 1/2 feet long, with a wingspan of 9 feet. Using the information generated by the Puma's sensors, BP hopes to target maintenance activities on specific roads and infrastructure, which will save time and support safety and operational reliability goals, while helping to protect the sensitive North Slope environment.

The 2012 reauthorization law tasks us with integrating small UAS into the Arctic airspace on a permanent basis. This operation will help us accomplish that congressionally mandated goal.

In late September, the FAA also granted regulatory exemptions to six aerial photo and video production companies, the first step in allowing the film and television industry to use UAS in the nation's airspace for production purposes. FAA determined that the UAS did not need an FAA-issued certificate of airworthiness based on a finding that they did not pose a threat to national airspace users or national security. The firms had asked FAA to grant exemptions from regulations that address general flight rules, pilot certificate requirements, manuals, maintenance and equipment mandates. To receive the exemptions, they had to show that their UAS operations would not adversely affect safety. In their applications, the firms said the operators will hold private pilot certificates, keep the UAS within line of sight at all times, and restrict flights to certain areas on the set. In granting the exemption, FAA accepted these safety conditions, adding an inspection of the aircraft before each flight, and prohibiting these types of operations at night to further ensure the safety of these operations.

Center of Excellence for UAS

In August, we released our final solicitation for a new FAA Center of Excellence (COE) for Unmanned Aircraft Systems. The new COE will be tasked with identifying current and future issues critical to safe integration of UAS into the nation's airspace.

The COE will study several technical issues critical to successful UAS integration, including detect-and-avoid technology, control and communications, low-altitude operations safety, compatibility with air traffic control operations, and training and certification of UAS pilots and other crewmembers.

The universities that sponsor the COE will be required to match federal grants, dollar for dollar, from nonfederal sources. Exactly how the new COE will interact with the UAS test sites will be determined once the COE team is in place and develops its detailed research plans.

Alaska Test Range flight using an Aeryon Scout, at the Firefighters Training Facility, Fairbanks, Alaska (Jay Skaggs)

NextGEN

What Is NextGen?

For more than six decades, we have controlled aircraft across the country using the same basic radar technology. NextGen is an upgrade from this earlier ground-based navigation system to satellite-based navigation technology. This latest technology affects all of us—from the pilots who fly the planes, to the air traffic controllers who ensure safe separation between aircraft and determine flight routes, to the passengers who benefit from a safer, more efficient system.

Satellite-based navigation enables pilots to know the precise location of other airplanes around them. Such situational awareness adds a further dimension of safety to that already provided by air traffic control. Enhanced knowledge of aircraft location also means that planes can fly safely with less separation between them, resulting in the efficiency of more planes in the air at the same time. This increased capacity in the air also helps to alleviate flight delays. Indirect routes between locations are being replaced with more direct routes that save time and fuel.

Satellite-based landing procedures enable controllers to help pilots arrive at airports more predictably and more efficiently. Traditional step-down descents to the airport, which consume more time and fuel, are being replaced with continuous descents, which are more like sliding down a bannister. And once on the ground, satellite-based monitoring makes it possible for airplane passengers to get to their gates more quickly.

We are already seeing the benefits of NextGen. (See "NextGen Today" on page 15.)

NextGEN

Why Does NextGen Matter?

NextGen makes aviation more efficient, benefits the environment and enhances safety.

Makes Aviation More Efficient

As the nation's skies and largest airports become increasingly busy, NextGen means less time sitting on the ground and holding in the air. NextGen technology and procedures are shaving crucial minutes off flight times.

NextGen enables the sharing of real-time data about weather, the location of aircraft and vehicles in the air and on the ground, and conditions throughout our nation's airspace. Getting the correct information in a timely manner helps controllers and operators make better decisions and improve on-time performance.

Better for the Environment

With NextGen, flying is becoming quieter, cleaner and more fuel-efficient. Pilots and air traffic controllers are beginning to use new equipment and procedures, like optimized profile descents, reducing aviation's adverse impact on the environment. More precise flight paths are also helping limit the numbers of people impacted by aircraft noise.

Enhances Safety

The FAA's top priority is ensuring safe skies and airfields. NextGen is providing air traffic controllers and pilots with the tools to proactively identify and mitigate issues associated with weather and other hazards, enabling us to better meet our national security needs.

Congress mandated that the FAA establish this COE under the Consolidated Appropriations Act of 2014. Operating somewhat like university-think tank partnerships, the agency's COEs bring together the best minds in the nation to conduct research, to educate and train, and to work with the FAA toward solutions to aviation-related challenges.

For more information about UAS, go to *http://www.faa.gov/about/initiatives/uas/*.

Safety

Helicopter Safety

This year we issued a final rule that requires helicopter operators, including operators of air ambulances, to have stricter flight rules and procedures, improved communications, better training, and additional on-board safety equipment. The rule represents the most significant improvements to helicopter safety in decades and responds to government's and industry's concern over continuing risk in helicopter operations.

Since August 2004, the FAA has promoted initiatives to reduce risks for helicopter air ambulance operations. While accidents did decline in the years following the launch of the effort, 2008 proved to be the deadliest year on record, with five accidents that claimed 21 lives. We examined helicopter air ambulance accidents from 1991 through 2010 and determined 62 accidents that claimed 125 lives could have been mitigated by the new rule. Hence the urgency to develop the rule.

While developing the rule, the agency considered 20 commercial helicopter accidents from 1991 through 2010 (excluding air ambulances) that resulted in 39 fatalities**.** From 2011 through 2013, there were seven air ambulance accidents resulting in 19 fatalities and seven commercial helicopter accidents that claimed 20 lives.

All U.S. helicopter operators, including air ambulances, will now be required to use stricter flying procedures in bad weather. This will provide a greater margin of safety by reducing the possibility of collisions with terrain, obstacles, or other aircraft.

The rule, which responds to the FAA Modernization and Reform Act of 2012 and National Transportation Safety Board (NTSB) recommendations, requires all operators to use enhanced procedures for flying in challenging weather and at night, and for landing in remote locations. Within three years, helicopter air ambulances must use the latest on-board technology and equipment to help them avoid terrain and obstacles. Within four years, they must be equipped with flight data-monitoring systems.

Under the new rule, all Part 135 (commuter and on demand operations) helicopter operators are required to:

- Equip their helicopters with radio altimeters.
- Have occupants wear life preservers and equip helicopters with a 406 MHz Emergency Locator Transmitter when a helicopter is operated beyond power-off glide distance from the shore.

- Use higher weather minimums when identifying an alternate airport in a flight plan.
- Require that pilots are tested to handle flat-light, whiteout, and brownout conditions, and demonstrate competency in recovery from an inadvertent encounter with instrument meteorological conditions.

In addition, under the new rule, all air ambulance operators are required to:

- Equip with Helicopter Terrain Awareness and Warning Systems.
- Equip with a flight data-monitoring system within four years.
- Establish operations control centers if they are certificate holders with 10 or more helicopter air ambulances.
- Institute pre-flight risk-analysis programs.
- Ensure their pilots in command hold an instrument rating.
- Ensure pilots identify and document the highest obstacle along the planned route before departure.
- Comply with Visual Flight Rules weather minimums, Instrument Flight Rules operations at airports/heliports without weather reporting, and procedures for point-in-space approaches.
- Conduct the flight using Part 135 weather requirements and flight-crew time limitations and rest requirements when medical personnel are on board.
- Conduct safety briefings or training for medical personnel.

Commercial Pilot Training

As part of our ongoing efforts to enhance safety and put the best qualified and trained pilots in the flight decks of U.S. airplanes, we issued a final rule that will significantly advance the way that commercial air carrier pilots are trained.

The final rule requires:

- Ground and flight training that enables pilots to prevent and recover from aircraft stalls and upsets. These new training standards will impact future simulator standards as well.
- Air carrier tracking of remedial training for pilots with performance deficiencies, such as failing a proficiency check or unsatisfactory performance during flight training.
- Training for more effective monitoring of pilot performance.
- Enhanced runway safety procedures.
- Expanded crosswind training for pilots, including training for wind gusts.

The final rule stems in part from the tragic crash of Colgan Air 3407 in February 2009 and addresses a congressional mandate in the Airline Safety and Federal Aviation Administration Extension Act of 2010 to ensure enhanced pilot training. The rule is one of several rulemakings required by the Act, including the requirement to prevent pilot fatigue, which was finalized in January 2012, and the increased qualification requirements for first officers who fly U.S. passenger and cargo planes, which were issued in July 2013.

NextGEN

NextGen Today

Although NextGen is a long-term and complex undertaking, we are already witnessing very significant benefits from it.

Pilots and controllers have greater flexibility. At Hartsfield-Jackson Atlanta International Airport, for example, NextGen technology allows for tighter "headings." The tighter headings at this airport mean that 8-12 more planes per hour can depart. At Atlanta, that saves 11,000 hours of tarmac wait time.

NextGen has also reduced wake-based separation standards. (An aircraft's "wake" is the turbulence that forms as it passes through the air, which until now has required wider separation between aircraft to ensure safety. For more information, please see page 21.) In June, for example, we put such standards in place at Atlanta's Hartsfield-Jackson International Airport. The reduced separation standards mean that aircraft can safely land and depart—one behind another—slightly closer than before. Similarly, we revised wake standards at Louisville airport last fall.

NextGen also reduces congestion in busy metro areas that have complex air traffic patterns involving two or more airports. These areas are called metroplexes. Metroplex solutions incorporate NextGen procedures to integrate and streamline the air traffic patterns in these complex areas. NextGen procedures in metroplex areas also help aircraft avoid fuel burning turns as they route around competing areas of air traffic, saving millions of dollars.

Metroplex solutions are underway in Houston and North Texas, Northern and Southern California, Atlanta, Charlotte, N.C., and Washington, D.C. (For a discussion of accomplishments in the Houston metroplex, see page 16.) We estimate that airlines flying into the nation's capital now using NextGen procedures will save $2.3 million in fuel per year and cut aircraft exhaust emissions by 7,300 metric tons.

ON THE RADAR

Broadening Our Horizons—From Airspace to Aerospace

When we refer to routine air travel today, including the navigational systems and procedures that are used to keep proper separation between aircraft, we typically use the terms airspace, our nation's airspace, or national airspace. "Airspace" is the portion of the sky that is controlled by a country above its territory, including its territorial waters.

But the rapidly evolving commercial space transportation industry has given greater currency to the term aerospace. "Aerospace" refers more broadly to the atmosphere and the space beyond. Space transportation vehicles typically travel through our nation's controlled airspace to the upper regions of the atmosphere, or earth's orbit.

Several companies are currently funding development of new orbital and suborbital vehicles to be used for a variety of space transportation missions, including space tourism. Companies are hoping to launch people on short suborbital trips within the next year or two, with many people already signed up for a ride well beyond the upper regions of controlled airspace. The establishment of a space tourism industry depends upon the development of vehicles capable of launching people into space and returning them to earth.

The mission of the FAA's Office of Commercial Space Transportation is to protect the public, property, and the national security and foreign policy interests of the United States during commercial launch or reentry activities, while encouraging, facilitating, and promoting our nation's commercial space transportation industry. Broadening our horizons beyond our nation's airspace to encompass commercial space travel means that we are moving from airspace to aerospace.

Other Major Accomplishments

Release of "Recommended Practices for Human Space Flight Occupant Safety"

In the last quarter of FY 2014, the FAA released a report outlining practices and recommendations for commercial space flight occupant safety. The report provides a framework for industry to use in developing consensus standards. The report also serves as a starting point, should there be a need for the government to issue regulations at some point in the future.

In developing the document, the FAA's Office of Commercial Space Transportation reviewed existing government and private-sector requirements and standards to tap into the wealth of information that has accrued over the course of 50 years of human space flight. The FAA also consulted with many stakeholders, including the Commercial Space Transportation Advisory Committee, the National Aeronautics and Space Administration, the FAA's Civil Aerospace Medical Institute, and the FAA's Center of Excellence for Commercial Space Transportation.

The recommended safety practices are broadly written and primarily performance-based, stating a safety objective to be achieved and leaving the design or operational solution up to the designer or operator. In preparing the recommended practices, the agency wanted to encourage technological innovation so that flight crews or space flight participants are unlikely to be exposed to avoidable risks.

See a copy of the report at *http://www.faa.gov/about/office_org/headquarters_offices/ast/news_announcements/media/Recommended_Practices_for_HSF_Occupant_Safety-Version1.pdf*.

Houston Metroplex Implementation

In May 2014, we successfully implemented the Houston Metroplex NextGen airspace redesign project. (See discussion of metroplexes on page 15 under NextGen Today.) The project will reduce distances flown by American aircraft by as much as 648,000 nautical miles annually, based on new flight plans. This will save up to three million gallons of fuel and reduce carbon emissions by as much as 31,000 metric tons each year.

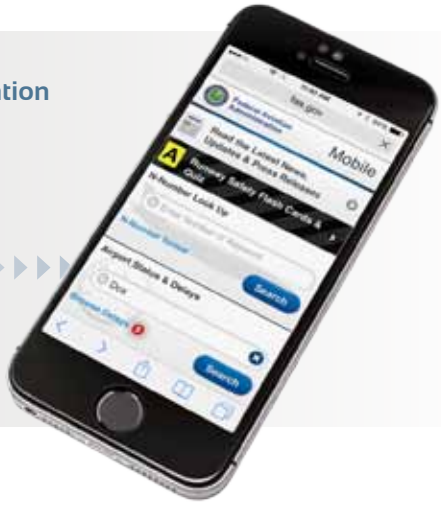
DID YOU KNOW?

Airport Flight Delay Information

You can check airport delays by visiting this interactive site:

m.faa.gov

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



The Houston Metroplex initiative includes a number of strategies that have streamlined the airspace and helped reduce complexity for air traffic controllers and flight crews. As part of the program, the FAA developed 61 new procedures to take advantage of the precision of Global Positioning System (GPS) technology.

The new strategies included:

- Creating Optimized Profile Descent (OPD) procedures into George Bush Intercontinental and William P. Hobby airports in the Houston area.
- Creating more efficient routes between Houston and the Dallas/Fort Worth metroplex areas to shave miles off of each flight through this busy corridor.
- Developing similarly efficient alternative routes that can be used when bad weather affects normal arrival and departure paths.
- Establishing departure and arrival routes that align airplanes on preferred paths, reducing the number of miles flown.
- Utilizing more side-by-side arrival routes into George Bush Intercontinental Houston Airport to increase airspace efficiency and provide more direct routing.
- Developing satellite-based departure procedures that provide predictable, repeatable flight paths that enable planes to climb steadily without leveling off from time to time. Steady climbs enable aircraft to reach a cruising altitude sooner.

The FAA worked with collaborative teams of air traffic controllers, airport officials, airline representatives, general aviation operators, industry stakeholders, and community representatives to study, design, and implement comprehensive approaches to making these improvements at the Houston Metroplex. Shareholders explain the benefits of the Houston Metroplex in a video found at *https://www.youtube.com/watch?v=uLi3-XNrjeY&feature=youtu.be*.

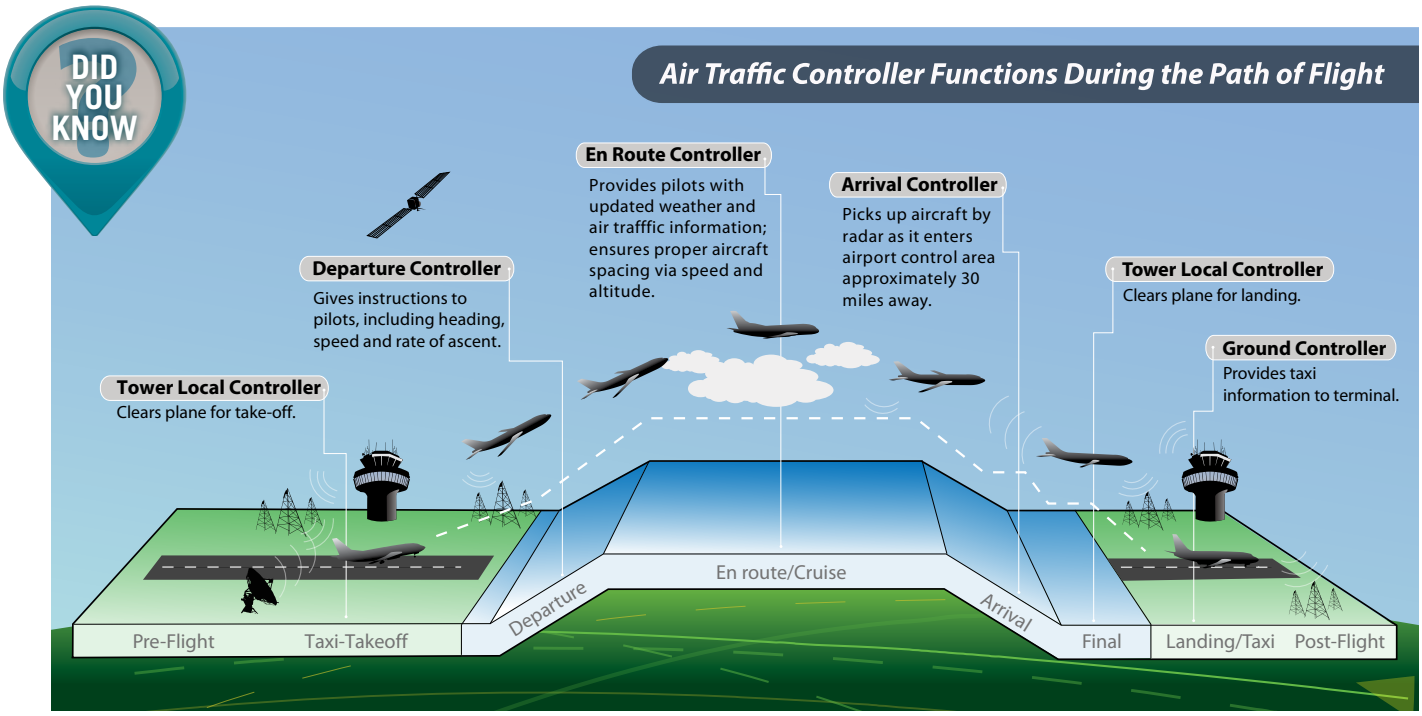
To see how the Houston project works, please visit *https://www.youtube.com/watch?v=U-1hZivuNts&feature=youtube*.

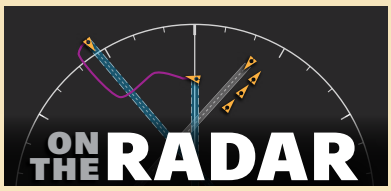
Alternative Fuels

The FAA is committed to achieving sustainable aviation growth. "Sustainability" involves reduction of environmental impacts and energy consumption, and is a key element in our NextGen efforts. Our strategy to accomplish these reductions relies on the development and deployment of alternative fuels for commercial aviation.

Our agency recognizes that multiple fuel solutions will be required to meet our aspirational fuel production goals. Therefore we support all feasible alternative jet fuel development pathways. To facilitate this, the FAA has been funding initiatives that support the American Society for Testing and Materials (ASTM) International, which is the official fuel standards organization.

The FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) (*http://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=16814*) partnership with industry was crucial in completing the fuel testing necessary to gain ASTM's approval in June 2014 of the new fuel known as Synthesized Iso-Paraffins,





Air Turbulence

In many cases, pilots know about turbulent air conditions ahead of time and can turn on the seatbelt sign as the plane approaches it. But turbulence can also happen unexpectedly and in clear skies. Clear-sky turbulence is stirred up by atmospheric pressure, jet streams, cold or warm weather fronts, thunderstorms, or air patterns around mountains.

Although turbulence can be frustrating and uncomfortable for passengers, pilots are well trained and aircraft are designed to pass through it every day.

(These kinds of air turbulence are distinct from "wake turbulence," which is discussed on page 21.)

What should passengers do to avoid injuries?

Passengers can easily prevent injuries from unexpected turbulence by keeping their seat belt buckled at all times. The FAA's additional tips for staying safe include:

- Listen to the flight attendants—pay attention to the safety briefing at the beginning of your flight and read the safety briefing card.
- Use an approved child-safety seat or device if your child is under two years old.
- Prevent inflight injuries by following your airline's regulations about where to put carry-on baggage.

What do airlines do to avoid turbulence and prevent injuries?

The FAA has developed guidance material to help air carriers and other operators prevent turbulence injuries. The material focuses on:

- Improving dispatch procedures by keeping communication channels open full-time.
- Including turbulence in weather briefings.
- Promoting real-time information sharing between pilot and dispatcher.
- Reinforcing the air carrier's turbulence avoidance policy through dispatcher training.
- Considering flight rerouting, using automation, atmospheric modeling, and data displays.
- Using all applicable weather data, as well as reporting and forecasting graphics.

The FAA also encourages air carriers to use operating procedures and training to prevent turbulence injuries; emphasize the importance of flight attendants' personal safety; promote communication and coordination; and review their own history of turbulence encounters and injuries.

or SIP. The FAA played a critical role in advancing this new alternative fuel by facilitating, and coordination and communications among aviation stakeholders and the fuel-producing community.

The new SIP fuels add to the growing list of alternative jet fuels that are approved for use by aviation, including Hydroproccessed Esters and Fatty Acids fuel and Fischer-Tropsch synthesis fuel. These renewable fuels will help reduce the nation's carbon footprint; studies have found they could produce 75 to 90 percent fewer greenhouse gas emissions on a life-cycle basis that goes from production to actual usage. The new SIP fuel is renewable, in that it is made from sugarcane and other sugar-producing plants. This expands the sources that can be used to produce alternate fuels.

In addition to CLEEN, the FAA is working with industry, other government agencies, and academia to support development of additional alternative jet fuel pathways. The agency anticipates multiple approvals of new alternative jet fuels from renewable sources over the next several years.

A major focus of the FAA work on helping to develop alternative fuels is to require that any new jet fuels be "drop-in," meaning that they will not need additional equipment or modifications to be usable in existing engines.

FAA Leadership and Learning Institute (FLLI)

The FAA Leadership and Learning Institute emerged in 2014 as the replacement for the FAA's Center for Management and Executive Leadership. FLLI offers a variety of leadership courses for newly-promoted FAA managers. The content for all courses evolved out of collaboration among the members of the FAA's Learning Professionals Guiding Coalition, a cross-functional team of subject-matter experts from various FAA lines of business and staff offices. The focus of the dedicated team members on building future leaders led to the creation of targeted and engaging learning experiences. During its first six months of operations, the FLLI trained more than 600 student-managers in residence and delivered more than 7,500 eLearning experiences. Early indicators suggest that the FLLI curriculum will go far to help prepare future leaders at the FAA.

Performance Highlights

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

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

Managing Performance

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

1) **Set Goals**
2) **Plan, Work, and Budget**
3) **Monitor Work**
4) **Assess Results**

Each year we improve on this strategy through adoption or 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 in need of improvement. These areas include near-term priorities and long-term management challenges. Goals, performance measures, targets, and initiatives are laid out in our strategic plan.

Plan, Work, and Budget

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

In terms of budget, our complete FY 2014 Congressional Justification can be found at: *http://www.dot.gov/sites/dot.gov/files/docs/FAA_FY2014_Budget_Estimates.pdf*.

The FAA also has a section in the DOT-prepared *Budget Highlights Fiscal Year 2014*. This document can be found at: *http://www.dot.gov/sites/dot.gov/files/docs/FY%202014%20Budget%20Highlights.pdf*.

In addition, our strategic initiatives and business plans for all FAA organizations are available at *www.faa.gov/about/plans_reports*.

Monitor Work

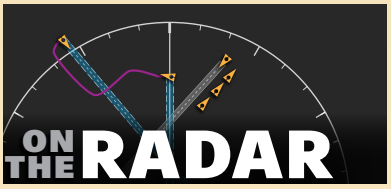
Monitoring occurs in the course of the various performance management activities in which our executives and employees participate each month.

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

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

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

The two councils create a more transparent decisionmaking process, one with clear roles; clarify decisions across the FAA; clearly communicate decisions by means of decision memos; and retire the previous governance structure, which included the former Strategy, Budget and Performance (SBP) Committee and the Governance Roundtable.



2014 Sees Expanded Use of Portable Electronic Devices (PEDs) on Aircraft

Passenger Use

The FAA has determined that passenger use of PEDs is safe during all phases of flight. But each airline sets its own policies regarding PED use. At certain times—for example, during a landing in reduced visibility—the pilot may require passengers to turn off their devices to ensure that they don't interfere with onboard communications and navigation equipment.

PEDs must be held or stowed in a safe location, such as a seat-back pocket, during takeoff and landing. At that time, cellular service must be disabled and may not be used for voice communications because of potential interference with ground networks. FAA guidance does allow cell phone calls once the plane has landed and is taxiing to the gate.

Pilot Use

Different models of aircraft are individually tested for vulnerability to electronic interference potentially posed by PED use. Once an airline's aircraft have passed these tests, the FAA may grant approval for pilots to use tablets in the cockpit as part of an "electronic flight bag," in lieu of bulky paper navigation charts and manuals.

However, in February 2014, the FAA issued a final rule requiring all airline pilots to abstain from using PEDs during any operation. The rule codifies existing FAA policies and procedures and meets an FAA Modernization and Reform Act of 2012 mandate that prohibits all commercial airline flight crews from using wireless communications devices or laptop computers intended for personal reasons during any aircraft operations.

However, the Performance Committee (formerly a subcommittee of the SBP) continues to meet monthly to review goals and related performance targets so as to identify areas in special need of management's attention. The committee, comprised of designated agency executives representing lines of business and staff offices, recommends new agency performance goals and reports on achievement of performance goals to the Business Council at least annually, and otherwise as needed.

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 in the Message from the Administrator, the agency has refocused itself on four key strategic priorities to help the national airspace system better prepare for forecasted growth and future changes in the industry and to meet America's growing reliance on air travel. All of our performance measures are linked to one of these four priorities:

Make Aviation Safer and Smarter

Safety is the backbone of what we do. We must build on safety management principles to proactively address emerging safety risks. We want to make smarter, system-level, risk-based decisions. This year, we achieved all six safety goals. For a complete discussion of these safety measures, see page 38.

Deliver Benefits through Technology and Infrastructure

We must deliver the benefits of NextGen. This involves keeping NextGen development on schedule and on budget, but it also encompasses delivering the benefits of NextGen to users right now. This year, we were successful in achieving the five goals associated with this priority area. For more information, please see page 47.

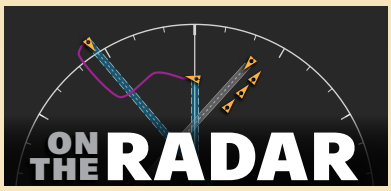
Enhance Global Leadership

It is important for the FAA to play a leadership role globally. We want to improve safety, air traffic efficiency, and environmental sustainability across the globe. We will do this through shaping global standards and enhancing collaboration and harmonization. During FY 2014, our efforts focused on developing the agency-wide structure that will support this strategic priority area.

Empower and Innovate with the FAA's People

It is critical that we prepare for the future by improving the way we recruit and train our workforce. We need the leadership, technical, and functional skills to

ensure that the United States has the world's safest and most productive aviation sector. The results of the measure in this priority area (FedView Rankings) will not be available until December 2014. For more information, please see page 54.



Wake Recategorization Increases Capacity and Decreases Aviation's Carbon Footprint

Wake turbulence is turbulence that forms behind an aircraft as it passes through the air. It's important that aircraft are far enough apart that they aren't affected by each other's wake turbulence. The required wake turbulence separation between aircraft is based on the aircraft's classification, or category.

The former system of classifying aircraft for wake turbulence separation was based primarily on the weight of the aircraft. That method required longer wait times between airplane departures and arrivals, so that aircraft would meet what were considered safe separation standards. Those former, more conservative separation standards also meant, for example, that arriving aircraft had to be in the air longer, as they waited their turn to land.

Cloud formations capture a visualization of wake turbulence created by an aircraft. Photo: Boldmethod.

But beginning in November 2012, new FAA rules were adopted that recategorized aircraft based on their performance characteristics rather than their weight. This re-categorization (RECAT) more narrowly and accurately defined safe wake-turbulence separation, and has brought many benefits to aviation.

Memphis International Airport implemented RECAT first, in November 2012, and Louisville International Airport followed in September 2013. Cincinnati/Northern Kentucky International Airport adopted the revised standards in March 2014. Most recently, on June 1, 2014, Hartsfield-Jackson Atlanta International Airport implemented the new FAA RECAT rules. Other airports are expected to follow suit.

Analysis by the FAA's wake turbulence program has shown about a 20 percent increase in the number of arrivals and departures at Memphis. Before RECAT, Memphis accepted 77 arrivals per hour. Now the airport accepts 99 arrivals per hour. FedEx, which is headquartered in Memphis, reported $1.8 million in savings per month as a result of the changes. UPS, whose worldwide hub is in Louisville, has reported saving about 52,000 lbs. of fuel on arrivals per night.

Benefits of Wake RECAT:

- UPS saved 52,000 lbs. of fuel on arrivals per night.
- FedEx saved $1.8 million per month.
- Memphis accepted 99 arrivals per hour, up from 72.

Performance At A Glance

Our FY 2014 performance to date is summarized in the following tables and discussed in detail in the Performance Results section. The measures are grouped below according to the Administrator's strategic priorities, with the exception of the Enhance 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 risks by using consistent, data-informed approaches to make smarter, system-level, risk-based decisions.

Performance Measure	FY 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
Commercial Air Carrier Fatality Rate* In FY 2014, the commercial air carrier fatality rate will not exceed 7.2 fatalities per 100 million people on board.	7.2	0.6[1]	✓	6.9
Serious Runway Incursions Rate* Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.395	0.309[2]	✓	0.395
System Risk Event Rate Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.	20	3.52[3]	✓	20
IT Risk Management and Information Systems Security Utilize Continuous Diagnostics and Mitigation (CDM) capabilities to continuously enhance our ability to prevent, deter, detect, and respond to cyber attacks against the FAA's infrastructure for 95% of non-national airspace system (NAS) Internet Protocol (IP)-based systems and pilot CDM capabilities on a NAS IP-based system.	95% of non-NAS IP-based systems 100% of one NAS IP-based system	98% of non-NAS IP-based systems 100% of one NAS IP-based system	✓	TBD
General Aviation Fatal Accident Rate* Reduce the general aviation fatal accident rate to no more than 1.05 fatal accidents per 100,000 flight hours.	1.05	1.05[4]	✓	1.04
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0

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

✓ Target met ✘ Target not met

1 Preliminary estimate until final result can be confirmed by the National Transportation Safety Board (NTSB) in March 2016. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

2 Preliminary estimate until the final result becomes available in January 2015. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

3 Preliminary estimate until the final result becomes available in January 2015. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

4 Preliminary estimate until the final result becomes available in March 2016. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

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 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
En Route Automation Modernization (ERAM)* Complete Operational Readiness Decision (ORD) for En Route Automation Modernization (ERAM) at 4 Air Route Traffic Control Centers (ARTCCs) by September 30, 2014.	4	5	✓	4
Major System Investments In FY 2014, maintain 90% of major system investments within 10% variance of current acquisition program baseline (APB) total budget at completion.	90%	95%	✓	90%
National Airspace System Energy Efficiency[5] Improve aviation fuel efficiency by 18% relative to the calendar year 2000 baseline.	(-18%)	(-22.4%)	✓	(-20%)
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 356,000 in calendar year 2014.	356,000	321, 000	✓	342,000
Unmodified Audit Opinion Obtain an unmodified opinion with no material weakness on the agency's financial statements.	Unmodified audit opinion with no material weakness	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

5 The National Airspace System Energy Efficiency target may be changed or eliminated in the future. For more information, please see page 50.

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 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
FedView Rankings[6] FAA is ranked in the top 37% of federal agencies in the Best-Places-to-Work FedView rankings.	37%	TBD	TBD	34%

6 Results for FY 2014 will not be available until December 2014. Our FY 2013 FedView results were made available after our FY 2013 PAR was published and can be found on page 55.

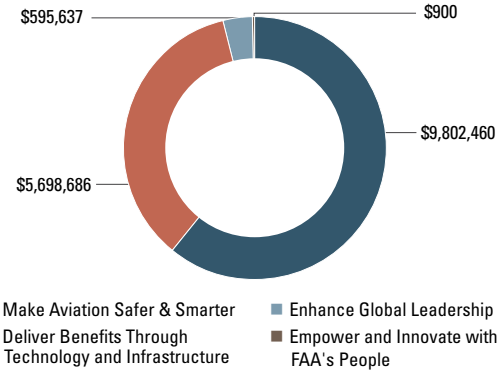
Alignment of FAA Costs and Strategic Priorities

We use our cost accounting system to track and summarize our costs in a matrix format laid out by organizational unit and project. This enables us to evaluate whether our spending is in alignment with the agency's four strategic priorities.

At the beginning of each project, we determine the degree to which the project will contribute to one or more of the priorities. We then allocate actual project costs to the strategic priorities supported by the project. Because we also routinely accumulate costs by organizational unit, we are then able to assign total net costs among our four lines of business and our combined staff offices, by strategic priority.

The FAA total net cost of $16.1 billion was allocated to our four strategic priorities, as described below and as shown in the *Net Cost by Strategic Priority Area* chart Note 11 of the financial statements on page 90.

Net Cost by Strategic Priority Area
as of September 30, 2014
(Dollars in Thousands)



Make aviation safer and smarter. More than $9.8 billion, or approximately 61 percent of our total net cost, was devoted to our 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 $6.3 billion, largely to maintain the safe separation of aircraft in the air and on the ground.

- The Aviation Safety Organization (AVS) spent just 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 nearly $491.4 million to further support the agency's safety mission.

Deliver benefits through technology and infrastructure. Approximately $5.7 billion, or about 35 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 $4.3 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, we committed almost $1 million to strengthening our international leadership role. These efforts included programs aimed at reducing fatal accidents around the world. Funding for training and technical assistance helped promote safety standards as well.

Empower and innovate with the FAA's people. Approximately $595.6 million supported this strategic priority, to which nearly all the lines of business and staff offices contributed.

Financial Highlights

Discussion and Analysis of the Financial Statements

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

FY 2014 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. 07–04, *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 2014 financial statements.

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

KPMG LLP has rendered an unmodified audit opinion on FAA's FY 2014 financial statements.

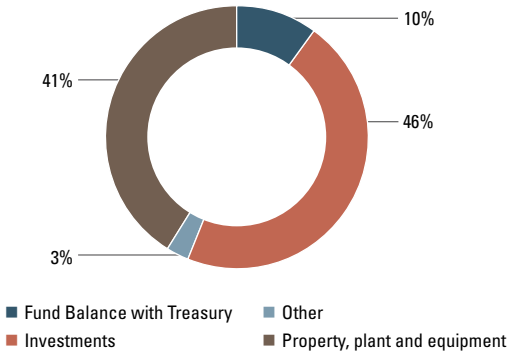
Understanding the Financial Statements

FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources, have been prepared to report the financial position and results of operations of FAA, pursuant to the requirements of the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The following section provides a brief description of (a) the nature of each financial statement and its relevance to FAA, (b) significant fluctuations from FY 2013 to FY 2014, and (c) certain significant balances, where necessary, to help clarify their link to FAA operations.

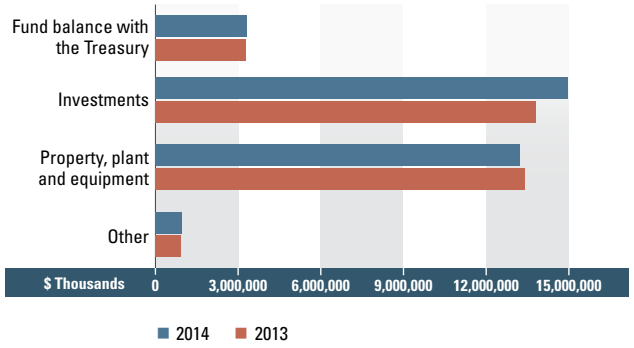
Balance Sheet

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

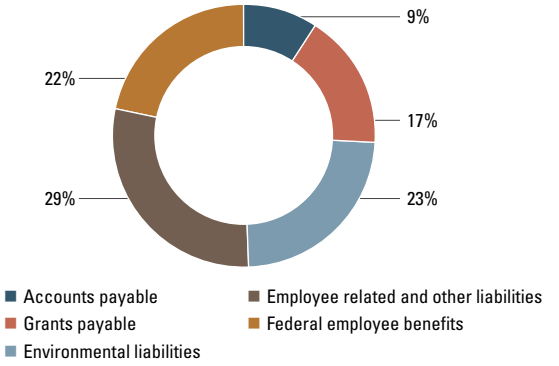
Composition of Assets
as of September 30, 2014



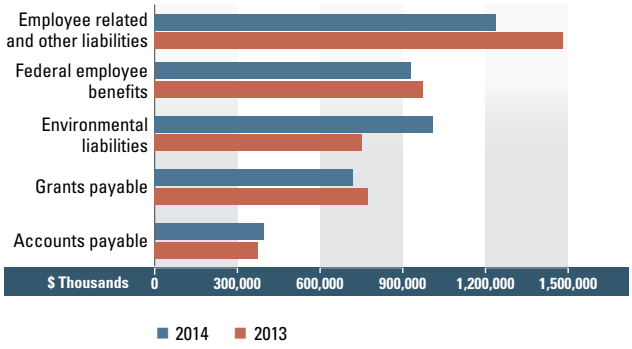
Assets Composition
(Dollars in Thousands)



Composition of Liabilities
as of September 30, 2014



Liabilities Composition
(Dollars in Thousands)



Assets

Total assets were $32.6 billion as of September 30, 2014. 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, 2013 and 2014.

Fund balance with Treasury (FBWT) represents 10% 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 was unchanged from last year at $3.3 billion.

At $15.0 billion, *Investments* represent 46% of the FAA's current period assets, and are derived from passenger ticket and other excise taxes deposited to the AATF and premiums collected from the Aviation Insurance Program. These amounts are used to finance the FAA's operations to the extent authorized by Congress and to pay potential insurance claims. Investments increased by $1.2 billion due to an increase in excise tax revenues of $659.0 million, coupled with yearly War Risk premiums of $131.8 million, and earned interest of $250.6 million. Additionally, investments are not liquidated until needed to fund expenses which accounts for the remaining increase on a comparative basis.

At $13.3 billion, *General property, plant, and equipment, net* (PP&E) represents 41% of the FAA's assets as of September 30, 2014, and primarily comprises construction-in-progress related to the development of national airspace system assets, and capitalized real and personal property. There was a decrease of $97.3 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, 2014, FAA reported liabilities of $4.3 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.

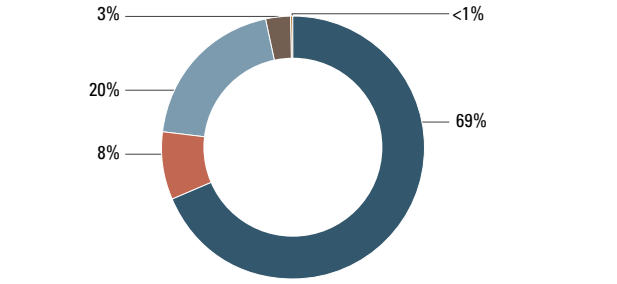
The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2013 and September 30, 2014. Below is a discussion of the major categories.

At $1.2 billion, *Employee related and other liabilities* represent 29% of FAA's total liabilities. These liabilities decreased by $245.9 million as of September 30, 2014 and are comprised mainly of $245.8 million in advances received, $188.6 million in Federal Employee's Compensation Act payable, $204.2 million in accrued payroll and benefits, $478.7 million in accrued leave and benefits, $9.7 million in legal claims liability and $73.2 million in capital lease liability.

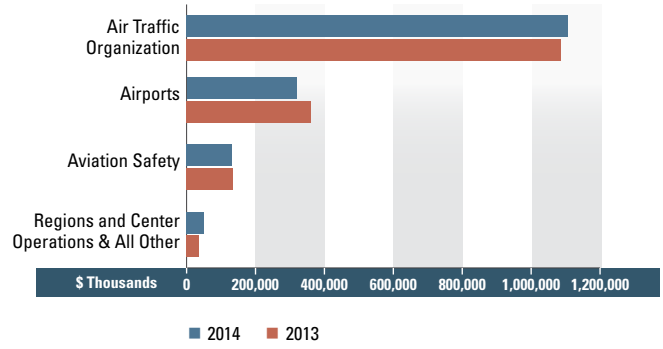
At $927.5 million, *Federal employee benefits* represent 22% of the FAA's current year liabilities, and consist of the actuarially determined liability for death, disability, and medical costs for approved workers compensation cases, plus a component for incurred but not reported claims. The Department of Labor (DOL) calculates the liability for the DOT, and the DOT attributes a proportionate amount to the FAA based upon actual workers' compensation payments to the FAA employees over the preceding four years. This liability is updated an on annual basis at year end.

Environmental liabilities represent 23% of FAA's total liabilities and were $1.0 billion as of September 30, 2014 compared with $751.7 million a year earlier. The increase is due to regulatory influences,

Composition of Net Costs
as of September 30, 2014



Net Comparison Composition
(Dollars in Thousands)



addition of Areas of Concern and lower output of treatment systems in several sites in Alaska. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

The FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 17% of liabilities. *Grants payable* decreased by $53.6 million. *Accounts payable* increased $19.9 million and are amounts the FAA owes to other entities for unpaid goods and services received.

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, 2014, and September 30, 2013 FAA's net costs were $16.1 billion and $16.2 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, 2013, and September 30, 2014 net costs.

With a net cost of $11.1 billion, the *Air Traffic Organization* is FAA's largest line of business, comprising 69% of total net costs. The Air Traffic Organization's net costs increased by $210.0 million, on a comparative basis, primarily from increases in property related activities, labor costs, supplies and materials, and travel expenses offset by decreases in contractor services, telecommunications, and utilities costs.

The FAA's second largest line of business is *Airports* with a net cost of $3.2 billion as of September 30, 2014, which is 20% of the FAA's total net costs. Net costs decreased by $413.5 million from the prior year primarily due to a decrease in the Airport Improvement Program grant disbursements and accruals on a comparative basis.

The net cost of *Aviation Safety* represents 8% of the FAA's total net costs, while *Region and Center Operations and All Other* comprise 3% of total net costs.

Statement of Changes in Net Position

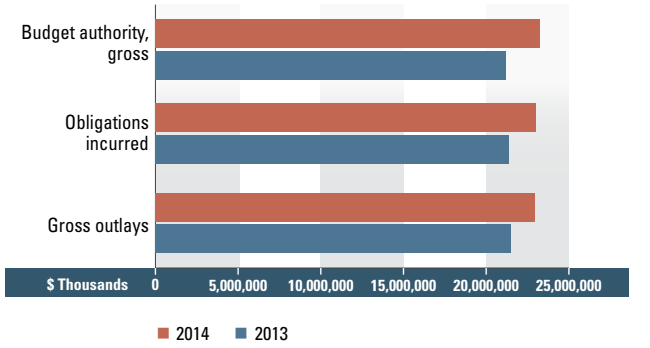
The *Statement of Changes in Net Position* presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received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

The FAA's *Cumulative Results of Operations* for the period ending September 30, 2014, increased by $982.9 million due primarily to a combination of financing sources of $2.9 billion from appropriations used, non-exchange revenue of $13.8 billion, imputed financing of $577.0 million, and donations of property of $43.8 million offset by transfers out of $236.9 million and net costs of $16.1 billion. Unexpended appropriations increased by $215.0 million.

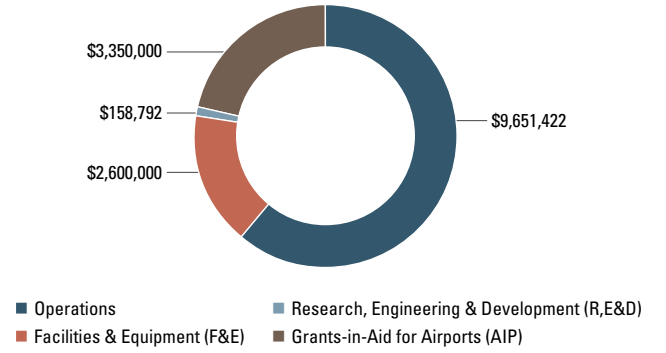
Statement of Budgetary Resources

This statement provides information on the budgetary resources available to FAA as of September 30, 2014, and September 30, 2013, and the status of those budgetary resources.

Statement of Budgetary Resources Comparison
(Dollars in Thousands)



FAA Enacted Budget— FY 2014
(Dollars in Thousands)



Budget authority, gross is the authority provided to the FAA by law to enter into obligations that will result in outlays of federal funds. *Obligations incurred* result from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. *Obligations incurred* are sourced from current year budget authority and unobligated balances carried forward. *Gross outlays* reflect the actual cash disbursed by the Treasury for the FAA obligations. The FAA reported gross budget authority of $23.2 billion as of September 30, 2014, compared to $21.2 billion as of September 30, 2013. *Obligations incurred* increased $1.6 billion to $23.0 billion. *Gross outlays* increased by $1.4 billion to $22.9 billion.

Stewardship Investments

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

The FAA's research and development expenses increased slightly in FY 2014 by $18.7 million. Two areas of focus this year included measuring the stored chemical energy in lithium ion batteries to help ensure safety during air travel and testing the fire safety of e-tablets used in in-flight entertainment systems.

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 (GF) 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 covers a portion of FAA operating costs. In FY 2014, the AATF provided approximately 80 percent of our enacted budgetary authority, per the Consolidated Appropriations Act of 2014.

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 fund. The Department of the Treasury, which maintains the fund, invests them in government securities. Interest earned is also deposited into the fund. Funding is withdrawn following the appropriations

process and transferred to each FAA appropriation account (explained below and illustrated in the accompanying diagram) to cover obligations.

We are financed through annual and multiyear appropriations authorized by Congress. The FY 2014 enacted budget of $15.8 billion was an increase of $240 million (1.5 percent) over the FY 2013 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 (R,E&D)

The largest, Operations, is funded by both the GF and the AATF. In FY 2014, the AATF provided 67.3 percent of the revenue for Operations. The AATF is the sole revenue source for our three capital investment appropriations—AIP, F&E, and R,E&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 our safety inspection and regulatory responsibilities. In addition, the account covers administrative and managerial costs for our international, medical, engineering, and development programs, as well as for policy oversight and overall management functions. The FY 2014 Operations appropriation was $9.65 billion, approximately 2.7 percent greater than in FY 2013.

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 specific 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 2014 funding for the AIP was $3.35 billion.

F&E. This account funds the capital improvement projects necessary to establish, replace, relocate, or improve air navigation facilities and equipment, as well as other aviation systems, across the nation's airspace, particularly through programs supporting NextGen. Several major systems that contribute to the NextGen effort reached significant milestones in FY 2014. These included Automatic Dependent Surveillance-Broadcast (ADS-B), Data Communications for Trajectory Based Operations (DataComm), and En Route Automation Modernization (ERAM). F&E was funded at $2.60 billion in FY 2014, a decrease of $22.2 million from the FY 2013 level.

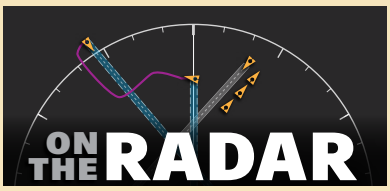
Oceanic Airspace

NextGen technologies are helping the FAA control 24 million square miles of oceanic airspace. As a result of NextGen developments, U.S. planes can safely fly across the ocean with less separation between them than ever before. This saves time and money for fuel.

The FAA controls oceanic airspace that extends out from the coasts of New York, Anchorage, Alaska, and Oakland, California. Upgrades to the Advanced Technologies and Oceanic Procedures (ATOP) system, together with NextGen technologies, provide controllers with information on each aircraft's operational capability, its exact location, its intended flight path, and any potential conflicts up to two hours into the future. But ATOP also gives pilots the flexibility to sidestep oceanic flight "lanes" prescribed by air traffic controllers and fly customized, pilot-preferred routes and altitudes.

In the case of aircraft equipped with both ATOP and certain NextGen technologies, separations between aircraft flying across the ocean can be significantly reduced. For example, in 2005, aircraft flying across the ocean at the same altitude had to be separated from each other by 100 nautical miles. By 2013, however, half of all aircraft equipped with NextGen technologies are flying with only 30 nautical miles of separation.

Note: A nautical mile is used in measuring distances at sea and in the air. It is equal to 1.1508 miles.



New Technology Detects Dangerous Debris on Runways

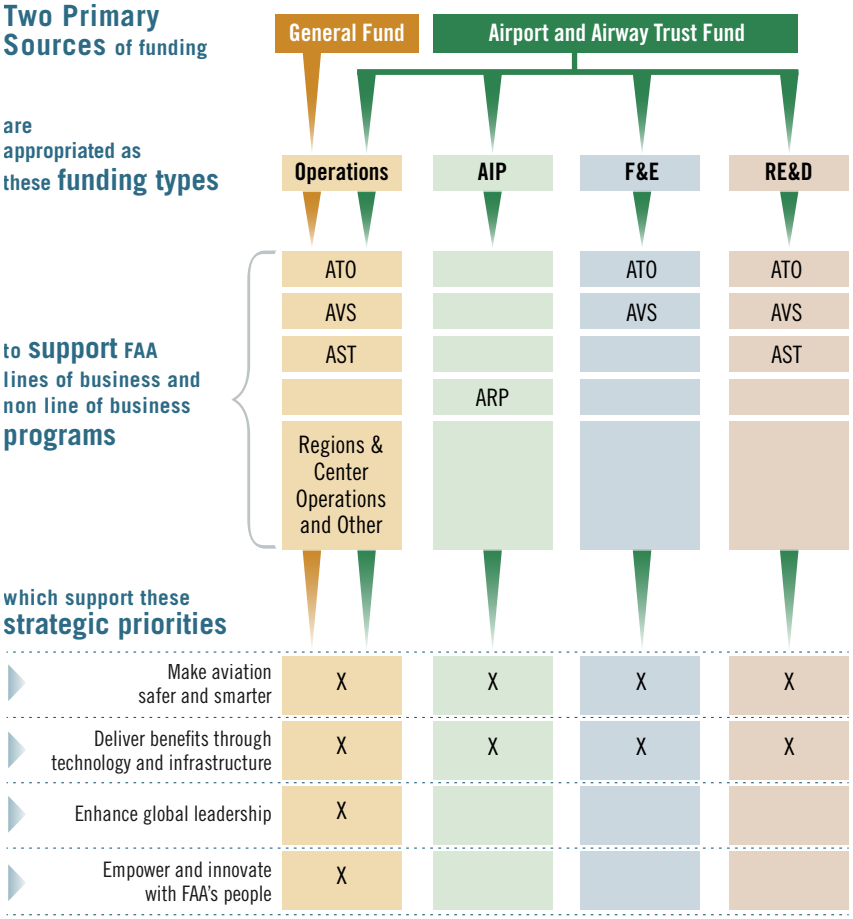
Foreign Object Debris (FOD) is any foreign object that does not belong on a runway, taxiway, or ramp area. FOD can cause damage to aircraft and, in rare instances, cause an accident. Typical FOD items are aircraft parts, tire fragments, mechanics' tools, nails, luggage parts, broken pavement, and stones.

Airport operators traditionally have located and removed FOD in a variety of ways, including through visual inspections and the use of sweepers, vacuums, and magnetic bars to collect debris. The FAA began conducting performance assessments of automated FOD detection systems in 2007. In November 2013, the FAA and the Massachusetts Port Authority (Massport) unveiled the first automated system in the United States for detecting debris on airport runways. The detection path covers an entire runway at Boston Logan Airport's busiest runway.

This newly installed automated system provides instant notifications of debris, as well as a video image of the FOD to help the airport operations center determine if it should be removed immediately. Additionally, FOD automation can provide continuous monitoring and detection, precise information about the location of FOD the system detects, and audible alerts.

R,E&D. This account funds research, engineering, and development programs to plan, conduct, and integrate domestic and international research efforts, and to develop products and services that will ensure a safe, efficient, and environmentally harmonious global air transportation system. The FY 2014 appropriation for R,E&D of $158.8 million was the same as the FY 2013 level.

FAA Resources and How They Are Used



For more information, see discussion of funding sources on pages 28-29, FAA's lines of business and staff offices on page 10, and net costs by program and strategic priority in Note 11 on page 90.

Management Control Highlights

Financial Management Integrity: Controls, Compliance, and Challenges

In a November 5, 2014 memorandum, the FAA Administrator reported to the Secretary of the DOT an unqualified statement of assurance under the Federal Managers' Financial Integrity Act (FMFIA). Every year, FAA program managers in the lines of business and staff offices assess the vulnerability of their program and the strength of their activity management controls. On the basis of these assessments, reviews are conducted to determine their compliance with Sections 2 and 4 of FMFIA. The head of 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 memorandum with a Statement of Assurance signed by the Administrator and sent to the DOT Secretary. Our response becomes a part of the DOT Statement of Assurance sent to the President. In addition to 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 2014, we are reporting overall substantial compliance.

Improper Payments Elimination and Recovery Act (IPERA) of 2010

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

IPERA 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, IPERA requires agencies to identify and estimate improper payments that they have made, conduct payment recovery audits, reuse recovered improper payments, and complete lists of compliance actions per the law.

TSA lines at Denver International Airport, Denver, Colorado.

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

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

The FAA's FY 2014 IPERA review did not find any programs or activities with "significant erroneous payments," as determined in accordance with the criteria of the Office of Management and Budget (OMB), which identifies erroneous payments as those exceeding both $10 million and 1.5 percent of program payments or exceeding $100 million.

Management Assurances

Federal Managers' Financial Integrity Act (FMFIA) Assurance Statement – Fiscal Year 2014

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

These objectives are to ensure:

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

Internally, we assess the vulnerability of our programs and systems through the FMFIA. We are pleased to report that, taken as a whole, the management controls and financial management systems in effect from October 1, 2013, through September 30, 2014, 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 controls over financial reporting. This includes internal controls related to the preparation of our agency's annual financial statements, as well as the safeguarding of assets and compliance with applicable laws and regulations governing the use of budgetary authority and other laws and regulations that could have a direct and material effect on the financial statements, in accordance with the requirements of Appendix A of OMB Circular A-123.

The results of this evaluation provide reasonable assurance that the FAA's internal controls over financial reporting are operating effectively as of September 30, 2014. In addition, since no material weaknesses were reported in our financial statements, the FAA is issuing an unqualified statement of assurance.

Michael P. Huerta
Administrator
November 5, 2014

Financial Management Systems Strategy and Actions

Financial Systems Strategy

Our agency's financial systems strategy is based on a framework called the Federal Enterprise Architecture, 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—Initiate federated financial IT management as a new business model across the agency, enabling shared strategic planning and project implementation between FAA organizations.

Applications—Reduce the current financial management system portfolio through a financial systems modernization program that addresses redundancies in key financial and mixed financial business areas.

Data—Implement a financial data management roadmap and stewardship council to govern the use and sharing of FAA financial data as a common asset; reduce the redundancy of data; and improve the quality of data to facilitate decision-making.

Information—Build an FAA-wide financial data "warehouse" to increase the consistency of reporting while maintaining each organization's ability to meet individual core mission area business reporting requirements.

Services—Define and deliver shared operational and infrastructure services for the FAA's multiple financial systems.

Systems Critical to Financial Management and Actions

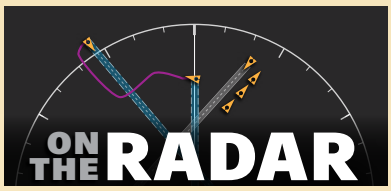
The FAA is working with the DOT to consolidate and modernize our financial management systems, and streamline our processes and reports. Maintaining fewer systems will enable our agency to operate more efficiently. We will have fewer points of data entry, fewer systems to reconcile with the official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

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

Accounting. Delphi is the DOT's comprehensive financial management system. The FAA uses Delphi to record financial transactions and account balances. In FY 2014, the DOT implemented a major upgrade to Delphi. One benefit of this upgrade is a system design that more fundamentally addresses the unique accounting requirements of federal government entities, thus increasing efficiency and data integrity. Another benefit is an improved ability to keep pace with security "patches", which are changes to the system issued by the manufacturer to continually address security vulnerabilities.

During FY 2014, we continued to work on requirements and an implementation plan for moving all vendor payments from paper to electronic invoicing. We already implemented electronic invoicing for grants payments in FY 2012.

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, we retrofitted PRISM to work with the upgraded version of Delphi. In the longer term, we will be migrating toward a business process management suite of tools that will automate and integrate all activities related to procurement and contracts



The Dangers of Laser Pointers

Aiming a laser pointer at an aircraft creates a serious safety risk that violates federal law. High-powered lasers can temporarily blind pilots and endanger hundreds of passengers flying on the aircraft, as well as people on the ground. In recent years, incidents in which lasers have been pointed at aircraft have increased dramatically—from not quite 300 in 2006 to approximately 4,000 in 2013.

Improbable as it may seem, the beams from small hand-held laser pointers can jeopardize not only aircraft close to the ground, but aircraft high in the sky. That is because, with distance, laser beams expand to two to three feet in width.

The three primary hazards of lasers are:

- **Distraction and startle.** An unexpected laser beam or bright light can distract the pilot during a nighttime landing or takeoff.
- **Glare and disruption.** As the brightness of the light increases, it interferes more and more with a pilot's vision. Night vision starts to deteriorate. Veiling the glare is not an option, since that would make it difficult to see out of the cockpit windscreen.
- **Temporary blindness or permanent eye injury.** Flash blindness from a laser pointer is analogous to temporary blindness from a bright camera flash in that there is no permanent injury. However, a pilot's night vision is completely lost for a period of time. This could endanger a critical phase of flight, such as landing or takeoff. In some cases, moreover, the effects of laser beams can be severe: they can damage a pilot's eyes permanently.

In addition to being hazardous to pilots, these incidents can result in arrests and jail sentences. On February 14, 2012, the president signed the FAA Modernization and Reform Act of 2012, which makes it a federal crime to aim a laser pointer at an aircraft.

You can report a laser incident from your mobile device at **m.faa.gov**

You can also send an email to **laserreports@faa.gov** and include the following information:

- Your **name** and **contact** information
- **Date** and **time** you witnessed the laser incident
- **Location** and **description** of the incident

management. We are continuing to pilot business process automation tools in preparation for fully implementing them.

Budget. During FY 2014, we eliminated duplicative "cuff record" systems, moving to a single system for all Operations account needs. Although cuff record systems are an important supplement to Delphi because they have allowed our organizational units to manage their planned obligations at a much lower level of detail than practical or possible using Delphi alone, a single system increases efficiency and accuracy because there are fewer systems to maintain and reconcile to Delphi.

Financial Reporting. During FY 2014, we replaced the Report Analysis and Distribution System with the Platform for Unified Reporting System, which provides management with more comprehensive analytic tools to support better planning and decision-making. We continue 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 these systems' functionalities into a single data warehouse.

Timekeeping. While timekeeping systems are not technically financial management systems, they are integral to proper reporting of workforce-related costs. CRU-X is a suite of software used by the Air Traffic Organization (ATO) for timekeeping, schedule and position management, and labor distribution reporting. During FY 2014, we continued to decrease the footprint of CRU-X by migrating all ATO employees (except the air traffic controllers) to Castle, which is now the designated agency-wide timekeeping system.

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

Performance Results

Performance Measures Overview

In this section, we discuss our progress in achieving our 12 performance measures. The measures are organized by strategic priority and objective. In FY 2014, we report on performance measures for three of our four overarching strategic priorities:

- **Make Aviation Safer and Smarter (**page 38)
- **Deliver Benefits through Technology and Infrastructure** (page 47)
- **Empower and Innovate with the FAA's People** (page 54)

Our FY 2014 efforts for the fourth strategic priority, Enhance Global Leadership, focused on developing the organizational groundwork that will support this strategic priority area moving forward. While there are no established performance measures to report for FY 2014, many accomplishments were made in this area. The Global Leadership Initiative created an agency-wide governance structure to facilitate data-informed, agency-wide international decision making. In 2014, we developed an FAA international strategy to guide the use of FAA resources in prioritizing efforts to improve safety, air traffic efficiency, and environmental sustainability across the globe. The agency also initiated a Global Leadership Government/Industry Roundtable to improve international engagement and alignment with industry initiatives and priorities.

In the discussion that follows, we provide the FY 2014 target, a discussion of our FY 2014 performance, and, when available, five years of historical trend data. We have also prepared a graph of performance measures with three or more years of data.

In FY 2014, we achieved 11 of the 11 performance targets for which we had end-of-year data. One performance measure (Fedview Ranking) did not have any data results available at the time of this publication. We will report those results in the *Fiscal Year 2015 Performance and Accountability Report*. We have noted the measures for which the data provided are preliminary. Finally, in this FY 2014 PAR, we provide FY 2013 performance results for the retired measure (Outside Ratings) for which end-of-year data were unavailable when the FY 2013 PAR was published.

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

Our Performance Section concludes on page 57 with discussions of the ways in which our performance data are verified; the completeness and reliability of our performance data; and a program evaluation completed by the Office of Airports in FY 2014.

STRATEGIC PRIORITY: Make Aviation Safer and Smarter

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

Performance Measure	FY 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
Commercial Air Carrier Fatality Rate* In FY 2014, the commercial air carrier fatality rate will not exceed 7.2 fatalities per 100 million people on board.	7.2	0.6[1]	✓	6.9
Serious Runway Incursions Rate* Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.395	0.309[2]	✓	0.395
System Risk Event Rate Limit the rate of the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the national airspace system.	20	3.52[3]	✓	20
IT Risk Management and Information Systems Security Utilize Continuous Diagnostics and Mitigation (CDM) capabilities to continuously enhance our ability to prevent, deter, detect, and respond to cyber attacks against the FAA's infrastructure for 95% of non-NAS Internet Protocol (IP)-based systems and pilot CDM capabilities on a NAS IP-based system.	95% of non-NAS IP-based systems 100% of one NAS IP-based system	98% of non-NAS IP-based systems 100% of one NAS IP-based system	✓	TBD
General Aviation Fatal Accident Rate* Reduce the general aviation fatal accident rate to no more than 1.05 fatal accidents per 100,000 flight hours.	1.05	1.05[4]	✓	1.04
Commercial Space Launch Accidents No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0

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

✓ Target met ✘ Target not met

1 Preliminary estimate until final result can be confirmed by the National Transportation Safety Board (NTSB) in March 2016. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

2 Preliminary estimate until the final result becomes available in January 2015. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

3 Preliminary estimate until the final result becomes available in January 2015. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

4 Preliminary estimate until the final result becomes available in March 2016. We do not expect any change in the final result to be significant enough to alter our year-end status of achieving the target.

Commercial Air Carrier Fatality Rate

Reduce the commercial air carrier fatalities per 100 million persons on board by 24 percent over 9-year period (2010-2018). No more than 6.2 in 2018.	
FY 2014 Target	FY 2014 Target: 7.2 fatalities per 100 million persons on board.
FY 2014 Result	0.6 (Preliminary estimate until the final result can be confirmed by the NTSB in March 2016.)
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 continues to be one of the safest forms of transportation. However, while rare, commercial aviation accidents have the potential to result in large loss of life. In FY 2014, with a result of 0.6 fatalities per 100 million persons on board, we achieved our target of not exceeding 7.2 fatalities. The number of passenger fatalities in large air carrier fatal accidents has continued to drop dramatically since the late 1960s. The number of civil aviation accidents fell from 1,539 in 2012 to 1,297 in 2013, a decrease of almost 16 percent.

Our record in this area is impressive, but no matter how great the record is, we are committed to making it even better. The aviation industry and government are voluntarily investing in safety enhancements to reduce the fatality risk in commercial air travel even further.

Our agency has a strong regulatory environment to support commercial air carriers in the area of safety. Among the challenges we faced this year was hiring enough safety inspectors to backfill staffing losses that occurred in FY 2013 due to sequestration. We were also challenged with the implementation of several new rules in FY 2014, as well as the continued development of the new surveillance methodology known as the Safety Assurance System.

New Aviation Rules in FY 2014

The FAA published **Qualification, Service, and Use of Crewmembers and Aircraft Dispatchers** on November 12, 2013, a final rule which revises the training requirements for pilots in air carrier operations. The rule enhances air carrier pilot training programs by emphasizing the development of pilots' manual skills at handling the aircraft and adding safety-critical tasks, such as recovery from stall and upset. The final rule also requires that enhanced runway safety training and monitoring of pilot training performance be incorporated into existing scenario-based flight training. Moreover, it requires air carriers to implement remedial training programs for pilots.

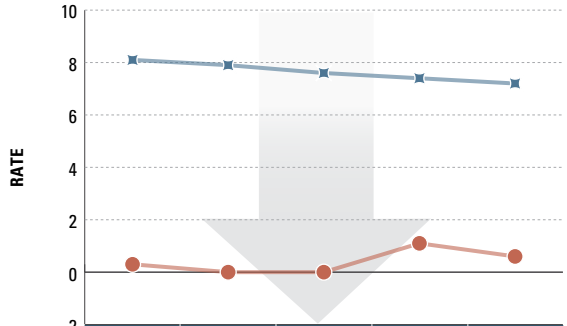
Additionally, the final rule revises recordkeeping requirements for communications between the flight crew and dispatch, ensures that personnel identified as flight attendants have completed flight attendant training and qualification requirements, provides civil enforcement authority over crewmembers and aircraft dispatchers making fraudulent statements, and provides a number of conforming and technical changes to existing air carrier crewmember training and qualification requirements. The final rule also enables air carriers to modify training program requirements for flight crew members when the air carrier operates multiple aircraft types with similar design and flight-handling characteristics.

In July 2014, the FAA published **Flight Simulation Training Device (FSTD) Qualification Standards for Extended Envelope and Adverse Weather Event Training Notice of Proposed Rulemaking**. The primary purpose of the proposed rule is to improve existing technical standards and introduce new technical standards for evaluating:

- An FSTD for full stall and stick pusher maneuvers
- Upset recognition and recovery maneuvers
- Maneuvers conducted in airborne icing conditions
- Takeoff and landing maneuvers in gusting crosswinds
- Bounced landing recovery maneuvers

These new and improved technical standards are intended to fully define FSTD fidelity requirements for conducting new flight training tasks introduced through recent changes in the air carrier training

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



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

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

requirements, as well as to address various NTSB and Aviation Rulemaking Committee (ARC) recommendations. The proposal also updates the FSTD technical standards to better align with current international FSTD evaluation guidance and introduces a new FSTD level that expands the number of qualified flight training tasks in a "fixed-base" flight training device. The proposed changes would ensure that the training and testing environment is accurate and realistic, codifies existing practice, and provides greater harmonization with international guidance for simulation.

In August 2014, the FAA also published new testing materials for the Pilot Certification and Qualification rule, which was made final in July 2013. These materials support the Airline Transport Pilot Certification Training Program, which incorporates an introduction to stall and upset prevention recovery concepts and procedures in large transport airplanes.

The FAA is also working on the **Safety Management Systems for Part 121 Certificate Holders Final Rule**, required under P.L. 111-216, sec. 215. This rule requires each certificate holder operating under Part 121 to develop and implement a safety management system (SMS) to improve the safety of its aviation-related activities. In advance of this regulatory requirement, commercial airlines are voluntarily implementing SMS. SMS gives operators a set of business processes and management tools to examine data from daily operations, isolate trends that may be precursors to incidents or accidents, and develop and carry out appropriate risk mitigation strategies. These systems are a formal approach to managing an organization's safety through four key components—safety policy, safety risk management, safety assurance, and safety promotion.

New Steering Group in FY 2014

Aside from rulemaking, the FAA announced in November 2013 the establishment of a joint government and industry steering group—the Air Carrier Training Rulemaking Committee (ACT ARC)—composed of safety experts from the airlines, crewmember unions, government, and the aviation community. The purpose of the ACT ARC is to evaluate best practices from across the industry, review recommendations from previous FAA rulemaking advisory committees on training issues, and examine newly identified areas of risk in order to develop voluntary training guidelines for air carriers. Quarterly meetings of the ACT ARC began in April 2014. The ACT ARC provides a forum for the United States aviation community to discuss, prioritize, and provide recommendations to the FAA concerning operations conducted under Part 121 (commercial air carrier operations); Part 135 (commuter and on demand operations); and Part 142 (training centers). The group's work builds on FAA rules for commercial air carrier pilot training and qualifications.

The first order of business of the ACT ARC is to prioritize outstanding recommendations from a variety of sources, including the:

- Air Carrier Safety and Pilot Training ARC
- Stick Pusher, and Adverse Weather Event Training, and Loss of Control and Recovery ARCs
- Training Hours Requirement Review ARC
- Performance-Based Aviation Rulemaking Committee and Commercial Aviation Safety Team Flight Deck Working Group
- Automation Working Group report entitled "Operational Use of Flight Path Management Systems"
- NTSB

Voluntary government and industry safety programs have a track record of success. Such investments in safety enhancements to reduce fatality risks in U.S. commercial aviation have contributed significantly to the nation's safety record.

For example, the work of the Commercial Aviation Safety Team (CAST) (*http://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=15214*), along with new aircraft, regulations, and other activities, reduced the fatality risk for commercial aviation in the United States by 83 percent from 1998 to 2008. CAST has evolved by moving beyond the "historic" approach of examining past accident data to a more proactive approach that focuses on detecting risk and implementing mitigation strategies before accidents or serious incidents occur.

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 2014 Target	Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.
FY 2014 Result	0.309 (Preliminary estimate until the final result becomes available in January 2015.)
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.

The safe and expeditious flow of air traffic at an airport is the product of a complex, disciplined interaction of people, aircraft, and vehicles, all supported by increasingly sophisticated processes, communications and control technologies, and regulatory oversight. Maintaining this safe flow of airport traffic defines the runway safety mission of the FAA.

Unfortunately, aircraft, vehicles, and people may sometimes be inappropriately present 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. Runway incursions can cause catastrophic accidents.

Among the things that may lead to a runway incursion are:

Operational Incidents	Pilot Deviations	Vehicle/ Pedestrian Deviations
Action of an air traffic controller: allowing less than the required minimum separation between two or more aircraft, or between an aircraft and obstacles (vehicles, equipment, personnel on runways) to occur; or clearing an aircraft to take off or land on a closed runway.	Action of a pilot that violates any federal aviation regulation, e.g., a pilot crossing a runway without a clearance while enroute to an airport gate.	Pedestrians or vehicles entering any portion of the airport movement areas (runways/ taxiways) without authorization from air traffic control.

While the FAA tracks all categories of runway incursions, this measure is aimed at the two most serious types:

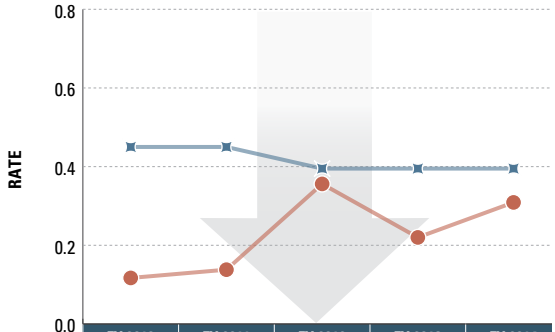
Category A—A serious incident in which a collision is narrowly avoided.

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.

In FY 2014, with a result of 0.309 Category A and B runway incursions per million operations, we continued our success in achieving our target of keeping serious runway incursions to a rate of no more than 0.395 per million operations.

This year we completed the development of a stand-alone Airport Safety Database, which integrates data from internal FAA and other government organizations. The FAA's Office of Airports is using the data to investigate existing taxiway geometrics at hub airports and identify potential problematic taxiway designs, in order to help mitigate runway incursions.

Serious Runway Incursions Rate
Per million operations



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	0.117	0.138	0.356	0.220	0.309[1]
Target	0.450	0.450	0.395	0.395	0.395
Target Achieved?	✓	✓	✓	✓	✓

1 Preliminary estimate until final result becomes available in January 2015. We do not expect any change in the result to be significant enough to alter our year-end status of achieving the target.

Want to test your knowledge of runway safety? Take the Runway Safety Challenge Quiz at:
http://www.faa.gov/airports/runway_safety/equiz/.

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 2014 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 2014 Result	3.52 (Preliminary estimate until the final result becomes available in January 2015).
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. Our 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 U.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. Yet, losses of standard separation—when aircraft do not maintain the minimum distance apart—do occur.

Through its Air Traffic Organization (ATO), the FAA has completed its largest and most significant safety improvements in the past 30 years regarding the way that air traffic control risk, safety performance, and analysis of safety risks are managed in the United States. 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 we learn through this process are then incorporated into our training of operational personnel.

The SRER allows us to:

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

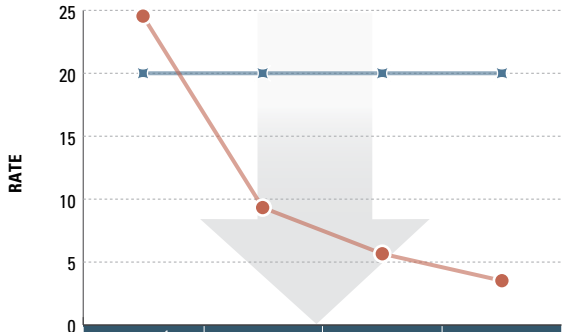
Using the benefits of SRER, we can identify losses of separation and obtain a more accurate picture of system safety performance. In FY 2014, with a result of 3.52, we achieved our target of limiting the most serious losses of standard separation to 20 or fewer for every thousand (.02) losses of standard separation within the system.

Another method used by our agency to address losses of separation is the Risk Analysis Process (RAP), which involves a panel of at least two controllers and a pilot. Three panels, one in each ATO regional air traffic service area, review separation losses for events in which pilots maintained less than 66 percent of required separation. For example, if aircraft are required to be separated by three miles, a separation of less than two miles (66 percent of three miles) would be reviewed under RAP. The FAA reviews various risk events, assessing the severity and likely repetition of the event, and identifies the top five highest risk factors, along with corrective actions to address such hazards.

With the additional data gained, we are 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



	FY 2011[1]	FY 2012	FY 2013	FY 2014
Actual	24.54	9.33	5.66	3.52[2]
Target	20.00	20.00	20.00	20.00
Target Achieved?	✗	✓	✓	✓

1 This was a new measure in FY 2011.

2 Preliminary estimate. Final result available January 2015.

IT Risk Management and Information Systems Security

Utilize Continuous Diagnostics and Mitigation (CDM) capabilities to continuously enhance our ability to prevent, deter, detect, and respond to cyber attacks against the FAA's infrastructure for 95% of non-NAS IP-based systems and pilot CDM capabilities on a NAS IP-based system.	
FY 2014 Target	95% of non-NAS IP-based systems 100% of one NAS IP-based system
FY 2014 Result	98% of non-NAS IP-based systems 100% of one NAS IP-based systems
Public Benefit	The public benefits from an efficient, safe, and secure national airspace without disruption of service.

Our agency has more than 300 computer systems that are critical to our operating the most complex aviation system in the world. Disrupting these systems or changing them improperly can alter the work of the FAA and the safety of the nation's airspace system. Unfortunately, through cyber attacks, hackers seek to alter our services by exploiting software, hardware, and network infrastructure—all of which we depend upon to continuously track the position, routes of flight, and movement of aircraft.

Federal law requires that all FAA information systems be protected from threats to their integrity, availability, and confidentiality. We must ensure that these systems, which support the agency, aviation safety and security, and the nation's aviation system, are protected from cyber events.

This performance measure is based on the percentage of the FAA's IP-based systems that use Continuous Diagnostics and Mitigation (CDM) capabilities. CDM is an initiative led by the Department of Homeland Security in partnership with other federal departments and agencies to provide capabilities and tools that identify cybersecurity risks on an ongoing basis, prioritize these risks based upon potential impacts, and enable cybersecurity personnel to mitigate the most significant problems first. CDM enhances the FAA's ability to prevent, detect, and respond to cyber attacks against the agency's infrastructure.

This year, in order to achieve this goal, at least 95 percent of our Federal Information Security Management Act reportable non-NAS IP-based systems had to be using CDM hardware and software asset management capabilities. In addition, we selected one of our NAS IP-based systems to test CDM capabilities. For the purposes of achieving this performance measure, one NAS system using CDM capabilities equates to 100 percent performance. In order to achieve this measure, we had to meet both the non-NAS IP-based and the NAS IP-based targets. In FY 2014, with 98 percent of our non-NAS IP-based systems and one NAS IP-based system using CDM hardware, we successfully achieved this goal.

IT Risk Management and Information Systems Security

Utilize CDM capabilities to continuously enhance our ability to prevent, deter, detect, and respond to cyber attacks against the FAA's infrastructure for 95% of non-NAS IP-based systems and pilot CDM capabilities on a NAS IP-based system.

	Target	Actual	Target Achieved?
2014	Non-NAS systems 95%	Non-NAS systems 98%	✓
	NAS systems 100%	NAS systems 100%	
2013	This performance measure was redefined in FY 2014.		

FAA photo.

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 1.05 fatal accidents per 100,000 flight hours in FY 2014.	
FY 2014 Target	No more than 1.05 fatal accidents per 100,000 flight hours in FY 2014.
FY 2014 Result	**1.05** (Preliminary estimate until the final result becomes available in March 2016.)
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.

General aviation encompasses all civil aviation operations other than regularly scheduled air services and non-scheduled commercial air transport operations. The United States has the largest and most diverse GA community in the world, with more than 202,000 active aircraft, including amateur-built aircraft, rotorcraft, balloons, and highly sophisticated turbojets. Three out of every four takeoffs and landings at U.S. airports are conducted by GA aircraft and most of these flights occur at airports that are used exclusively by GA aircraft.

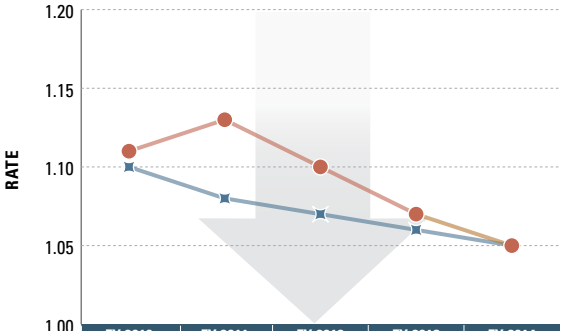
In FY 2014, with a result of 1.05 fatal GA accidents per 100,000 flight hours, we achieved our goal for the first time since new targets were set in FY 2009. The method of setting our new targets involved using the three safest years in GA history (June 2006–May 2008) as the baseline. Government and industry agreed to a goal of reducing the GA fatal accident rate by 10 percent over a 10 year period from this baseline. Each year's annual target rate has been set in order to achieve the overall 10 percent reduction in 10 years.

Reducing GA fatalities is a top priority of the agency, just as reducing fatal accidents in commercial aviation is. We have intensified our efforts to reduce the GA fatal accident rate by using a primarily non-regulatory, proactive, and data-driven strategy to get results. The GA Joint Steering Committee (GAJSC)—a government and industry group—is using data to identify risk, pinpoint trends through root cause analysis, and develop safety strategies. Loss of control—mainly stalls—accounts for most fatal GA accidents. To date, the GAJSC has proposed 32 safety interventions to address loss of control.

We are moving toward using de-identified GA operations data in the Aviation Safety Information Analysis and Sharing (ASIAS) program to help identify risks before they become accidents. ASIAS enables users to perform integrated queries across multiple databases, search an extensive warehouse of safety data, and display pertinent elements in an array of useful formats. Data from these programs are also used for GAJSC initiatives and research conducted by the GA Center of Excellence.

In January 2014, Administrator Huerta met with prominent leaders of the GA community to agree on actions to enhance safety and reduce accidents, specifically in areas of weather hazards and data sharing. Two new programs have been developed. An online course, "The Targeted Weather Approach," is now available. It is designed to increase a GA pilot's ability to analyze weather situations in order to make smarter decisions. This past May we also launched a safety campaign titled "Got Weather? #GotWx" to help GA pilots prepare for potential weather challenges they may encounter during the 2014 flying season. The safety campaign will run through December 2014 and feature a new weather topic each month, such as turbulence, thunderstorms, icing, crosswinds, and the resources available to pilots. Pilots can go to a user-friendly website (*http://www.faa.gov/about/initiatives/got_weather/*) to get fast facts about the topic and links to partner videos, safety seminars, quizzes, proficiency programs, online training, case studies, and more.

General Aviation Fatal Accident Rate
Fatal accidents per 100,000 flight hours



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	1.11[1]	1.13	1.10	1.07[2]	1.05[3]
Target	1.10	1.08	1.07	1.06	1.05
Target Achieved?	✗	✗	✗	✗	✓

1 The FY 2010 result has been changed due to the addition of two fatal accidents that were not included in the previous calculation. As a result, the final result changed from 1.10 to 1.11, which exceeded the target of 1.10. Therefore, we did not achieve the FY 2010 target as previously reported.

2 Preliminary estimate until final result can be confirmed by NTSB in March 2015. We do not expect any change in the result to be significant enough to alter our year-end status of achieving the target. The target was previously displayed rounded to two decimal places at 1.06. For clarity in demonstrating that the target was not achieved, it is now rounded to three decimal places.

3 Preliminary estimate until final result can be confirmed by NTSB in March 2016. We do not expect any change in the result to be significant enough to alter our year-end status of achieving the target.

In February, we took an important step to help improve safety in small aircraft by simplifying design approval requirements for 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 military and commercial aircraft. Under the new guidelines, affordable AOA devices can be added to small airplanes to supplement both airspeed indicators and stall warning systems, giving pilots an additional tool to avoid a dangerous aerodynamic stall and subsequent loss of control.

For additional information about GA safety, please visit *http://www.faa.gov/news/safety_briefing/* and *http://www.faa.gov/news/fact_sheets/news_story.cfm?newsId=16774*.

DID YOU KNOW

The FAA **Inspects** and **Certifies** approximately

202,000 US civil aircraft,

600,000 pilots, and **540** commercial airports

Runway and aircraft at Scottsdale, Arizona airport.

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 2014 Target	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.
FY 2014 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 most people hear the word "aviation," chances are that the first things they think of are airplanes and helicopters that fly horizontally and rarely venture above 38,000 feet. However, one of the fastest growing areas at the FAA is commercial space transportation.

The FAA's space-related line of business is the Office of Commercial Space Transportation. The office was established to:

- Regulate the U.S. commercial space transportation industry, to ensure compliance with international obligations of the United States, and to protect the public health and safety, safety of property, and national security and foreign policy interests of the United States.
- Encourage, facilitate, and promote commercial space launches and reentries by the private sector.
- Recommend appropriate changes in federal statutes, treaties, regulations, policies, plans, and procedures.
- Facilitate the strengthening and expansion of U.S. space transportation infrastructure.

The commercial space industry is rapidly growing and commercial space tourism is imminent. To support this emerging market, the FAA is working to integrate vertical flight into our existing horizontal flight system.

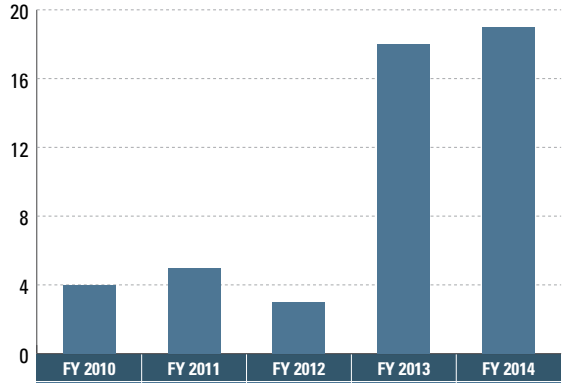
Securing public safety in commercial space launches and re-entries is the core of our mission. In FY 2014, we were successful in maintaining our perfect record of no fatalities, serious injuries, or significant property damage to the public during licensed or permitted space launch and reentry (return to earth's atmosphere) activities. Our successes today will shape the future of commercial space for decades to come.

This year there were 7 permitted launches and 12 licensed launches. A permitted launch is one in which we allow an experimental reusable suborbital rocket to launch or reenter.

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.

FAA Licensed and Permitted Launches



Commercial Space Launch Accidents

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

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

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 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
En Route Automation Modernization (ERAM)* Complete Operational Readiness Decision (ORD) for En Route Automation Modernization (ERAM) at 4 Air Route Traffic Control Centers (ARTCCs) by September 30, 2014.	4	5	✓	4
Major System Investments In FY 2014, maintain 90% of major system investments within 10% variance of current acquisition program baseline (APB) total budget at completion.	90%	95%	✓	90%
National Airspace System Energy Efficiency Improve aviation fuel efficiency by 18% relative to the calendar year 2000 baseline.	(-18%)	(-22.4%)	✓	(-20%)[1]
Noise Exposure Reduce the number of people exposed to significant aircraft noise to less than 356,000 in calendar year 2014.	356,000	321, 000	✓	342,000
Unmodified Audit Opinion Obtain an unmodified opinion with no material weakness on the agency's financial statements.	Unmodified audit opinion with no material weakness	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 The National Airspace System Energy Efficiency target may be changed or eliminated in the future.
For more information, please see page 50.

En Route Automation Modernization (ERAM) System

Achieve Operational Readiness Decision (ORD) for ERAM at four Air Route Traffic Control Centers (ARTCCs) by September 30, 2014.	
FY 2014 Target	Complete ORD for ERAM at four ARTCCs by September 30, 2014.
FY 2014 Result	5
Public Benefit	With the establishment of this metric, expanding capacity and reducing costs will play an important role in improving the economic returns from our transportation system. In the decade between 1998 and 2008, total airline passenger traffic rose 13% 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.

The computer system that the FAA uses at its high-altitude en route centers is considered the backbone of air traffic control. This system processes flight and surveillance data, provides communications, and generates display data to air traffic controllers.

Several years ago, the FAA began replacing the legacy system known as HOST with a new system called ERAM.

ERAM provides both core and NextGen functionalities for air traffic controllers. It is a digital system that was designed to support satellite-based technology, such as Automatic Dependent Surveillance-Broadcast, as well as data link communications. These technical enhancements will improve the safety and efficiency of air traffic control operations.

ERAM provides many benefits over the 40-year-old HOST system:

- More accurate tracking of aircraft.
- Improved flight-plan processing.
- Advanced controller tools.

Prior to 2014, our ERAM performance goal focused on achieving initial operating capability (IOC) at 20 ARTCCs. As reported in last year's PAR, three centers (Atlanta, Miami, and Jacksonville) planned for IOC in FY 2013 did not achieve it. However, we were able to achieve IOC at these centers during this fiscal year.

Achieving IOC is the first major step in deploying ERAM at a center. It demonstrates that the system can be operated and maintained at a facility. When a center believes that the system is fully operational, it declares an ORD. A center declares ORD when it is using the new equipment full-time and does not intend to return to operations using the old system. At ORD declaration, the process of decommissioning and removing the old system begins.

ERAM Lab. FAA Photo

Prior to FY 2014, 11 of the 20 centers had achieved ORD. Our FY 2014 goal was to achieve ORD at 4 centers (bringing the total to 15). By achieving ORD in 5 centers (bringing the total to 16) in FY 2014, we exceeded our goal. Four centers plan to achieve ORD in FY 2015 in order for ERAM to be fully deployed across the nation's airspace. More information about ERAM can be found at: *http://www.faa.gov/air_traffic/technology/eram/*

ERAM[1]

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

	Target	Actual	Target Achieved?
2014[2]	4	5	✓
2013	11	8	✘
2012	7	7	✓
2011	2	2	✓
2010	This was a new measure in FY 2011.		

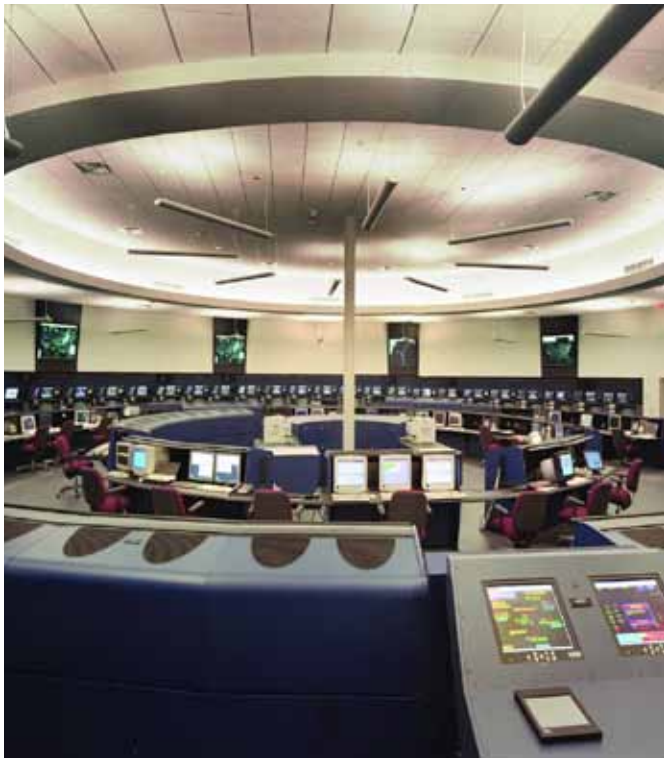
1 In FY 2014, the title of this measure changed to "ERAM" from the prior title "Air Traffic Control Systems Improve the Efficiency of Airspace."

2 Prior to 2014, this performance measure was based on the number of centers achieving initial operational capability. Beginning in FY 2014, the performance measure changed to the number of centers achieving operational readiness decision.

Major System Investments

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 2014.	
FY 2014 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 2014.
FY 2014 Result	95%
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.

The agency measures its ability to stay within a 10 percent variance of its budget, schedule, and technical performance with regard to major system investments. Our ability to make these investments in an efficient and cost-effective manner is critical to the implementation of NextGen. In FY 2014, a total of 95 percent of our major system investments stayed within the targeted threshold, thus we were successful in achieving the goal.



Potomac TRACON facility in Vint Hill, Virginia. FAA Photo

Our 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 that governs major system investments. Within these categories, 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

Programs 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 are considered major capital investments. In addition, if a program is a key enabler of NextGen, it is designated a major program. We track and report 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 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 System Investments
Maintain 90 percent of major system investments within budget

	Target	Actual	Target Achieved?
2014	90%	95%	✓
2013	90%	90%	✓
2012	90%	100%	✓
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% annually.	
FY 2014 Target	Improve aviation fuel efficiency by 18% relative to the calendar year 2000 baseline.
FY 2014 Result	(-22.4%)
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 (CO2) 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 more and more flights take place each year, there is a growing concern over the potential impact of aircraft greenhouse gas emissions on global climate. The primary greenhouse gas from aircraft operations is carbon dioxide, which is directly related to the amount of fuel consumed.

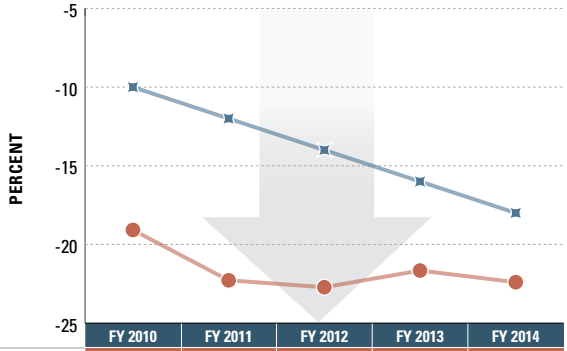
We monitor improvements in aircraft and engine technology, operational procedures, and enhancements in the airspace transportation system by measuring and tracking the overall energy efficiency of aircraft operations. Such information makes it possible to assess aviation's emissions contribution.

In FY 2013, supported by research aimed at improving confidence in accurately representing aviation's energy efficiency, we modernized our energy efficiency metric by including payload transported, whereas in the past, due to lack of payload data, we included only fuel consumption and distance flown. ("Payload" refers to the load carried by an aircraft that is not necessary for its operation, for example, passengers or cargo.) In addition, the metric was updated to gather better information about efficiency by relating actual distance flown on real operations to the shortest possible distances between all origin and destination pairs. The FY 2013 research was not completed in time to support calculation of the FY 2013 actuals and prior years with the modernized metric. However, the National Airspace System Energy Efficiency actuals shown in the graph on page 50 have now been updated to reflect the use of the modernized metric. Prior year actuals were updated for consistency and to emphasize the reduced margin relative to the target over these years. The results clearly show the influence of including payload and relating the actual distance flown to shortest distance between origin and destination in the computation for demonstrating NAS energy efficiency.

Research on 14-year trend data (from calendar year (CY) 2000 through CY 2013) indicates that annual fuel efficiency improvement was less than one and a half percent on average over this time period. The data analyses suggest that a two percent per year improvement target may not be sustainable moving forward. We are considering changing or eliminating this target in the future in light of these analyses and given the expectation for further improvements in aircraft and engine technology, operational procedures, and enhancements in the airspace transportation system.

The current national airspace system-wide energy efficiency target is based on a two percent per year improvement, relative to a CY 2000 baseline (i.e., CY 2000 = 0 percent). For FY 2014, the target in terms of fuel consumed by payload transported and

National Airspace System Energy Efficiency
Cumulative percentage reduction from baseline



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual[1]	-19.08	-22.28	-22.72	-21.66	-22.40
Target	-10.00	-12.00	-14.00	-16.00	-18.00
Target Achieved?	✓	✓	✓	✓	✓

1 The FY 2013 research was not completed in time to support calculation of the FY 2013 actuals and prior years with the modernized metric. However, the National Airspace System Energy Efficiency actuals shown in the figure have now been updated to reflect the use of the modernized metric. Prior year actuals were updated for consistency and to emphasize the reduced margin relative to the target over these years. The results clearly show the influence of including payload and relating the actual distance flown to shortest distance between origin and destination in the computation for demonstrating national airspace system energy efficiency.

Loading cargo.

distance flown is -18 percent relative to the baseline. We achieved our goal with a value of -22.4 percent.

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.

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 2014 Target	Reduce the number of people exposed to significant aircraft noise to less than 356,000 in calendar year 2014.
FY 2014 Result	321,000
Public Benefit	The public benefit is reduced exposure to unwanted aircraft noise and increased capacity, thus reducing airport congestion and delays.

Airport development that changes airport runway configurations, aircraft operations and/or movements, aircraft types using the airport, or aircraft flight characteristics may affect existing and future noise levels.

Today, jet noise is affecting many fewer people across the United States than it did 35 years ago. In the late 1970s, an estimated 7 million people were subjected to high noise levels from aircraft. Even though passenger enplanements have increased significantly since that time, the number of people who experience high noise levels has dropped.

This year, with a result of 321,000, we achieved our noise exposure goal of keeping the number of people exposed to aircraft noise below 356,000. Although we have consistently achieved 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. 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 property.

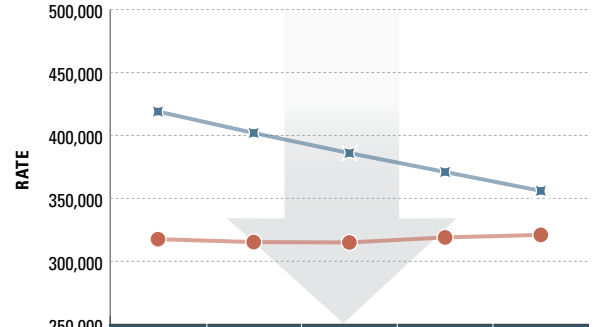
For this goal, FAA defines significant aircraft noise as being exposed to day-night average sound level (DNL) of 65 decibels (dB) or higher. DNL is the 24-hour average sound level, in decibels, for the period from midnight to midnight, obtained after the addition of ten decibels to sound levels for the 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 above a prescribed decibel level.

Our agency continues to investigate ways to reduce the impact of aviation noise, notably through the CLEEN (Continuous Lower Energy Emissions and Noise) program, which provides incentives for manufacturers to develop lower-noise aircraft through technologies such as noise-reducing engine nozzles. More information about the CLEEN program can be found at: *https://www.faa.gov/about/office_org/headquarters_offices/apl/research/aircraft_technology/cleen/*.

Additionally, NextGen technologies and procedures are some of the FAA's leading tools 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. Required Navigation Performance gives pilots not only the ability to fly OPDs, but also the potential to maneuver around congested neighborhoods and stay on routes designed to minimize noise.

Noise Exposure

Number of people exposed to significant aircraft noise



	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014
Actual	317,596	315,293	315,000	319,000	321,000
Target	419,000	402,000	386,000	371,000	356,000
Target Achieved?	✓	✓	✓	✓	✓

Unmodified Audit Opinion with No Material Weakness

Obtain an unmodified opinion with no material weakness on the agency's financial statements.	
FY 2014 Target	Obtain an unmodified opinion with no material weakness on the agency's financial statements.
FY 2014 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.

This year, this performance measure returned as a stand-alone indicator of the quality of our financial accountability. 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 page 56 of our FY 2013 PAR (*http://www.faa.gov/about/plans_reports/media/2013_FAA_PAR.pdf*) for a full description of the calculation). For the past six years, we achieved an unmodified audit opinion with no material weaknesses. In FY 2014, we achieved this target for the seventh consecutive year.

An unmodified audit opinion 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 moves resources where they are needed so that sound internal controls operate routinely and effectively, any audit issues are resolved promptly, 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?
2014	Unmodified Audit Opinion with no Material Weakness	Unmodified Audit Opinion with no Material Weakness	✓
2013[1,2]	Unmodified Audit Opinion with no Material Weakness	Unmodified Audit Opinion with no Material Weakness	✓
2012[1]	Unqualified Audit Opinion with no Material Weakness	Unqualified Audit Opinion with no Material Weakness	✓
2011	Unqualified Audit Opinion with no Material Weakness	Unqualified Audit Opinion with no Material Weakness	✓
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 page 56 of 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 2014 Target	FY 2014 Results	FY 2014 Status	FY 2015 Target
FedView Rankings[1] FAA is ranked in the top 37% of federal agencies in the Best-Places-to-Work FedView rankings.	37%	TBD	TBD	34%

1 Results will not be available until December 2014.

Glowing tents of Denver International Airport's peaked roof at sunrise.

FedView Rankings

The FAA is ranked in the top 37% of federal agencies in the Best-Places-to-Work (BPTW) FedView rankings.	
FY 2014 Target	The FAA is ranked in the top 37% of federal agencies in the Best-Places-to-Work FedView rankings.
FY 2014 Result	**TBD** (Results will not be available until December 2014.)
Public Benefit	Improvements in FedView results that are used to calculate the BPTW 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, 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 2014, the FAA's target is to be ranked in the top 37 percent.

The results for the FY 2014 survey will not be available until December 2014. Due to the publication date of the FY 2014 PAR, these results will not be included in this document. However, our FY 2013 result saw us drop one percentage point, from being in the top 39 percent in FY 2012 to the top 40 percent in FY 2013.

In FY 2014, we continued ongoing actions outlined in the *2013-2014 FAA Employee Engagement Action Plan* to address our FY 2013 FedView results. The plan has eleven actions across four focus areas:

(1) Increasing Creativity and Innovation

(2) Improving Internal Processes

(3) Addressing Poor Performers

(4) Holding Leaders Accountable for Employee Engagement

In addition to the actions above, we advanced agency efforts to redesign key Human Capital Systems, including implementing a plan to launch a new performance management system, *Valuing Performance*, and standing up a new management training and development center formally known as the FAA Leadership and Learning Institute (FLLI). The FAA also participated in the DOT 360 feedback initiative for executives and will use the information obtained to complete the redesign of the system for developing executives. The FAA continues to solicit employees' ideas for improving processes virtually through the IdeaHub social media site, including a recent request for ways to improve the onboarding of new employees.

FedView Rankings[1]

FAA is ranked in the top 37 percent of Federal Agencies in the Best-Places-to-Work FedView rankings.

	Target	Actual	Target Achieved?
2014	37%	TBD[2]	TBD
2013	75%	40%	✓
2012	75%	39%	✓
2011	This was a new measure in FY 2012		

1 In FY 2014, the title of this measure changed to "FedView Rankings" from the prior title "FAA Ratings."

2 Results expected in December 2014.

Retired FY 2013 Performance Measure Results

After FY 2013, we retired one performance measure for which results were not available at the time we published the FY 2013 PAR. This measure, Outside Ratings, consisted of a combined human resource/financial management measure where weighted scores were added to determine our "success rate." Our FY 2013 target was 90 percent, which we achieved with a result of 90 percent. For more information regarding this performance measure and the way the success rate was calculated, please see page 56 of our FY 2013 PAR at *http://www.faa.gov/about/plans_reports/media/2013_FAA_PAR.pdf*.

Quality Assurance and Cost Controls

Verification and Validation of Performance Information

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

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

Completeness and Reliability of Performance Data

The agency's internal review processes support the integrity of performance data. At the beginning of each fiscal year, we update the performance measure profiles, which function as a kind of 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 evaluation is a major requirement of the Government Performance and Results Modernization Act of 2010. The statute calls for agencies to use program evaluations to assess the manner and extent to which their agency has achieved its objectives. While performance measures use statistics to show whether the FAA has achieved its intended outcomes, program evaluations use analytical techniques to assess the extent to which programs have contributed to their desired outcomes and trends. Understanding the results of these program evaluations enables us to initiate actions to improve program performance. Program evaluations or assessments are conducted by contractors, academic institutions, the Office of the Inspector General, and the Government Accountability Office.

Title III of the Vision 100—Century of Aviation Reauthorization Act required an environmental streamlining process for certain airport capacity, airport safety, and airport security projects to expedite and coordinate their environmental review in compliance with the National Environmental Policy Act of 1969 (NEPA). In coordination with the DOT, the FAA initiated a process to evaluate the effectiveness of its implementation of these provisions. After developing an evaluation plan, this evaluation was conducted independently by a professional consulting firm with expertise in environmental processing and streamlining. This firm completed its evaluation in FY 2013. In summary, the evaluation concluded that the FAA's environmental streamlining process has resulted in the successful prioritization of key airport projects, but at the same time identified a series of 17 recommendations that could further improve environmental streamlining consistent with the Vision 100 requirements.

In FY 2014, the FAA shared the results of the evaluation and recommendations with the Office of Airports field personnel, and completed refresher training with field environmental staff on Vision 100 environmental streamlining. The FAA has also begun to update its order on environmental impact analysis, which will incorporate additional recommendations. No projects met criteria for Vision 100 environmental streamlining in FY 2014. Remaining recommendations will be implemented as new projects are identified.

Improving Financial Management

Cost-Effectiveness and Efficiency

Our strategic plan includes a strategic objective to improve the financial management of the agency while delivering quality customer service. A cost-control target is tracked each month. FAA efforts in this area for FY 2014 are described below.

Service Area Restructuring. By reevaluating and changing the structure of ATO service areas, the FAA sharply reduced staffing requirements. This activity has achieved savings of $12.5 million YTD in FY 2014.

Worker's Compensation Consolidation. The FAA has saved a total of $135 million in workers' compensation claims since FY 2005. Due to the FAA's success in this area, the DOT gave us centralized, department-wide responsibility for managing workers' compensation claims. In FY 2014, we saved over $7 million in worker's compensation costs.

The 70th Anniversary of the International Civil Aviation Organization is coming up on December 7, 2014

The organization represents a triumph of seamless global air transportation. Created in 1944 when the Convention on International Civil Aviation was signed in Chicago, the International Civil Aviation Organization (ICAO) is a specialized agency of the United Nations. Headquartered in Montreal, ICAO facilitates international cooperation in all fields of civil aviation. The organization sets international aviation standards and develops procedures to be harmonized among its 191 contracting member states, as necessary for the safety, security, efficiency, and regularity of global air transportation.

ICAO conducts its business through various working groups supported by its members. The groups discuss, develop, draft, and implement new requirements and procedures focused, for example, on air navigation, its infrastructure, flight inspection, prevention of unlawful interference, environmental concerns, and facilitation of border-crossing procedures for flying from one country's airspace to another.

ICAO's invaluable efforts in promoting global aviation safety and efficiency through its harmonization efforts have been instrumental in creating the safe aviation system we enjoy today. As one of the founding members, the United States salutes ICAO on its upcoming 70th anniversary and pledges its continued support to the organization.

Information Technology (IT). IT investments can be expensive while the technology quickly becomes obsolete. To address these issues, the FAA is becoming more strategic about IT decisions through the implementation of agency-wide IT initiatives that consolidate resources and improve efficiency. This has yielded estimated cost savings of $11.3 million in FY 2014.

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 $42 million in cost savings for FY 2014 and have achieved a total savings of more than $190 million since program implementation in 2006. SAVES contracts produced the following savings rates:

- 31 percent for office supplies
- 31 percent for office equipment
- 13 percent for IT hardware
- 43 percent for COTS software
- 4 percent for ground and overnight delivery

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

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

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

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

Freeze the Footprint. As part of the federal government's commitment to increase efficiency, the Administration has adopted a "Freeze the Footprint" policy for federal real estate. Our previous efforts in this area have yielded positive results in modernizing the FAA's information technology environment and improving our efficiency, and show promise for reducing energy and real estate costs nationwide. FAA is building on these successes in closing down data centers to further reduce its administrative office space. Since implementing the Freeze the Footprint initiative, we have reduced over 140,000 square feet (one percent) of administrative space. For example, we terminated a lease in May 2014 in Washington, D.C., reducing over 30,000 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.

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.

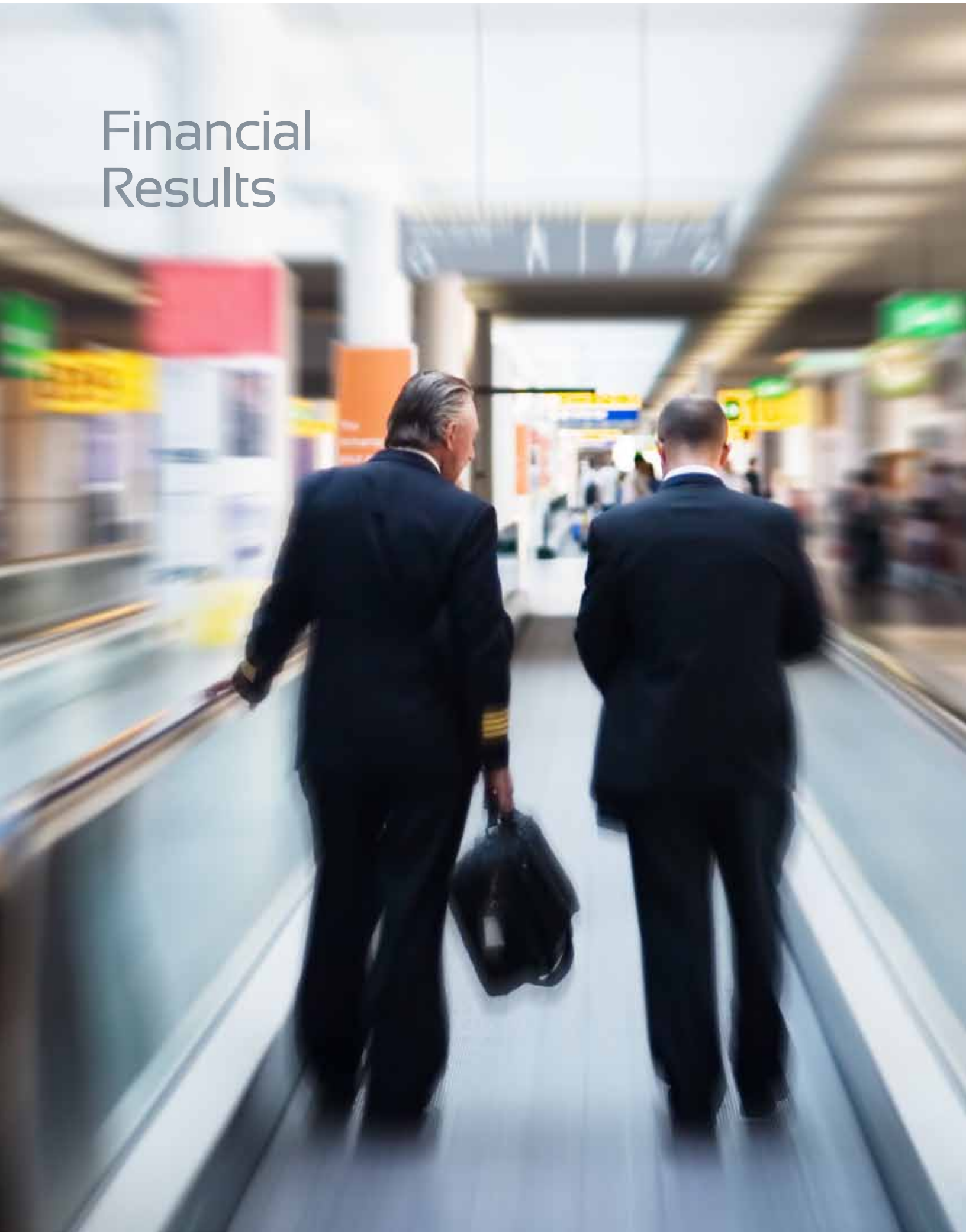
Procurements. In 2005, the FAA's Chief Financial Officer (CFO) was directed to exercise greater oversight and fiscal control over all agency procurements costing $10 million or more. Since that time, the Office of Financial Analysis has evaluated 577 procurement packages with an estimated total value of $67.3 billion. Our ability has greatly improved to better define program requirements, more accurately estimate costs, and substantiate those cost estimates. With these improvements, we have established proper controls and can manage our contract resources more effectively.

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

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

Conferences. In 2009, our CFO and Chief Acquisition Officer issued guidance requiring that all conferences costing $100,000 or more be approved by the CFO before funds were committed. We have 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

Mark House

The Federal Aviation Administration (FAA) continues to fulfill its primary mission of running the safest and most efficient aviation system in the world. An integral component of the U.S. economy, the aviation system operates 24 hours a day, seven days a week, 365 days a year.

We face many challenges—modernizing the airspace system, repairing our existing equipment and facilities, supporting commercial and general aviation, as well a growing number of commercial space flights and unmanned aircraft. FAA stands at a critical juncture as we move forward in the next reauthorization cycle. We and our stakeholders are envisioning what the FAA of the future should look like, how it could be funded, and how it would operate.

Recovering from Sequestration

The sequestration of more than $600 million, mandated by the Budget Control Act of 2011, imposed a major budget reduction during FY 2013. This mid-year funding cut prompted us to take dramatic actions, including hiring freezes, training stoppages, deferred maintenance, travel reductions that delayed the deployment of NextGen programs and procedures, and employee furloughs. These debilitating actions were followed by a 16-day government shutdown at the beginning of FY 2014.

Last December, Congress passed a two-year budget—the Bipartisan Budget Act of 2013—which provided some degree of fiscal certainty for FY 2014 and FY 2015. With the passage of the Omnibus appropriation for FY 2014, the FAA restarted the affected programs. Hiring of essential safety personnel was our highest priority. After a nearly nine-month shutdown, our primary training academy re-opened in January, restarting the pipeline of new controllers. Lifting travel restrictions also enabled the agency to resume important work on NextGen foundational programs, as well as on new airspace procedures that improve traffic flow in major metropolitan areas across the country.

Accomplishments

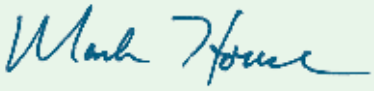
Over the past year more than 90 percent of our major system investments are still within 10 percent of their cost and schedule baselines. We also succeeded in keeping our commitment to provide comprehensive fiscal and performance information, as we achieved an unmodified audit opinion with no material weaknesses on our FY 2014 financial statements. In addition, we were recognized with the distinguished Certificate of Excellence in Accountability Reporting award given by the Association of Government Accountants for our 2013 Performance and Accountability Report. This was the tenth year that we have been a recipient of this award.

During FY 2014 we successfully implemented a major upgrade to our accounting system, providing additional functionality, more robust security features, and added state-of-the-art financial management and reporting applications. In addition, early in the fiscal year REGIS (the Regional Information System) was designated the FAA's official cuff (single-entry) accounting system, which is essentially the agency's checkbook register. This major milestone for our shared services organization consolidates and standardizes financial record-keeping throughout the agency, thereby improving accountability and enhancing operational efficiency.

In addition to financial system upgrades, we also successfully transitioned the FAA to a new, modern electronic mail system. Over a three-month period, more than 46,000 users were migrated to the new system with minimal disruption. This program is an important first step in supporting a more mobile and agile workforce.

Moving Forward

Next year we will continue to make progress on rebuilding our workforce and implementing the technologies and procedures that will bring the NextGen vision closer to reality. Paramount to maintaining this progress is a stable and predictable level of funding. Because we operate a round-the-clock enterprise that is mostly funded by the users of the system through taxes and fees, the FAA is different from most federal agencies. That relationship provides a unique opportunity to redefine the vision and financial structure of the FAA.



Mark House
Chief Financial Officer
November 7, 2014

Office of the Inspector General (OIG) Quality Control Review

Memorandum

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

Subject: **ACTION:** Quality Control Review of Audited Financial Statements for Fiscal Years 2014 and 2013, Federal Aviation Administration
Report Number: QC-2015-010

Date: November 14, 2014

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: JA-20

To: Federal Aviation Administrator

We respectfully submit our report on the quality control review (QCR) of the Federal Aviation Administration's (FAA) audited financial statements for fiscal years 2014 and 2013.

KPMG LLP of Washington, DC, under contract to the Office of Inspector General (OIG), completed the audit of FAA's financial statements as of and for the years ended September 30, 2014, and September 30, 2013 (see attachment). The contract required the audit to be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 14-02, "Audit Requirements for Federal Financial Statements."

KPMG concluded that the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2014, and September 30, 2013, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with U.S. generally accepted accounting principles.

KPMG's Fiscal Year 2014 Audit Report

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

> **Lack of Sufficient Controls over Property, Plant, and Equipment Retirements** – FAA did not have an adequate process in place to timely record or estimate general ledger adjustments for disposal of legacy air traffic system assets following the deployment in fiscal year 2013 of the

> En Route Automation Modernization (ERAM) system at two locations. As a result, FAA's beginning balances in fiscal year 2014 for property, plant, and equipment acquisition value and accumulated depreciation were overstated by $259.7 million and $187.4 million, respectively.

We performed a QCR of KPMG's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG is responsible for its report dated November 7, 2014, 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.

KPMG made one recommendation to strengthen FAA's controls over property, plant, and equipment retirements. FAA officials concurred with KPMG's findings on the significant deficiency. FAA also committed to submitting to OIG, by December 31, 2014, a detailed action plan to address the findings contained in KPMG's audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

We appreciate the cooperation and assistance of FAA's representatives, the Office of Financial Management, and KPMG. If we can answer any questions, please contact me at x61959, or Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at x61427.

Attachment

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, 2014 and 2013 and the related consolidated statements of net cost, and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion on the Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Federal Aviation Administration as of September 30, 2014 and 2013, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Notes 1 and 12, the consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2014, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The information in the Other Information, Forward, 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, 2014, we considered the FAA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we did identify certain deficiencies in internal control, described as item 2014-01 in the accompanying schedule of findings in Exhibit I, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FAA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02.

FAA's Response to Findings

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

***Purpose of the Other Reporting Required by* Government Auditing Standards**

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the FAA's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

November 7, 2014

Federal Aviation Administration
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT I
SIGNIFICANT DEFICIENCY

2014-01 Lack of Sufficient Controls over Property, Plant, and Equipment Retirements

Criteria

The Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, states, "Reporting entities should ensure that information in the financial statements is presented in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities and the requirements of this Circular. Preparers of financial statements seeking additional guidance on matters involving the recognition, measurement, and disclosure requirements should refer to the specific FASAB standards governing those requirements."

The Government Accountability Office's *Standards for Internal Control in the Federal Government* (Standards) states, "Management clearly documents internal control and all transactions and other significant events in a manner that allows the documentation to be readily available for examination. The documentation may appear in management directives, administrative policies, or operating manuals, in either paper or electronic form. Documentation and records are properly managed and maintained."

The Standards further state, "Transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. This applies to the entire process or life cycle of a transaction or event from the initiation and authorization through its final classification in summary records. In addition, management designs control activities so that all transactions are completely and accurately recorded."

Condition

During our fiscal year (FY) 2014 audit, we identified errors in the Property, Plant, and Equipment (PP&E) and Accumulated Depreciation beginning balances that were primarily the result of the untimely retirement of assets associated with legacy air traffic systems due to the deployment of the En Route Automation Modernization (ERAM) system at two sites in FY 2013. FAA did not have an adequate process in place to timely record the related asset disposals associated with the legacy air traffic systems, or to estimate the adjustment required in the general ledger.

Cause

Existing processes and internal controls related to the FAA's review of assets identified for disposal were not operating at an appropriate level of precision to ensure that significant events affecting the financial statements were identified, documented, and recorded. Furthermore, the FAA informed us that their consideration of the impact these disposals would have to future periods was based on the impact to the PP&E, Net, balance, instead of on the gross PP&E and Accumulated Depreciation balances disclosed in the notes to the financial statements.

Federal Aviation Administration
Independent Auditors' Report
Internal Control Over Financial Reporting

EXHIBIT I
SIGNIFICANT DEFICIENCY

Effect

As of October 1, 2013, the impact of these errors in the FAA's consolidated financial statements and notes was as follows:

- PP&E – Acquisition Value was overstated by $259.7 million
- PP&E – Accumulated Depreciation was overstated by $187.4 million

Recommendation

We recommend that the FAA improve existing processes and internal controls to ensure that PP&E retirements are identified, documented, and recorded timely.

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

Management's Response to the FY 2014 Independent Auditors' Report

November 7, 2014

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

Office of Financial Services/CFO

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

NOV 7 2014

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 2014 consolidated financial statements and offer the following comments.

We concur with the significant deficiency contained in your report. To improve the timeliness of recording the retirements and disposals of fixed assets, the Office of Financial Services will coordinate with other FAA offices as necessary to develop a corrective action plan, and will submit it to the Office of Inspector General no later than December 31, 2014. I will monitor implementation of the plan throughout the corrective action process.

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

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

Sincerely,

Mark House

Mark House

Financial Statements

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED BALANCE SHEETS

As of September 30
(Dollars in Thousands)

Assets	**2014**	**2013**
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 3,309,473	$ 3,273,753
Investments, net (Note 3)	14,974,934	13,821,513
Accounts receivable, prepayments, and other (Note 4)	226,220	205,778
Total intragovernmental	18,510,627	17,301,044
Accounts receivable, prepayments, and other, net (Note 4)	49,988	55,293
Inventory, operating materials, and supplies, net (Note 5)	680,951	656,491
Property, plant, and equipment, net (Note 6 and 9)	13,323,531	13,420,806
Total assets	$ 32,565,097	$ 31,433,634
Liabilities		
Intragovernmental liabilities		
Accounts payable	$ 17,819	$ 9,943
Employee related and other (Note 8)	371,034	362,017
Total intragovernmental liabilities	388,853	371,960
Accounts payable	377,343	365,311
Grants payable	719,251	772,822
Environmental (Note 7, 15, and 16)	1,010,343	751,705
Employee related and other (Note 8, 9, and 16)	866,187	1,120,996
Federal employee benefits (Note 10)	927,453	973,055
Total liabilities	4,289,430	4,355,849
Commitments and contingencies (Note 9 and 16)		
Net position		
Unexpended appropriations—funds from dedicated collections (Note 12)	1,147,857	932,877
Unexpended appropriations—all other funds	29,016	29,039
Subtotal unexpended appropriations	1,176,873	961,916
Cumulative results of operations—funds from dedicated collections (Note 12)	16,617,670	15,513,924
Cumulative results of operations—all other funds	10,481,124	10,601,945
Subtotal cumulative results of operations	27,098,794	26,115,869
Total net position	28,275,667	27,077,785
Total liabilities and net position	$ 32,565,097	$ 31,433,634

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)

	2014	2013
Line of Business programs (Note 11)		
Air Traffic Organization		
Expenses	$ 11,378,241	$ 11,142,570
Less earned revenues	(302,085)	(276,406)
Net costs	11,076,156	10,866,164
Aviation Safety		
Expenses	1,350,611	1,417,207
Less earned revenues	(12,846)	(10,683)
Net costs	1,337,765	1,406,524
Airports		
Expenses	3,189,449	3,602,949
Less earned revenues	(19)	—
Net costs	3,189,430	3,602,949
Commercial Space Transportation		
Expenses	18,144	19,139
Net costs	18,144	19,139
Non-Line of Business programs		
Regions and Center Operations and other programs		
Expenses	848,208	753,699
Less earned revenues	(372,020)	(423,137)
Net costs	476,188	330,562
Net cost of operations		
Total expenses	16,784,653	16,935,564
Less earned revenues	(686,970)	(710,226)
Total net cost	$ 16,097,683	$ 16,225,338

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					
	2014			2013		
	Funds from dedicated collections (Note 12)	All other funds	Totals	Funds from dedicated collections (Note 12)	All other funds	Totals
Beginning balances	$ 932,877	$ $29,039	$ 961,916	$ 1,037,316	$ 31,225	$ 1,068,541
Budgetary financing sources						
Appropriations received (Note 14)	3,156,214	—	3,156,214	4,592,701	—	4,592,701
Rescissions, cancellations and other	(73,215)	—	(73,215)	(287,566)	—	(287,566)
Appropriations used	(2,868,019)	(23)	(2,868,042)	(4,409,574)	(2,186)	(4,411,760)
Total budgetary financing sources	214,980	(23)	214,957	(104,439)	(2,186)	(106,625)
Ending balances	$ 1,147,857	$ 29,016	$ 1,176,873	$ 932,877	$ 29,039	$ 961,916

	Cumulative Results Of Operations					
	2014			2013		
	Funds from dedicated collections (Note 12)	All other funds	Totals	Funds from dedicated collections (Note 12)	All other funds	Totals
Beginning balances	$15,513,924	$10,601,945	$26,115,869	$14,859,763	$ 9,473,436	$ 24,333,199
Budgetary financing sources						
Appropriations used	2,868,019	23	2,868,042	4,409,574	2,186	4,411,760
Non-exchange revenue—excise taxes and other	13,764,362	41,025	13,805,387	13,101,575	20,015	13,121,590
Transfers-in/out without reimbursement	(236,868)	—	(236,868)	(236,568)	—	(236,568)
Other financing sources						
Donations and forfeitures of property	—	43,784	43,784	—	78,599	78,599
Transfers-in/out without reimbursement	(1,515,812)	1,581,995	66,183	(2,314,873)	2,403,773	88,900
Imputed financing from costs absorbed by others (Note 13)	521,436	55,595	577,031	509,371	61,656	571,027
Other	(1,347)	(41,604)	(42,951)	(405)	(26,895)	(27,300)
Total financing sources	15,399,790	1,680,818	17,080,608	15,468,674	2,539,334	18,008,008
Net cost of operations	14,296,044	1,801,639	16,097,683	14,814,513	1,410,825	16,225,338
Net change	1,103,746	(120,821)	982,925	654,161	1,128,509	1,782,670
Ending balances	$16,617,670	$ 10,481,124	$ 27,098,794	$ 15,513,924	$ 10,601,945	$ 26,115,869

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)

	2014	2013
Budgetary resources (Note 14)		
Unobligated balance brought forward, transfers and other	$ 3,606,802	$ 3,519,678
Recoveries of prior year obligations	298,606	373,662
Other changes in unobligated balance	(93,199)	(85,116)
Unobligated balance from prior year budget authority	3,812,209	3,808,224
Appropriations	12,385,464	11,924,500
Contract authority	3,480,000	3,343,300
Spending authority from offsetting collections	7,371,311	5,910,887
Total budgetary resources	$ 27,048,984	$ 24,986,911
Status of budgetary resources		
Obligations incurred	$ 23,012,474	$ 21,380,109
Apportioned	1,602,316	1,388,704
Unapportioned	2,434,194	2,218,098
Total status of budgetary resources	$ 27,048,984	$ 24,986,911
Change in obligated balance		
Obligated balance, net, beginning of period	$ 8,517,924	$ 8,938,047
Obligations incurred	23,012,474	21,380,109
Gross outlays	(22,919,911)	(21,481,412)
Recoveries of prior year obligations	(298,606)	(373,662)
Change in uncollected customer payments from federal sources	52,294	54,842
Obligated balance, net, end of period	$ 8,364,175	$ 8,517,924
Budget authority and outlays		
Budget authority, gross	$ 23,236,775	$ 21,178,687
Actual offsetting collections	(7,423,605)	(5,969,567)
Change in uncollected customer payments from federal sources	52,294	54,842
Budget authority, net	$ 15,865,464	$ 15,263,962
Outlays		
Gross outlays	$ 22,919,911	$ 21,481,412
Collections, net of offsetting receipts	(7,423,605)	(5,969,567)
Distributed offsetting receipts	(5,700)	(2,801)
Net outlays	$ 15,490,606	$ 15,509,044

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

Notes to the Financial Statements

NOTE 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the Federal Aviation Administration (the FAA). The statements are a requirement of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. They have been prepared from, and are fully supported by, the books and records of the FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*, and (3) Department of Transportation (DOT) and the FAA significant accounting policies, the latter of which are summarized in this note. These statements, with the exception of the Statement of Budgetary Resources, are different from financial management reports, which are also prepared pursuant to OMB directives that are used to monitor and control the FAA's use of budgetary resources. The statements are subjected to audit, as required by OMB Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*.

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

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

B. Appropriations and Reporting Entity

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 2014 and 2013, 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) program and funded by appropriations from the AATF.

The FAA also has spending authority from offsetting collections primarily from a non-expenditure transfer from the AATF for Operations funding. The balance of the spending authority from offsetting collections comes from other federal agencies 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 (through FY 2012 referred to as an "earmarked fund"), is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. As presented in Note 3, these receipts are held for investment and 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, provides products that address the insurance needs of the U.S. domestic airline industry not adequately met by the commercial insurance market. The FAA is currently providing war risk insurance which includes hull loss and passenger, crew, and third-party liability coverage as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2011 (see Note 16). Current insurance coverage expires on December 11, 2014 (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. The Franchise Fund does not receive dedicated collections.
- 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 intra-governmental revenue with costs that are incurred to produce public and intra-governmental revenue.

D. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and 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 estimates prepared by its Office of Tax Analysis (OTA). These estimates are based on historical excise tax data applied to current excise tax receipts. The FAA's September 30, 2014, financial statements reflect excise taxes certified (as actual collections) by the IRS through June 30, 2014, and excise taxes estimated by the OTA for the period July 1 through September 30, 2014, 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, 2014, will not be available from the IRS until February 2015. When actual amounts are certified by the IRS, generally three to four months after the end of each quarter, adjustments are made to the AATF to account for the difference. Historically, actual excise tax collections certified by the IRS for the fourth quarter of the fiscal year have not been materially different from the OTA's estimate. Additional information on this subject is disclosed in Note 12.

The AATF also earns interest from investments in U.S. Government securities. Interest income on investments is recognized as revenue on 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 are recognized as revenue on a straight-line basis over the period of coverage. Aviation overflight user fees are recognized as revenue in the period in which the flights take place.

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

E. Taxes

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

F. Fund Balance with the U.S. Treasury

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

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

J. Operating Materials and Supplies

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

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

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

K. Property, Plant and Equipment

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

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

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

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

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 the fair market value of similar rental properties.

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.

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

U. Environmental Liabilities

In compliance with applicable laws and regulations including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended by the Superfund Amendments and Reauthorization Act of 1986 and the Community Environmental Response Facilitation Act of 1992, the FAA recognizes two types of environmental liabilities: environmental remediation, and cleanup and decommissioning. The liability for environmental remediation is an estimate of costs necessary to bring a known contaminated site into compliance with applicable environmental standards. The increase or decrease in the annual liability is charged to current year expense.

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

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

V. Contingencies

Liabilities are deemed contingent when the existence or amount of the liability cannot be determined with certainty pending the outcome of future events. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 16) when the conditions for liability recognition are not met or when a loss from the outcome of future events is more than remote. In some cases, once losses are certain, payments may be made from the Judgment Fund maintained by the U.S. Treasury rather than from the amounts appropriated to the FAA for agency operations. Payments from the Judgment Fund are recorded as an "Other Financing Source" when made.

W. Funds from Dedicated Collections

The FAA adopted SFFAS Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005, subsequently amended by SFFAS 43, *Funds from Dedicated Collections*, effective October 1, 2012. SFFAS Numbers 27 and 43 define "funds from dedicated collections" as those being financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and financing sources are required by statute to be used for designated activities, benefits, or purposes and must be accounted for separately from the government's general revenues. The FAA's financial statements include the following funds, considered to be "funds from dedicated collections":

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

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

In addition, while the Operations General Fund is primarily funded through transfers from Operations AATF, it is also supplemented by funding from the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus 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

FY 2013 net costs have been reclassified in Note 11, Net Cost by Program and Other Statement of Net Cost Disclosures, for consistency with the current year presentation of net costs by strategic priority which were adopted by FAA in FY 2014. FY 2013 balances have been reclassified in Note 15, Financing Sources Yet to Be Provided, for consistency with the current year presentation. FY 2013 balances of current and noncurrent Federal Employees' Compensation Act payable have been reclassified in Note 8.

NOTE 2. Fund Balance with Treasury

Fund Balance with Treasury (FBWT) account balances as of September 30, 2014 and 2013 were:

	2014	2013
Trust funds	$ 1,382,492	$ 1,357,195
General funds	1,534,216	1,525,042
Revolving funds	373,671	344,620
Other fund types	19,094	46,896
Total	$ 3,309,473	$ 3,273,753
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 1,602,316	$ 1,388,704
Not available	2,434,194	2,218,098
Obligated balance not yet disbursed	8,364,175	8,517,924
Investments and Contract Authority supporting obligated and unobligated balances	(9,107,936)	(9,840,701)
Non-budgetary FBWT	16,724	989,728
Total	$ 3,309,473	$ 3,273,753

Unobligated fund balances are either available or not available. Amounts 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.

NOTE 3. Investments

As of September 30, 2014 and 2013, the FAA's investment balances were as follows:

	2014			
Intragovernmental Securities	Cost	Amortized (Premium) Discount	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

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

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, 2014 and 2013, $12.8 billion and $11.8 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, 2014, mature on various dates through June 30, 2015, and investments as of September 30, 2013, matured on various dates through June 30, 2014. 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 2014 and FY 2013 was 1.9 percent and 2.0 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, 2014, these nonmarketable, market-based securities have maturity dates ranging from October 15, 2014 to May 15, 2017 and have an average rate of return of approximately 1.3 percent. As of September 30, 2013, these nonmarketable, market-based securities had maturity dates ranging from October 2013 to August 2015 and had an average rate of return of approximately 1.5 percent.

The U.S. Treasury does not set aside assets to pay the future expenditures of the AATF and the Aviation Insurance Fund. Instead, the cash collected from the public for the AATF and the Aviation Insurance Fund is deposited in the U.S. Treasury, and used for general government purposes. Treasury securities are issued to the FAA as evidence of the collections by the AATF and 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, Prepayments, 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. Accounts receivable from the public are shown net of allowances for uncollectible amounts of $11.8 million and $11.2 million, as of September 2014 and 2013, respectively.

Intragovernmental	**2014**	**2013**
Accounts receivable	$ 58,421	$ 48,477
Prepayments and other	167,799	157,301
Intragovernmental total	226,220	205,778
With the public		
Accounts receivable, net	48,911	53,760
Prepayments	549	1,027
Other assets	528	506
With the public total	49,988	55,293
Total accounts receivable, prepayments, and other	$ 276,208	$ 261,071

NOTE 5. Inventory, Operating Materials, and Supplies

As of September 30, 2014 and 2013, inventory, operating materials, and supplies were:

	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	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

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

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

NOTE 6. Property, Plant, and Equipment, Net

Property, plant, and equipment balances as of September 30, 2014 and 2013 were:

	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

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

The FAA's CIP relates primarily to national airspace assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges.

The FAA is currently developing and testing the En Route Automation Modernization (ERAM) system to upgrade the management of air traffic in the en route space and enable the implementation of NextGen capabilities. As of September 30, 2014, construction in progress includes $468 million related to the ERAM system.

The FAA has fully deployed ERAM at 16 air route traffic control centers as of September 30, 2014. ERAM is scheduled to be deployed at the 4 remaining sites by March of FY 2015. When fully deployed and operational, the ERAM system will replace four legacy air traffic systems currently being depreciated over service lives ranging from 5 to 20 years.

The net acquisition cost of the four air traffic legacy systems in use as of September 30, 2014, was $417 million, down from $1,899 million as of September 30, 2013, with a net book value of $97 million and $439 million, respectively. Depreciation on these air traffic legacy systems was $16 million and $171 million in FY 2014 and 2013, respectively. For the legacy assets not already retired or placed in Not in Use status, the FAA adjusted the useful life to end one year from ERAM's site specific operational readiness decision date.

NOTE 7. Environmental Liabilities

The FAA's environmental liabilities as of September 30, 2014 and 2013 were:

	2014	2013
Environmental remediation	$ 711,289	$ 454,538
Environmental cleanup and decommissioning	299,054	297,167
Total environmental liabilities	$ 1,010,343	$ 751,705

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

NOTE 8. Employee Related and Other Liabilities

As of September 30, 2014 and 2013, the FAA's employee-related and other liabilities were:

	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	10,575	57,599	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	75,117	500,817	575,934
Public total	75,117	791,070	866,187
Total employee related and other liabilities	$ $176,936	$ 1,060,285	$ 1,237,221

	2013		
	Non-current liabilities	Current liabilities	Total
Intragovernmental			
Advances received	$ —	$ 60,790	$ 60,790
Accrued payroll & benefits payable to other agencies	—	75,453	75,453
Liabilities covered by budgetary resources	—	136,243	136,243
Federal Employees' Compensation Act payable	106,418	94,904	201,322
Other	—	24,452	24,452
Liabilities not covered by budgetary resources	106,418	119,356	225,774
Intragovernmental total	106,418	255,599	362,017
With the public			
Advances received and other	—	114,436	114,436
Accrued payroll & benefits payable to employees	—	376,722	376,722
Liabilities covered by budgetary resources	—	491,158	491,158
Accrued unfunded annual & other leave & assoc. benefits	—	407,611	407,611
Accrued sick leave buy back option for eligible employees	73,820	45,161	118,981
Capital leases (Notes 9 and 15)	69,324	8,681	78,005
Legal claims	—	2,667	2,667
Other accrued liabilities	—	22,574	22,574
Liabilities not covered by budgetary resources	143,144	486,694	629,838
Public total	143,144	977,852	1,120,996
Total employee related and other liabilities	$ 249,562	$ 1,233,451	$ 1,483,013

"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, 2014, includes workers' compensation benefits paid by DOL during the periods July 1, 2012, through June 30, 2014, and accrued liabilities for the quarter July 1, 2014, through September 30, 2014. The FAA's accrued liability as of September 30, 2013, included workers' compensation benefits paid by the DOL during the period July 1, 2011, through June 30, 2013, and accrued liabilities for the quarter July 1, 2013, through September 30, 2013.

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 $68 million and $119 million as of September 30, 2014 and 2013, respectively.

The FAA estimated that 100 percent of its $9.7 million and $2.7 million legal claims liabilities as of September 30, 2014 and 2013, 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, 2014 and 2013:

	2014	2013
Land, Buildings, and Machinery	$ 112,647	$ 114,063
Accumulated Depreciation	(45,750)	(42,817)
Assets Under Capital Lease, net	$ 66,897	$ 71,246

As of September 30, 2014, 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 2015)	$ 8,648
Year 2 (FY 2016)	8,639
Year 3 (FY 2017)	8,639
Year 4 (FY 2018)	8,640
Year 5 (FY 2019)	8,634
After 5 Years	53,669
Less: Imputed interest	(23,679)
Total capital lease liability	$ 73,190

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, 2014 were:

Fiscal year	
Year 1 (FY 2015)	$ 197,368
Year 2 (FY 2016)	167,309
Year 3 (FY 2017)	142,201
Year 4 (FY 2018)	83,172
Year 5 (FY 2019)	58,612
After 5 Years	132,593
Total future operating lease payments	$ 781,255

Operating lease expense incurred during the years ended September 30, 2014 and 2013 was $222.7 million and $224.4 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, 2014 and 2013, FECA actuarial liabilities were $927.5 million and $973.1 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 actuarially determined 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.

The following are net costs for the years ended September 30, 2014 and 2013 by strategic priority:

	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	$ 6,317,484	$ 4,316,173	$ 810	$ 441,689	$ 11,076,156
Aviation Safety	1,326,472	2,284	14	8,995	1,337,765
Airports	1,667,152	1,521,799	—	479	3,189,430
Commercial Space Transportation	14,459	3,570	64	51	18,144
Non-Line of Business programs					
Regions and Center Operations and other	476,893	(145,140)	12	144,423	476,188
Net cost	$ 9,802,460	$ 5,698,686	$ 900	$ 595,637	$ 16,097,683

	For the Year Ended September 30, 2013				
	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	$ 6,272,408	$ 4,118,168	$ 3,413	$ 472,175	$ 10,866,164
Aviation Safety	1,395,511	1,883	16	9,114	1,406,524
Airports	1,884,688	1,717,840	—	421	3,602,949
Commercial Space Transportation	13,709	5,360	47	23	19,139
Non-Line of Business programs					
Regions and Center Operations and other	347,098	(119,398)	—	102,862	330,562
Net cost	$ 9,913,414	$ 5,723,853	$ 3,476	$ 584,595	$ 16,225,338

The following is the FAA's distribution of FY 2014 and FY 2013 net costs by intragovernmental related activity versus "with the public":

	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

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

NOTE 12. Funds from Dedicated Collections

The FAA's funds from dedicated collections reported in the Consolidated Statements of Changes in Net Position are presented on pages 94–95 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 retain available financing sources for future expenses. As such, the balances in the PP&E fund, though funded from Facilities and Equipment, are excluded from this note.

Airport and Airway Trust Fund

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

The Act provides a dedicated source of funding for the nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of the FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury estimates the amount collected and subsequently adjusts the estimates to reflect actual collections quarterly. The total taxes recognized in FY 2014 included OTA's estimate of $3.0 billion for the quarter ended September 30, 2014. The total taxes recognized in FY 2013 included OTA's estimate of $2.8 billion for the quarter ended September 30, 2013.

As discussed in Note 1 E., FY 2014 "excise tax revenue" includes amounts certified as actual by the IRS for the first three quarters of the year and amounts estimated by OTA for the fourth quarter of the year.

The following table summarizes the 4th quarter excise taxes accrued in the FAA's FY 2013 and 2012 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	4th Quarter 2013	4th Quarter 2012
Estimates	$ 2,994,764	$ 2,855,461
Actuals	3,267,555	3,194,131
Under (Over) Accrual	$ 272,791	$ 338,670

All Other Funds from Dedicated Collections

- The FAA has authority under the Aviation Insurance Program to insure commercial airlines that may be called upon to perform various services considered necessary to the foreign policy interests of the United States, when insurance is not available commercially or is available only on unreasonable terms and conditions. The insurance issued, commonly referred to as war-risk insurance, covers losses resulting from war, terrorism, or other hostile acts. The FAA reported premium insurance revenues of $131.8 and $ 164.2 million for the periods ended September 30, 2014 and 2013, respectively. The Aviation Insurance Program activity is reported on pages 94–95 in "All other funds from dedicated collections." The Aviation Insurance Program is discussed further at Notes 1.W 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 $86.3 million and $73.5 million for the periods ended September 30, 2014 and 2013, 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, 2014 and 2013, are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

	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

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

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, 2014 and 2013, imputed financing was as follows:

	2014	2013
Office of Personnel Management	$ 566,575	$ 533,686
Treasury Judgment Fund	10,456	37,341
Total imputed financing sources	$ 577,031	$ 571,027

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:

	2014	2013
Combined Statement of Budgetary Resources–budget authority, net	$ 15,865,464	$ 15,263,962
Less amounts made available to the FAA from AATF dedicated collections	(12,707,816)	(10,670,415)
Less other dedicated resources	(1,434)	(846)
Consolidated Statement of Changes in Net Position–appropriations received	$ 3,156,214	$ 4,592,701

The FAA had rescissions of budgetary resources of $26.2 million in FY 2014 and $240 million in FY 2013.

As of September 30, 2014 and 2013, the FAA had available contract authority in the amount of $2.0 million and $1.4 million, respectively.

As of September 30, 2014 and 2013, the amount of budgetary resources obligated for undelivered orders was $7.3 billion and $7.2 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, 2013		
	Budgetary Authority	Obligations Incurred	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 15,264	$ 21,380	$ 15,509
Less: Items included in the Combined Statement of Budgetary Resources, but excluded from the Budget of the U.S. Government			
Obligations - transfers from AATF to operations general fund	—	(4,796)	—
Distributed offsetting receipts	—	—	3
Obligations of non-reimbursable expired funds	—	(54)	—
Reimbursable obligations	—	(699)	—
Budget of the United States Government	$ 15,264	$ 15,831	$ 15,512

(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 2013 Combined Statement of Budgetary Resources and the Budget of the U.S. 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 2013 Combined Statement of Budgetary Resources includes $54 million of expired funds and $699 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 2013 Combined Statement of Budgetary Resources differs from the FY 2013 "actuals" reported in the appendix of the FY 2015 Budget of the U.S. Government. (The Budget of the U.S. Government is available on the Internet at *www.whitehouse.gov/omb.*) As of the date of issuance of the FAA's FY 2014 Combined Statement of Budgetary Resources, the Budget of the U.S. Government for FY 2016, which will contain "actual" FY 2014 amounts, was not yet published. The OMB is expected to publish this information early in calendar year 2015.

The FAA does not have obligations classified as "exempt from apportionment." However, during FY 2014 and FY 2013, 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:

	2014			2013		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category A	$ 7,058,887	$ 451,907	$ 7,510,794	$ 5,359,826	$ 447,896	$ 5,807,722
Category B	15,247,898	253,782	15,501,680	15,321,999	250,388	15,572,387
Total	$ 22,306,785	$ 705,689	$ 23,012,474	$ 20,681,825	$ 698,284	$ 21,380,109

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 2013, $35.9 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2014. Additionally, transfers in FY 2014 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, 2014 and 2013.

	2014	2013
Intragovernmental		
Federal Employees' Compensation Act payable (Note 8)	$ 188,580	$ 201,322
Other accrued liabilities	22,655	24,452
Total intragovernmental	211,235	225,774
Federal Employees' Compensation Act actuarial (Note 10)	927,453	973,055
Unfunded annual & other leave & assoc. benefits (Note 8)	410,482	407,611
Sick leave compensation benefits for eligible employees (Note 8)	68,174	118,981
Legal claims (Note 8 and 16)	9,700	2,667
Environmental liabilities (Note 7 and 16)	1,010,343	751,705
Capital Leases (Note 8 and 9)	73,190	78,005
Other accrued liabilities (Note 8)	14,388	22,574
Total liabilities not covered by budgetary resources	2,724,965	2,580,372
Total liabilities covered by budgetary resources	1,564,465	1,775,477
Total liabilities	$ 4,289,430	$ 4,355,849

NOTE 16. Commitments, Contingencies, and Other Disclosures

Continuing Resolution and Reauthorization. Effective October 01, 2014, the FAA is operating under a continuing resolution (CR), Public Law 113-164 for its FY 2015 appropriation and many of its programmatic and financing authorities. The CR will be in effect through December 11, 2014, 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 2014 rates. It also provides sufficient contract authority to the Airport Improvement Program.

In addition, the passage of the FAA Modernization and Reform Act of 2012, Public Law 112-95, authorizes the FAA's programmatic and financing authorities, the Airport Improvement Program contract authority, and the authority to collect and deposit excise taxes into and make expenditures from the AATF. The new authority expires on September 30, 2015.

Airport Improvement Program. The Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements that address airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary hub airports is 75 percent, with the exception of noise program implementation, for which the FAA's share is 80 percent. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 95 percent.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual Airport Improvement Program grant agreements. The FAA records an obligation when a grant is awarded. As of September 30, 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. As of September 30, 2013, the FAA had letters of intent extending through FY 2028 totaling $7.4 billion. As of September 30, 2013, the FAA had obligated $6.0 billion of this total amount, leaving $1.4 billion unobligated.

Aviation Insurance Program. Under the Aviation Insurance Program, the FAA is authorized to issue hull and liability insurance for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce, national security, and the foreign policy of the United States. The FAA may issue non-premium insurance and premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical. As of September 30, 2014, there are no pending aviation insurance claims.

Legal Claims. As of September 30, 2014 and 2013, the FAA's contingent liabilities for asserted and pending legal claims probable were estimated at $9.7 million and $2.7 million respectively. Pending legal claims reasonably possible as of September 30, 2014 and 2013 were estimated at $15.6 million and $73.3 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, 2014, contingent liabilities related to environmental remediation that are reasonably possible are estimated to be $263.9 million. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope. Note 7 discloses the environmental liability accrual.

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

The following schedule presents a reconciliation of the resources available to the FAA to finance operations and the net cost of operating the FAA programs.

	2014	2013
Resources used to finance activities		
Budgetary resources obligated		
Obligations incurred	$ 23,012,474	$ 21,380,109
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	7,660,000	6,339,143
Obligations, net of offsetting collections	15,352,474	15,040,966
Other resources		
Donations and forfeitures of property	43,784	78,599
Transfers in/(out) without reimbursement	66,183	88,900
Imputed financing from costs absorbed by others	577,031	571,027
Other	(42,950)	(27,301)
Net other resources used to finance activities	644,048	711,225
Total resources used to finance activities	15,996,522	15,752,191
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	104,649	(598,115)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities)	167,238	156,014
Resources that finance the acquisition of assets	1,350,366	1,251,875
Other resources or adjustments to net obligated resources that do not affect net cost of operations	78,680	120,275
Total resources used to finance items not part of net cost of operations	1,700,933	930,049
Total resources used to finance net cost of operations	14,295,589	14,822,142
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	261,926	29,174
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,243,865	1,270,958
Revaluation of Assets or Liabilities	163,821	(33,829)
Other	132,482	136,893
Total components of net cost of operations that will not require or generate resources	1,540,168	1,374,022
Total components of net cost of operations that will not require or generate resources in the current period	1,802,094	1,403,196
Net cost of operations	$ 16,097,683	$ 16,225,338

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	2014	2013	2012	2011	2010
Alabama	$ 68,873	$ 69,580	$ 54,765	$ 41,267	$ 70,995
Alaska	196,013	211,385	234,242	185,504	217,745
Arizona	70,454	59,764	73,272	81,577	74,873
Arkansas	37,698	54,673	35,746	58,152	44,485
California	247,861	231,174	212,080	242,701	330,976
Colorado	88,470	95,027	74,102	115,029	112,610
Connecticut	12,527	21,374	16,637	20,654	29,152
Delaware	8,645	15,745	5,352	8,240	11,841
District of Columbia	32,924	5,354	44,565	7,862	20,336
Florida	132,904	159,803	160,509	143,266	198,920
Georgia	61,635	69,999	90,864	84,877	62,908
Hawaii	59,741	29,153	29,024	29,391	32,954
Idaho	32,652	23,593	18,813	21,529	19,925
Illinois	177,562	178,873	161,320	120,826	123,683
Indiana	70,292	79,478	42,460	68,204	65,839
Iowa	42,889	58,577	41,221	31,191	40,461
Kansas	34,803	51,988	31,476	24,293	55,251
Kentucky	33,301	37,744	24,432	25,941	43,532
Louisiana	34,447	50,276	55,676	63,079	94,206
Maine	19,712	35,512	18,257	26,882	29,465
Maryland	25,256	32,286	15,011	21,000	23,741
Massachusetts	60,985	53,349	66,044	55,491	77,362
Michigan	69,114	72,910	76,900	85,698	126,271
Minnesota	34,448	53,843	48,313	54,819	81,733
Mississippi	38,658	41,555	35,713	60,065	47,301
Missouri	46,280	55,522	46,445	38,719	105,807
Montana	27,503	44,474	48,128	36,530	41,271
Nebraska	30,446	31,781	34,711	50,130	28,140
Nevada	31,310	36,441	50,051	45,926	60,035
New Hampshire	10,940	17,623	21,070	14,752	15,634
New Jersey	59,786	99,443	47,444	75,939	121,679
New Mexico	22,869	27,787	26,163	26,387	30,488

(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	2014	2013	2012	2011	2010
New York	$ 72,170	$ 98,699	$ 94,424	$ 93,252	$ 111,390
North Carolina	75,162	101,080	51,337	77,725	109,685
North Dakota	37,970	53,066	28,723	23,127	26,195
Ohio	57,037	81,205	79,962	97,423	83,681
Oklahoma	30,764	59,213	37,892	41,488	46,774
Oregon	51,353	58,929	36,671	56,134	80,910
Pennsylvania	69,832	53,146	82,029	91,215	106,319
Rhode Island	16,190	11,939	3,675	8,059	20,554
South Carolina	37,411	54,621	49,512	56,367	45,763
South Dakota	25,208	39,320	32,712	29,846	32,330
Tennessee	70,404	84,893	59,545	75,136	101,234
Texas	239,187	235,366	195,321	240,380	249,084
Utah	57,880	59,188	42,705	49,029	34,482
Vermont	11,964	8,661	9,998	26,103	21,628
Virginia	50,364	60,272	42,571	32,379	57,930
Washington	61,151	79,861	89,797	120,976	98,228
West Virginia	19,037	24,015	26,544	27,167	27,634
Wisconsin	56,064	75,601	51,167	65,061	78,599
Wyoming	26,084	30,746	20,108	22,845	34,190
American Samoa	1,743	2,795	4,952	12,315	6,650
Guam	13,550	10,324	3,238	11,952	19,574
Northern Mariana Island	9,657	17,070	5,714	10,502	14,420
Puerto Rico	11,820	18,303	11,492	6,569	12,019
Virgin Islands	10,640	31,012	2,545	16,076	7,602
Marshall Island	7,157	4,226	2,669	4,463	24,514
Administration	148,652	143,312	133,576	127,202	124,454
Totals	$ 3,189,449	$ 3,602,949	$ 3,139,685	$ 3,388,712	$ 4,015,462

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	2014	2013	2012	2011	2010
Applied Research	$ 155,883	$ 119,952	$ 133,932	$ 129,954	$ 103,042
Development	40	312	1,311	2,238	2,008
Administration	32,572	35,929	37,482	35,875	36,723
R&D Plant	12,479	26,086	18,974	5,848	5,590
Total	**$ 200,974**	**$ 182,279**	**$ 191,699**	**$ 173,915**	**$ 147,363**

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.

Fire-Safety of Electronic Tablets

The usage of electronic-tablets (e-tablets) as a replacement for the conventional in-flight entertainment system has gained in popularity among airlines globally. Innovative methods of storing and charging e-tablets in galley carts have been suggested and are already in service with some airlines.

The danger of thermal runaway in the lithium-ion-polymer batteries used in these e-tablets is well known, but the potential fire hazard resulting from e-tablets being stored and charged in galley carts or a similar enclosure has not been established. To examine the potential fire hazard, the Civil Aviation Authority of Singapore (CAAS) and the FAA performed a series of tests to investigate the behavior of stored e-tablets.

The tests were conducted in a galley cart in a fully-operational, but non-flyable 737 test aircraft. Thermal-runaway of the e-tablet lithium-ion-polymer battery was initiated by either a heat plate or an external alcohol fire. The arrangement of e-tablets inside the galley cart followed the typical methods of storage proposed by airlines and design organizations. The objective of the tests was to determine a suitable storage configuration for the e-tablets which would prevent the propagation of thermal runaway and to determine the effect that thermal runaway would have on a typical galley cart.

During testing, we noted the following observations:

- The risk of lithium battery thermal runaway propagation was minimized by arranging the e-tablets in a vertical orientation and providing sufficient spacing between them.
- Thermal runaway may cause the accumulation of flammable gases in the galley cart and the risk of an explosion. Such an explosion could forcefully open a latched galley cart door.
- The uncontained fire or explosion created within the galley cart due to thermal runaway had the potential to expand beyond the galley cart and spread to the adjacent structure and materials in the aircraft cabin.
- As a result of the uncontained fire, there was a heavy accumulation of smoke in the cabin which had the potential to interfere with firefighting efforts.

These tests demonstrated the potential fire hazards associated with bulk storage of e-tablets in a galley cart or similar enclosure in the event of thermal runaway in a single lithium battery. Additional work is recommended to determine the desirable features of galley carts to contain a lithium battery fire and prevent the danger associated with fire, smoke intensity and explosion.

Future Alternative Turbine Engine Fuels

As part of Project 47 of the Partnership for Air Transportation Noise and Emissions Reduction (PARTNER), an FAA Center of Excellence, researchers from Massachusetts Institute of Technology (MIT) published a study in March 2014, on the environmental and economic feasibility of a set of fermentation and advanced fermentation technologies for producing drop-in jet fuel from sugary, starchy and lignocelluloses biomass. It was found that

fermentation and advanced fermentation fuels have the potential for significant reductions in lifecycle greenhouse gas emissions from conventional fuels, and that their minimum selling price could approach economic competitiveness with conventional fuels. This effort builds on previously completed analytical work that evaluated the lifecycle greenhouse gas emissions and economic cost of production for fuels that could be produced from vegetable oils, biomass, and waste products.

During the past year, PARTNER researchers also published research on the climate impacts from changes in surface albedo due to land use change. The study found that changes in surface albedo have the potential to dominate the climate impact of biofuels and concludes that accounting for changes in surface albedo is necessary for a complete assessment of the aggregate climate impacts of biofuel production and use.

Measurements of Aircraft Particulate Matter Data

The measurement of non-volatile particulate matter (nvPM) emissions from aircraft engines is a difficult undertaking, due to the temperature and thrust of the jet exhaust sampling. After many years of experimentation, the Society of Automotive Engineers Aircraft Exhaust Emissions Measurements Committee (SAE E31) has published an Aerospace Information Report (AIR 6241) which details the sampling system for the measurement of nvPM. The FAA has sponsored the development of the North American reference nvPM measurement system, which consists of collection, transfer and measurement sections.

As part of evaluating the methodology and the robustness of the system toward the development of an Aerospace Recommended Practice (ARP), the North American reference nvPM measurement system has been deployed at various aircraft engine manufacturers across North America and abroad. During the past 12 months, direct measurements of nvPM were performed at the SR Technics maintenance facility in Zurich, Switzerland; at the Pratt and Whitney facility in Hartford, CT; and at Honeywell facility in Phoenix, AZ. The demonstration/inter-comparison studies continue to provide information regarding the variability of the individual sampling and measurement systems. Datasets from these initial measurement activities are provided to the International Civil Aviation Organization Committee on Aviation Environmental Protection (CAEP) Particulate Matter Task Group (PMTG) to facilitate development future aviation Particulate Matter (PM) regulations. Non-volatile PM emissions data from measurement campaigns planned at Rolls-Royce, IN; General Electric Aviation, OH; and Pratt and Whitney, CT over the next year will help finalize the SAE ARP on aircraft nvPM measurement methodology and inform ICAO CAEP nvPM standard setting process.

Required Supplementary Information

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
SUPPLEMENTARY INFORMATION
DEFERRED MAINTENANCE
As of September 30, 2014
Unaudited

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	$ 70,341
Other structures and facilities	Condition assessment	4&5	$ 446,000

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

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

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

U. S. Department of Transportation

FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 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

U. S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

As of September 30, 2013
Unaudited

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

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION

AVIATION INSURANCE PROGRAM
RISK ASSUMED INFORMATION AND OTHER RELATED DISCLOSURES

As of September 30, 2014
Unaudited

As discussed in Note 16 on page 99, the FAA is currently providing war risk insurance which includes hull loss and passenger, crew, and third-party liability coverage as required by the Homeland Security Act of 2002 as amended by the Federal Aviation Administration Extension Act of 2001.

As of September 30, 2014, the FAA provided premium war-risk insurance to 27 airlines. For these airlines, combined hull and liability per occurrence coverage limits ranged from $100 million to $3 billion. The FAA also provided non-premium war-risk insurance to 38 carriers loaded with 2,659 aircraft for U.S. Department of Defense charter operations for Central Command.

Approximately $2.2 billion is available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The Department of Defense and the State Department have agreed to pay claims to the carriers covered by non-premium insurance.

In March 2014, the Secretary of Transportation submitted to Congress a legislative proposal that, if enacted, would substantially reform Aviation Insurance Program. Under this proposal, all U.S. air carriers would be returned to the commercial aviation insurance market for most of their terrorism and war risk insurance coverage. However, the U.S. Government will continue to provide coverage for losses associated with terrorist attacks involving the use of nuclear, biological and/or radioactive weapons, as this coverage is not commercially available.

Commercial market availability of most air carrier war risk coverage on reasonable terms is evidenced by the significant decline of U.S. air carrier participation in the Aviation Insurance Program. Below is a schedule showing the decline in the number of airlines participating in the premium war-risk insurance program and the associated insurance-in-force:

Date	Number of air carriers with premium war-risk coverage	Insurance-in-force (aggregate maximum per occurrence)
September 30, 2013	48	$76.7 billion
September 30, 2014	27	$30.7 billion
October 1, 2014	15	$16.6 billion

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Other Information

Summary of Inspector General's Top Management Challenges

The Reports Consolidation Act of 2000 requires the Inspector General (IG) to identify and report annually on the most serious management and performance challenges that federal agencies face. The Department of Transportation (DOT) IG's report, which is issued soon after the beginning of the fiscal year, highlights urgent issues for the Department as a whole. On December 16, 2013, the IG issued the following memorandum identifying the Department-wide top management challenges for FY 2014:

Memorandum

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

Subject: **INFORMATION**: DOT's Fiscal Year 2014 Top Management Challenges Department of Transportation Report Number PT-2014-009

Date: December 16, 2013

From: Calvin L. Scovel III
Inspector General

Reply to Attn. of: J-1

To: The Secretary
Deputy Secretary

A safe and well-managed transportation system is key for the U.S. economy and the quality of life for the traveling public. The Department of Transportation (DOT) provides over $70 billion annually to fund a wide range of programs. Consequently, it is critical for the Department to provide rigorous stewardship of taxpayer funds while carrying out its mission.

Safety remains the Department's top priority, and DOT has a number of initiatives underway to enhance safety in the air and on the ground. To maintain the Nation's excellent aviation safety record, the Department must continue to improve pilot, runway, and repair station safety oversight; assess its recent policy changes to prevent controller fatigue; and enhance the data it collects to prevent separation losses between aircraft. At the same time, the Department must set investment priorities and realistic plans for the Next Generation Air Transportation System (NextGen)—a complex and costly effort that is vital to provide safer and more efficient air traffic management. This will require difficult trade-offs among diverse capital programs.

With regard to highways, transit, and pipelines, the Department must address our longstanding recommendations and new safety oversight requirements in the Moving Ahead for Progress in the 21st Century Act (MAP-21). Key priorities include implementing data-driven, risk-based oversight for bridge inspections; developing a national tunnel safety program; removing unsafe motor carriers from our Nation's roads; setting effective policies for its newly expanded rail transit oversight role; and strengthening States' pipeline safety programs.

2014 Top Management Challenges, Department of Transportation

The Department must also continue efforts to meet other MAP-21 requirements for surface infrastructure projects nationwide to accelerate their delivery and employ performance-based management. In addition, the Department faces a new challenge to effectively manage the influx of relief funds to restore transit systems damaged by Hurricane Sandy in the northeastern United States and establish an emergency relief program for future disasters. Securing the Department's information technology (IT) infrastructure also remains a top priority, as we continue to find information security deficiencies in critical systems. To protect its mission and credibility, the Department must help its Operating Administrations address cyber threats; protect sensitive information; and develop a strategic vision to better manage its current technologies, plan for future systems, and maximize cost savings.

Finally, we continue to identify opportunities for the Department to save taxpayer dollars and better manage its contracts and resources. Key focus areas include reducing use of high-risk contract types, improving oversight of major IT acquisitions, and better protecting high-dollar recipient programs from fraud, waste, and abuse.

We remain committed to assisting the Department in improving the management and execution of its programs and protecting its resources through our audits and investigations. As required by law, we have identified the Department's top management challenges for fiscal year 2014. We considered several criteria in identifying the following seven challenges, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System
- Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities
- Continuing Actions To Strengthen Highway, Transit, and Pipeline Safety
- Improving Oversight of Surface Infrastructure Investments and Implementing Statutory Requirements
- Implementing Requirements To Address the Federal Railroad Administration's Expanded and Traditional Responsibilities
- Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars
- Building a Secure and Modern Information Technology Infrastructure

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

#

cc: DOT Audit Liaison, M-1

In FY 2014, the FAA was tasked by DOT with addressing four of the seven challenges identified by the IG. Subcomponents of these four challenges were thirteen key challenges, which were assigned to the FAA. Among these challenges and key challenges include:

- **Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System**
  - Advancing Initiatives To Improve Pilot Training, Mentoring, and Record Keeping
  - Improving Air Traffic Controller Training, Scheduling, and Performance
  - Implementing a Risk-Based Approach for Repair Station Oversight
  - Enhancing Runway Safety
  - Improving Data Collection and Analysis to Identify and Mitigate Risks With Aircraft Separation Losses and Air Carrier Operations
- **Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities**
  - Identifying and Addressing The Underlying Causes of Cost Increases and Schedule Delays
  - Integrating New Performance-Based Navigation Routes to Maximize Near-Term Benefits and Gain User Support
  - Implementing an Integrated Master Schedule for NextGen Programs
  - Mitigating Implementation Risks With Key Automation Systems That Controllers Rely On To Manage Air Traffic
  - Further Developing And Implementing Consolidation And Modernization Plans
  - Safely Integrating Unmanned Aircraft Systems In The NAS
- **Managing Acquisitions and Contracts To Achieve Results and Save Taxpayer Dollars.**
  - Ensuring Taxpayer Dollars Are Invested And Administered Wisely On Major Contracts
- **Building a Secure and Modern Information Technology Infrastructure**
  - Protecting Sensitive Information

Soon after the IG report was issued, the FAA developed an action plan for each of the 13 key issues. Included in these action plans were detailed steps and timelines for addressing the challenge. At the end of FY 2014, the FAA submitted "actions taken" reports to DOT. These reports provide our progress made throughout FY 2014 in addressing each of the key challenge. These year-end actions taken reports, our action plans and the comprehensive report identifying the IG Top Management Challenges for FY 2014 are posted on FAA's website at *http://www.faa.gov/about/plans_reports/* under the DOT IG Top Management Challenges section.

Improving FAA's Oversight of the Aviation Industry and the Operations of the National Airspace System

Key Challenge:

Advancing Initiatives to Improve Pilot Training, Mentoring, and Record Keeping

Issue:

In August 2010, Congress passed the Airline Safety and FAA Extension Act, which among other things, directed FAA to convene an aviation rulemaking committee to develop procedures for each air carrier operating under Part 121 to establish flight crewmember mentoring programs in addition to creating professional development committees to oversee the mentoring programs. The purpose of the mentoring programs is to assist flight crewmembers to reach their maximum potential as safe, seasoned, and proficient flight crewmembers.

Additionally, the Act directs FAA to establish an "FAA Pilot Records Database" that must contain information collected by the FAA, air carriers and other employers of pilots, and the national driver register records. Air carriers operating under Part 121 and Part 135, will be required to access and evaluate a pilot's record before allowing an individual to begin service as a pilot. This will improve upon the timeliness of the existing paper-based shared data instituted by the Pilot Record Improvement Act of 1996.

In February 2012, Congress passed the FAA Modernization and Reform Act of 2012. This Act directed the FAA to conduct additional rulemaking projects to improve aviation safety, including the safety of flight crewmembers, medical personnel, and passengers on board helicopter air ambulance operations, and the safety of flight crewmembers and passengers in commercial aviation.

Actions Taken in FY 2014:

On November 12, 2013, the FAA published the "Qualification, Service, and Use of Crewmembers and Aircraft Dispatchers" final rule, which revises the training requirements for pilots in Part 121- air carrier operations. The regulations enhance air carrier pilot training programs by emphasizing the development of pilots' manual handling skills and adding safety-critical tasks

such as recovery from stall and upset. The final rule also requires enhanced runway safety training and pilot monitoring training to be incorporated into existing requirements for scenario-based flight training and requires air carriers to implement remedial training programs for pilots.

Additionally, the final rule revises recordkeeping requirements for communications between the flight crew and dispatch, ensures that personnel identified as flight attendants have completed flight attendant training and qualification requirements, provides civil enforcement authority for making fraudulent statements, and provides a number of conforming and technical changes to existing air carrier crewmember training and qualification requirements. Provisions are in the rule that provide opportunities for air carriers to modify training program requirements for flightcrew members when the air carrier operates multiple aircraft types with similar design and flight handling characteristics.

On February 12, 2014, FAA published the "Prohibition on Personal Use of Electronic Devices on the Flight Deck" final rule. This rule prohibits flight crew members in operations under Part 121 from using a personal wireless communications device or laptop computer for personal use while at their duty station on the flight deck while the aircraft is being operated. It is intended to ensure certain non-essential activities do not contribute to the challenge of task management on the flight deck or a loss of situational awareness due to attention to non-essential tasks.

On February 21, 2014, FAA published the "Helicopter Air Ambulance, Commercial Helicopter, and Part 91 Helicopter Operations" final rule. This final rule requires helicopter operators, including helicopter air ambulances, to have more strict flight rules and procedures, improved risk avoidance and operational control procedures, training, and additional on-board safety equipment.

In November 2013, FAA announced the establishment of a joint government and industry steering group—Air Carrier Training Rulemaking Committee (ACT ARC)—composed of safety experts from the airlines, crewmember unions, government and the aviation community. The purpose of the ACT ARC is to evaluate best practices from across the industry, review recommendations from previous FAA rulemaking advisory committees on training issues, and examine newly identified areas of risk in order to develop voluntary training guidelines for air carriers. Quarterly meetings of the ACT ARC began in April 2014. The ACT ARC provides a forum for the United States aviation community to discuss, prioritize, and provide recommendations to FAA concerning operations conducted by air carriers under parts 121 and 135, as well as by training providers under part 142.[1]

The ACT ARC will review outstanding recommendations from past ARCs including:

- Air Carrier Safety and Pilot Training ARC;
- Stick Pusher, and Adverse Weather Event Training, and Loss of Control and Recovery ARCs;
- Training Hours Requirement Review ARC; and
- Performance-Based Aviation Rulemaking Committee (Including this ARC's collaborative work with the Commercial Aviation Safety Team to establish the Flight Deck Automation Working Group, led by FAA, ALPA and Industry Co-Chairs, and their report "Operational Use of Flight Path Management Systems", published September 5, 2013. Additionally, the ACT ARC will review outstanding recommendations from NTSB.

In July 2014, FAA published "Flight Simulation Training Device (FSTD) Qualification Standards for Extended Envelope and Adverse Weather Event Training" Notice of Proposed Rulemaking. The primary purpose of the rule is to improve existing technical standards and introduce new technical standards for evaluating:

- A FSTD for full stall and stick pusher maneuvers;
- Upset recognition and recovery maneuvers;
- Maneuvers conducted in airborne icing conditions;
- Takeoff and landing maneuvers in gusting crosswinds; and
- Bounced landing recovery maneuvers.

These new and improved technical standards are intended to fully define FSTD fidelity requirements for conducting new flight training tasks introduced through recent changes in the air carrier training requirements as well as to address various NTSB and ARC recommendations. The proposal also updates the FSTD technical standards to better align with the current international FSTD evaluation guidance and introduces a new FSTD level that expands the number of qualified flight training tasks in a fixed-base flight training device. The proposed changes would also ensure that the training and testing environment is accurate and realistic, codify existing practice, and provide greater harmonization with international guidance for simulation.

In August 2014, FAA published new testing materials for the Pilot Certification and Qualification final rule, which was published

1 A part 121 air carrier generally operates larger aircraft to offer more seats and scheduled service to the public. They may fly passengers or cargo. Air carriers under part 135 generally use smaller aircraft and carry up to 30 passengers. Some are scheduled, but most offer unscheduled, "on-demand" service based on the needs of the customer. Air agencies regulated under part 142 offer pilot training using simulators.

in July 2013. These materials support the Airline Transport Pilot Certification Training Program which incorporates an introduction to stall and upset prevention recovery concepts and procedures in large transport airplanes.

FAA is also working on the "Safety Management Systems for Part 121 Certificate Holders" final rule, required by law. This rule requires each certificate holder operating under part 121 to develop and implement a safety management system (SMS) to improve the safety of its aviation related activities.

Key Challenge:

Improving Air Traffic Controller Training, Scheduling, and Performance

Issue:

Controller Training

The FAA's Air Traffic Organization (ATO) is experiencing a large number of air traffic controller retirements. Training to replace retirees is a key priority for the FAA. The Office of Safety and Technical Training is responsible for improving the training program for air traffic controllers.

While the FAA has taken action to improve its controller training program, such as moving the facility placement decision until after graduation from the FAA Academy, the OIG has recommended that the FAA should track the progress of actions it has taken to improve controller training and establish mechanisms to assess their impact.

In order to resolve the controller training issues cited in the OIG report, the Technical Training Directorate will:

- Implement policy to identify and measure training initiatives. Our primary measures are always student pass rate and time to certify. However, depending on a particular initiative, other measures may be appropriate to include or supplant. The policy will be established in a Technical Training (AJI) Order.
- Collect and analyze data from agency systems to measure the effectiveness of initiatives taken to improve technical training.
- Publish the results of training initiatives analysis semiannually in the Training Performance Report.

Fatigue Risk Management

ATO operates a Fatigue Risk Management System (FRMS) directed by a collaborative management/Labor Fatigue Safety Steering Committee, made up by representatives from our employee labor unions and FAA management. The unions involved are National Air Traffic Controllers Association (NATCA) and the Professional Aviation Safety Specialists. The FRMS is responsible for ensuring the following activities are completed:

- Fatigue related policy and documentation is developed, documented and communicated to the field.
- Fatigue risk management is conducted to identify hazards, assess risk and develop and implement controls and/or mitigations.
- Fatigue safety promotion is conducted to ensure all controllers have an adequate level of knowledge of fatigue safety and countermeasures.
- Fatigue safety assurance is conducted to measure and analyze mitigation compliance and effectiveness.

The FRMS ensures that all employees are aware of fatigue-related policy changes and can take positive action to implement new policy in both the operational work environment and at home.

Actions Taken in FY 2014:

Controller Training

In 2014 the FAA ATO published and made public FAA Order 3000.22. This Order defines the requirements for the design and development of ATO outcomes-based technical training, from identification of the training need through delivery, evaluation, and revision of the training curricula. Under the evaluation section of the Order, AJI will publish semiannual reports on Training Performance. The first report that will contain the identification and analysis of training improvement initiatives will be published by December 15, 2014.

Fatigue Risk Management

During FY 2014, the FAA's ATO used data from the Controller Alertness and Fatigue Monitoring Study, Air Traffic Safety Action Program and business intelligence event-related data to identify fatigue hazards in the ATO operational work environment and develop appropriate countermeasures. As a result, in March 2014, changes were made to FAA order Single Person TRACON/Tower Midnight Operations, establishing new coordination procedures that require the positive hand-off of traffic between facilities (non-automated). In July changes were also made to order Basic Watch Schedule, that limit fatigue-inducing consecutive midnight shifts, 10-hour midnight shifts, and start times for early day shifts that precede midnight shifts. These changes were fully communicated to the field via national telcons, supported by educational videos and question and answer documents, to ensure all field personnel fully understood the changes and were able to support their implementation.

- Also during FY 2014, ATO completed a safety assurance analysis of the effectiveness of Fatigue Awareness and Countermeasures Training that was delivered to approximately

30,000 ATO operational employees during FY 2013. Conducted by researchers from the Civil Aerospace Medical Institute, this study concluded that knowledge of fatigue awareness significantly increased by 26 percent for Air Traffic Control Specialists and 24 percent for Air Traffic Safety Specialists. Future training effectiveness can now be assessed against these knowledge improvement metrics, and these assessments will be used as tools to ensure the ongoing effectiveness of fatigue-related training delivered to ATO employees.

- Also during FY 2014, ATO initiated a multi-year *Fully Charged* culture change initiative. *Fully Charged* is a collaborative management/labor campaign that is intended to provide all ATO employees with information about fatigue and alertness management, healthy sleep, and how to take full advantage of recent policy changes to improve operational alertness. Various FAA, NATCA and PASS communications channels are used to ensure all employees are reached. The Fully Charged website address is: *https://my.faa.gov/org/linebusiness/ato/safety/fully_charged.html*.

Key Challenge:
Implementing a Risk-Based Approach for Repair Station Oversight

Issue:
The Office of the Inspector General report titled "FAA continues to Face Challenges in Implementing A Risk-Based Approach for Repair Station Oversight", dated May 1, 2013, identifies FAA's risk based oversight system ineffective in targeting surveillance to areas of higher risk. It states FAA's oversight does not include accurate and timely risk assessments of domestic and foreign repair stations. The report indicates FAA has yet to provide inspectors with comprehensive data needed for analytic reviews of repair stations performance. Instead, FAA aviation safety inspectors (ASI) rely on their personal knowledge of repair stations to conduct oversight, rather than using comprehensive and standardized procedures for conducting and communicating the results of inspections. Thus, FAA's oversight lacks consistency necessary to identify deficiencies and verify corrective actions.

Actions Taken in FY 2014:
Throughout FY 2014, FAA continued to accomplish the planned actions to rectify performance gaps that contributed to the issues identified in the OIG report.

- On January 15, 2014, FAA held a teleconference with OIG to deliver the status of FAA's actions.
- In February 2014, extensive revisions to the FAA Order 8900.1 were published that incorporate comprehensive guidance to improve the FAA ASIs use of the current risk management and surveillance system. The newly revised version of the part 145 FAA Repair Station course became available in April 2014.
- In May 2014, the OIG performed its final review of FAA actions and all actions were found acceptable. All nine of the OIG recommendations were closed on June 17, 2014.

The following summarizes the nine OIG recommendations and the FAA's actions completed in the interim to the full deployment of the new risk-based oversight system named Safety Assurance System (SAS):

1. **Modify its oversight system so that all inspection elements are considered in inspector risk assessments of repair stations.** The Flight Standards regional technical branch managers and their staff were briefed, as well as the division managers on the use of risk management oversight. The importance of managerial review of inspector work programs was stressed to ensure activities identified as elevated risks are prioritized and properly mitigated. The FAA Order 8900.1 was extensively enhanced to improve the ASI's use of risk management and surveillance systems currently in place. Recurrent training requirements were added to the Airworthiness and Avionics Inspectors training profile. It covers the use of the Repair Station Assessment Tool (RSAT), Risk Management Process (RMP), and Outsource Oversight Prioritization Tool (OPT).
2. **Implement a risk-based system suitable for oversight of foreign repair stations.** The guidance for conducting foreign repair station inspections in FAA Order 8900.1 was revised and improved for identifying areas of concern or criticality specific to foreign repair stations. The revised guidance requires documentation through the Program Tracking Reporting System (PTRS) and management of identified risks through RMP. The "EASA Sampling Inspection Risk Assessment Checklist" was developed to facilitate in identifying areas of elevated risk for the purpose of conducting sampling inspections of aviation authorities (AA) with oversight responsibility. The Flight Standards technical regional branch managers and staff were briefed with additional instructions to insure the International Field Offices (IFO) understood the use of the risk management process.
3. **Modify the risk assessment tool so that inspectors can document changes to their surveillance plans as soon as they are made.** Revised FAA Order 8900.1 to emphasize that the RPM tool should be used whenever warranted to document mitigation of elevated risks and instruct ASI's to modify work programs focusing on identified risks. Recurrent training requirements were added to the Airworthiness and Avionics

Inspectors training profile, which covers the use of the RSAT, RMP and OPT. The Flight Standards regional technical branch managers and their staff were briefed to emphasize the ASI's ability to modify their work program at any time during the fiscal year based on an identified risk.

4. **Develop a control that will ensure inspectors prioritize inspections to those repair stations determined to have increased risk.** Revised FAA Order 8900.1 to expand on the Assessment and Planning Tool (APT) component procedures used when prioritizing surveillance plans. The "EASA Sampling Inspection Risk Assessment Checklist" was developed to effectively aid both the Flight Standards International Field Office (IFO) and Regional Divisions in prioritizing aviation authorities (AA) and/or approved maintenance organizations (AMO) for sampling inspection planning.
5. **Enhance training to inspectors so that they understand the importance of using the available tools for assessing and trending risk.** The newly revised version of the Part 145 Repair Station course was delivered in April 2014. The extensive revision stresses the understanding of the tools available and their importance for risk mitigation. Recurrent training requirements were added to the Airworthiness and Avionics Inspectors training profile. The training covers the use of the RSAT, Risk Management Process (RMP), and Outsource Oversight Prioritization Tool (OPT).
6. **Develop the Repair Station Data Package and provide training to all inspectors on how to use it.** Revised FAA Order 8900.1 to define the composition of a data package and expand guidance on the use of the Safety Performance Analysis System application for risk assessment. The Certification and Surveillance of Part 145 Repair Station course was amended to deliver an effective step-by-step procedure to develop a useful data package.
7. **Develop a standardized checklist that all inspectors can use to improve the consistency in the way they perform and report their inspection findings.** FAA Order 8900.1 was revised to refine the repair station checklist for each of the 16 surveillance elements in the RSAT. The revised repair station checklist and guidance was incorporated into the FAA Certification and Surveillance of Part 145 Repair Station course. Recurrent training requirements were added to the Airworthiness and Avionics Inspectors training profile. This training covers the use of the RSAT,RMP, and OPT.
8. **Provide training for inspectors to improve their review and acceptance of repair station corrective plans.** FAA Order 8900.1 was revised to include guidance on the review and acceptance of a corrective action plan (CAP). The requirement for ASI's to verify deficiencies noted in previous CAPs, was presented to the Flight Standards technical regional managers, field office managers, and ASI's. The CAP procedures and requirements were incorporated in the FAA Certification and Surveillance of Part 145 Repair Station course.
9. **Develop guidance and training to inspectors on how to conduct comprehensive briefings to repair station officials on inspection findings.** FAA Order 8900.1 was revised to incorporate detailed procedures on conducting a thorough and complete repair station briefing on inspection findings. The Flight Standards technical regional managers, field office managers, and ASI's were briefed on how to conduct a comprehensive pre and post inspection briefing. The briefing procedures were incorporated into the FAA Certification and Surveillance of Part 145 Repair Station course.

The guidance material of the new certification and surveillance system named Safety Assurance System (SAS) for FAA ASIs was incorporated into the Flight Standards Information Management System (FSIMS) and three SAS deployment training sessions of the "SAS for Inspectors and Field Office Management" course were delivered in June 2014. FAA began the deployment of SAS in July 2014.

Key Challenge:
Enhancing Runway Safety

Issue:
The Federal Aviation Administration's (FAA) top priority is maintaining safety in the national airspace system. Safety in the national airspace system hinges on maintaining integrity, security, and efficiency where multiple safety responsibilities converge—the nation's airports. The goal for runway safety is to improve safety by decreasing the number and severity of runway incursions and serious surface incidents.

It is important to note that airport surface safety was not on the 2014 NTSB's Most Wanted List, which represents the NTSB's advocacy priorities. It is designed to increase awareness of and support for the most critical changes needed to reduce transportation accidents and save lives.

Actions Taken in FY 2014:
FAA's Runway Safety Group continues to track all reported runway incursions and categorizes them in terms of severity. FAA continues to meet its goal to reduce the rate of the most serious runway incursions (Category A and B)—those in which a collision was avoided.

ATO's Runway Safety Group works in collaboration with FAA stakeholders, industry, and the NTSB to assess risk and promote

risk based mitigation strategies. This model of collaboration is shared with the International Civil Aviation Organization Air Navigation Service Providers.

Notable achievements in FY 2014 include the publication of the 2015–2017 *National Runway Safety Plan* in July 2014. The Plan directly supports the FAA Administrator's priorities to make aviation safety and smarter by moving to risk-based decision making; enabling the safe and efficient integration of Next Generation Air Transportation Systems (NextGen); and demonstrating global leadership in improving air traffic safety and efficiency through data-driven solutions that shape international standards.

The 2015–2017 *National Runway Safety Plan* introduces the Top Focus Airport program to focus efforts and coordinate resources to address safety hazards at specific airports. In Fiscal year 2014, this program leveraged existing safety-data and analysis to identify nine Top Focus Airports for 2014.

In FY 2014, the FAA began working with MITRE to develop criteria for the Top Focus Airport program for FY 2015. Moving forward, the program will utilize risk-based SMS processes that leverage the combined collection and analysis of relevant surface safety data, identify causal and contributory factors, communicate safety issues, implement corrective action plans and monitor feedback loops. The new criteria were established in September 2014.

This fiscal year, the FAA established the Surface Safety Initiatives Team (SSIT) to improve collaboration between lines of business and provide a process to assess options and prioritize surface safety initiatives. The goal is to improve coordination between all stakeholders to identify and implement technology and procedural solutions that are right-sized, affordable, and mitigate hazards associated with airport surface operations in areas of the highest risk.

The SSIT has oversight of the Comprehensive Airport Review and Assessment (CARA) teams. In an effort to decrease the risks associated with surface incidents, runway incursions and/or runway excursions, the CARA teams are tasked to produce the Comprehensive Airport Review Plan (CARP). This plan identifies, validates, and prioritizes root cause operational issues that contribute to runway safety shortfalls at each of the sites within the purview of the SSIT. The plan also helps identify and understand hazards and their root causes. The SSIT reviews and assesses the CARP to ensure that procedures, practices and documentation are being applied in accordance with applicable requirements. SSIT Actions in FY 2014:

SSIT Charter finalized	Completed 2/2014
Initial CARA Teams formed	Completed 6/2014
Boston CARP delivered	Completed 6/2014
Reno initial CARA meeting held	Completed 8/2014
San Francisco initial CARA meeting held	Completed 8/2014
Dallas/Ft. Worth initial CARA meeting held	Completed 8/2014

The Surface Risk Analysis Process (SRAP) tool was developed in FY 2014 to evaluate and score selected surface events. This tool introduces data driven scoring methods for event assessment and will add other functionalities to accommodate national airspace system requirements. The SRAP tool factors in the effects of proximity, closure rates, barriers and other systemic and non-systemic factors to determine severity, controllability and repeatability of a Runway Incursion event. SRAP Actions in FY 2014 include:

Initial development of the SRAP prototype tool	Completed 12/2013
Verification and validation of the SRAP prototype tool	Completed 3/2014
SRAP Beta version completion	Completed 5/2014
Verification and validation of the SRAP web-based tool	Completed 9/2014

Improved Technologies in FY 2014:
FAA continues to deploy technology that could help prevent collisions on runways. The Airport Surface Detection Equipment-Model X (ASDE-X) system is deployed at 35 major airports, providing detailed information to air traffic controllers regarding aircraft operations on runways and taxiways.

While ASDE-X is a step in the right direction, it does not provide alerts directly to pilots, a longstanding NTSB recommendation. To address this shortcoming, FAA is integrating ASDE-X with two other systems—Runway Status Lights (RWSL) and Automatic Dependent Surveillance-Broadcast (ADS-B)—to simultaneously alert controllers and pilots of potential ground collisions. However, progress toward these enhancements depends on a number of other actions, such as establishing requirements for technical upgrades, testing system integrity, and determining whether ASDE-X capabilities will meet FAA's goals of increasing capacity while improving safety.

The FAA's Surveillance and Broadcast Services program began implementing a new surface technology, Airport Surface Surveillance Capability (ASSC), at ASDE-3/AMASS sites that did not receive an ASDE-X system. ASSC will bring enhanced surface situational awareness and advanced warning of potential runway incursions to nine United States airports for increased safety and efficiency. (The sites include: Anchorage, Andrews Air

Force Base, Cincinnati/Northern Kentucky, Cleveland, Kansas City International, New Orleans, Pittsburgh, Portland, and San Francisco, with options for additional sites).

Each ASSC deployment will incorporate a number of sensors (ADS-B and multilateration, but not primary radar which is used for non-cooperative vehicles/aircraft) and software for a single, fused view of the airport runways and taxiways. The flexible nature of the ASSC system architecture enables future airport surface safety enhancements, such as RWSL, and airport surface movement data distribution to other approved systems and users.

In addition, the Surveillance and Broadcast Services system introduced an enhancement to the ASDE-X system to perform multilateration surveillance on the Universal Access Transfer data link. This upgraded capability provides a layered approach for surveillance of 978MHz equipped aircraft and vehicles and was completed in 2013.

Lastly, ADS-B provides the additional surveillance layer for surface operations with both aircraft and vehicles and enables advanced cockpit applications and improved data sharing for surface management. The deployment and integration of the ADS-B system in the surface domain was completed in 2014 at ASDE-X sites and is scheduled to be complete in 2017 at ASSC sites.

Technology Actions in FY 2014 :

Begin Site Acceptance Test for ASSC at San Francisco key site	Completed 5/2014
Achieve Initial Operating Capabilities (IOC) for ADS-B Surface	Completed 9/2014
Advisory Services at 35 ASDE-X sites	Completed 9/2014
Achieve Operational Readiness Decision (ORD) at Dulles, Phoenix, and Houston Intercontinental	Completed 9/2014
Achieve ORDs at two additional RWSL sites. (The program goal was surpassed by achieving IOC at three additional sites: Minneapolis, Seattle, and Las Vegas.)	Completed 9/2014

Key Challenge:

Improving Data Collection and Analysis To Identify and Mitigate Risks With Aircraft Separation Losses and Air Carrier Operations

Issue:

At any given time, there are roughly 7,000 aircraft occupying U.S. airspace. To help maintain safe distances between aircraft, while under the control of air traffic controllers, FAA established minimum separation standards based on the aircraft's phase of flight and size. Controllers are responsible for providing instructions to pilots.

The OIG has been reporting on separation losses for over a decade. Historically, FAA's oversight of operational error self-reporting has been problematic. Previous work on operational errors has repeatedly raised concerns that nearly 300 FAA terminal facilities relied solely on controllers to self-report errors. In some cases, the OIG found that the self-reporting process was subject to intentional manipulation.

Actions Taken in FY 2014:

In order to improve data collection, analysis and the identification of risk safety trends, the FAA fully implemented the Traffic Analysis and Review Program (TARP); which electronically captures quantitative data relating to all occurrences that involve losses of airborne separation. TARP was fully implemented in terminal radar facilities in September 2012 and in July 2013 for all En Route Facilities.

The tools include: the Comprehensive Electronic Data Analysis and Reporting tool, the FALCON 3 radar playback tool, Compliance Verification Tool, Terminal Area Regeneration Evaluation and Target Simulation and TARP. We also utilize the Risk Analysis Process (RAP) to analyze airborne losses of separation in which less than 2/3 of required separation is maintained.

In FY 2014, ATO added loss of surface separation and the Technical Operations Service Integrity analyses into the RAP. The RAP identifies the severity and likelihood of systemic risks which are the primary data source that drive the ATO's Annual Top 5 High Risk Hazard mitigation and corrective action program. Detailed analysis is conducted to aggregate the data and identify significant and common hazards that contribute to risk in the national airspace system.

Additionally, the ATO has established FAA and Industry Summit Forums creating collaborative efforts to reduce identified safety risk while addressing the concerns of air carrier and other national airspace system operators.

During FY 2014, the ATO's data collecting processes continue to mature and improve the oversight of separation loss data collection and analysis. These improvements will be accomplished through the implementation of quality management system (QMS) standards to the Quality Assurance (QA) Standard Operating Procedures (SOP), the development of a Quality Control (QC) Program Handbook and/or Safety Guidance, the development of a National QA/QC Training Course and through the published revisions to the ATO QA and QC Orders (JO 7210.633, "Air Traffic Organization Quality Assurance Program" and JO 7210.634, "Air Traffic Organization Quality Control").

With the full implementation of our reporting systems we have recognized a significant increase in safety data and are working diligently to share this unprecedented level of reported information with employees and industry to include air carrier and other stakeholders. While constant improvements will continue each year, the ATO anticipates major improvements throughout 2014.

Specific Activities taken in FY 2014 include:

- Hosting FAA/Industry Forums to collaboratively address identified safety risks. As of August 2014, the ATO has hosted three FAA/Industry Forums regarding the subject of Converging Runway Operations and FAA Safety Enhancements for Air Traffic (September 24-25, 2013, November 14-15, 2013, and March 13, 2014).
- Reviewing Mandatory Occurrence Report /Electronic Occurrence Report at the Safety and Technical Training Service Area Offices to identify high risk hazards, trends, and systemic issues within the national airspace system. This activity continues to be conducted daily in FY 2014.
- Using RAP to identify causal factors that contribute to the most severe airborne and surface losses of separation and system integrity degradations. Each QA Service Area continues to utilize the Risk Analysis Process identify airborne and surface losses and system integrity degradations as deemed by its Standard Operating Procedures.
- Revising the QA SOP to comply with QMS requirements: completed in January 2014.
- Developing the QC Program Handbook and/or Safety Guidance to help field facilities develop and implement effective local quality control programs. This was completed in April 2014.

Identifying and Addressing Root Causes of Problems With NextGen and Setting Investment Priorities

Key Challenge:

Identifying and Addressing the Underlying Causes of Delays

Issue:

NextGen is a major modernization effort underway to transform the legacy national airspace system. 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 2014:

- **National Airspace System Enterprise Architecture (EA):** The national airspace system EA documents levels of planning in keeping with the maturity of the investment, the likely path for the evolution of the national airspace system, and projected milestones with schedules and cost based estimates for near-and long-term investments. On February 28, 2014 the 2014 national airspace system EA was published on the National Airspace System EA Portal. This publication includes updates to the National Airspace System Service Roadmaps, Infrastructure Roadmaps, the National Airspace System Segment Implementation Plan (NSIP), and mid-term EA views.
- **National Airspace System Segment Implementation Plan (NSIP):** The NSIP is updated annually to reflect the evolution of program management to support portfolio-level decision-making. The NSIP 2014 was published on February 28, 2014. The NSIP identifies and helps manage incremental improvements necessary to develop, integrate, and implement NextGen capabilities and national airspace system sustainment activities. This year the NSIP was virtualized into an integrated web-accessible platform which allows NSIP updates to be managed and reported in real-time.
- **Portfolio Management Reviews (PfMRs):** This year, we continued to host regular PfMRs across the multiple lines of business within the FAA to promote information flow and communication. The PfMRs ensure transparency and provide updates on current portfolio activities. Each portfolio is briefed quarterly and status reports are given to the NextGen Management Board (NMB) on a quarterly basis. We plan to continue hosting such PfMRs in FY 2015 to further monitor and communicate agency efforts regarding NextGen investment priorities.

Key Challenge:

Integrating New Performance-Based Navigation Routes to Maximize Near-Term Benefits and Gain User Support

Issue:

The Office of the Inspector General (OIG) states that the implementation and airlines' use of performance based navigation (PBN) procedures has been inconsistent, pointing to high usage of required navigation performance (RNP) procedures at some small to medium-sized airports and low usage at larger, busier airports. The OIG suggested that the lack of updated PBN policies and procedures for controllers, a lengthy flight procedure development process, and the lack of controller tools to manage and sequence aircraft are all attributed to inconsistent use of PBN procedures. The FAA concurs that an improved and standardized process for

evaluating and prioritizing procedures (regardless of whether a new or revised procedure is being proposed) is vital to managing the development and maintenance of the PBN procedures currently in place. The FAA believes that the required updates are addressed by the adoption of the streamlined "Five Phase Process", detailed in the PBN Implementation Process order (7110.41).

Actions taken in FY 2014:

In April 2014, the FAA implemented the PBN Implementation Process order. The order provides for a standardized process for evaluating and prioritizing procedure development work. In addition, the FAA is revamping software adaptation and training for the Time Based Flow Management (TBFM) system, and fielded enhancements. The FAA is working to implement a Terminal Spacing and Sequencing (TSS) solution to enable higher utilization of RNP procedures at higher volume airports. The FAA also issued directives, guidance, and training for "Climb Via/ Descend Via" clearances to establish or reinforce procedures, enabling more consistent use of efficient flight profiles. The FAA developed standardized educational material for a national joint pilot/controller training effort. The FAA has completed draft training templates for ATC based on the "Climb Via" and "Descend Via" DCPs for the updated 7110.65 Handbook and developed the pilot training component that was also implemented in April 2014. In 2014, two Metroplex initiatives were completed implementing PBN procedures, Houston Metroplex (May 2014) and North Texas Metroplex (Sept 2014).

In September of 2014, the FAA implemented planned enhancements to controller tools. Such enhancements included more precise adaptation and scheduling on PBN procedures, extended metering, and Ground-Interval Management-Spacing (GIM-S). The GIM-S and extended metering enhancements were implemented for IOC at Albuquerque Center.

Key Challenge:

Implementing an Integrated Master Schedule for NextGen Programs

Issue:

The Integrated Master Schedule (IMS) helps to assess progress, establish priorities, and make trade-off decisions between various programs. The OIG has stated that without an IMS the FAA will continue to be challenged in assessing progress with NextGen efforts.

Actions Taken in FY 2014:

- Completed the update of the National Airspace System Segment Implementation Plan on (NSIP) December 20, 2013. The sections updated included the Success Criteria, the Portfolio Overview, and the Systems Interaction as well as the schedules which feed the Integrated Master Schedule (IMS). The NMB ratified the final version of NSIP 2014 on February 24, 2014; and NSIP 2014 was published in the national airspace system Enterprise Architecture (EA) Portal on February 28, 2014.
- The FAA continued to align the IMS with the NSIP. The FAA populated the IMS with the Segment Alpha schedules and dependencies. As of March 2014, the Segment Bravo schedules are being refined in the IMS.
- The FAA briefed the OIG on the IMS status and conducted a demonstration showing the Separation Management portfolio schedule linkages to the Program Management Organization's (PMO) Advanced Technologies and Oceanic Procedures (ATOP) schedule on November 6, 2013.
- The FAA developed an IMS Draft Concept of Operations/ Governance document in December 2013.
- The final IMS Concept of Operations/Governance document was published on February 14, 2014. The NextGen IMS Concept of Operations/Governance document provides a high-level overview of the NextGen IMS, including the purpose, stakeholders, roles and responsibilities, process and tools.
- The FAA briefed OIG on the IMS status and conducted a demonstration showing NextGen portfolio schedules linked to the PMO's NextGen program schedules on April 4, 2014 . We also provided OIG with copies of the final IMS Concept of Operations/Governance document.
- The FAA continued linking NextGen increments to their respective PMO programs/systems. Populated the IMS with the relevant milestones NextGen program schedules in December 2013. The main purpose for creating the NextGen IMS is to integrate the NextGen portfolio schedules and the PMO program schedules within a common toolset to accurately and consistently track the progress of the new NextGen capabilities.
- The NMB was provided with monthly reports during 2014 and also with quarterly Progress Reviews of key NextGen initiatives.
- Quarterly Portfolio Management Reviews (PfMRs) for each NSIP Portfolio were conducted in November 2013 (1st QTR FY 2014); February 2014 (2nd QTR FY 2014); and May 2014 (3rd QTR FY 2014). Milestone dates, key activities, accomplishments and challenges such as sequestration impacts were discussed and statused. Mitigation strategies were identified/ implemented.

Key Challenge:
Mitigating Implementation Risks With Key Automation Systems That Controllers Rely on To Manage Air Traffic

Issue:
Increasing airspace capacity and reducing flight delays depend on the successful implementation of the En Route Automation Modernization program (ERAM)—a $2.4 billion system to replace hardware and software at Federal Aviation Administration's (FAA's) facilities that manage high-altitude traffic. FAA originally planned to complete ERAM by the end of 2010. However, software problems have impacted the system's ability to safely manage and separate aircraft and raised questions as to what capabilities ERAM will ultimately deliver. FAA has taken steps to get ERAM on track and is using the system on either a full-time or part-time basis at all planned sites—a significant step in moving the agency towards completion of ERAM deployment by March 2015. Progress at sites has allowed FAA to phase out their legacy air traffic control systems.

The Terminal Automation Modernization/Replacement (TAMR) program involves about $1.4 billion through 2018 to replace aging displays and processors with a single automation platform that controllers rely on to manage takeoffs, landings and most critical phases of flight. The TAMR Program is modernizing the terminal automation systems in phases as a result of the size and complexity of this modernization effort. The initial part of Phase I was completed in 2004 and is now in a Tech Refresh Phase. Phase II was completed in 2009 and Phase III is currently underway. At the time of the program's final investment decision, the Phase III Segment 1 program segment was baselined at a cost of $438M.

Actions taken in FY 2014:
The ERAM program continues to apply its processes and standards for packaging and deploying builds using a collaboratively-managed process between the program office, second level engineering, NATCA, and site teams to deploy software. This process ensures upstream planning beginning more than three months in advance of software test dates to ensure that the necessary plans, resources, and sites are aligned to ensure robust verification and validation of software in 'like-operational' conditions.

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

The program also implemented a System Enhancements and Technical Refresh (SE/TR) program baseline, which has furthered facilitate capturing and planning for implementation of enhancements. This will help ERAM implementation sites and stakeholders focus on fixes needed to complete the waterfall and defer enhancements to the system into later releases.

Additionally, the program assessed potential earlier integration of some software code from other NextGen programs into ERAM to facilitate reduction of the number of concurrent software baselines needed for development and test, ultimately having the potential to reduce specific test and deployment cost elements.

Finally, the ERAM program has either met or surpassed FY 2014 implementation plans. The program achieved IOC at the remaining sites during the fiscal year. Additionally, ERAM surpassed its goal of ORD at four (4) sites by achieving ORD at five (5) sites (Cleveland, Fort Worth, Memphis, Miami, and Boston) prior to fiscal year end. The total number of sites that have achieved ORD is 16 sites. The remaining four (4) sites (New York, Washington, Atlanta and Jacksonville) are scheduled to achieve ORD during FY 2015, with a last site ORD by the second quarter of FY2015.

The Program Management Office (PMO) of the FAA created process standards for requirements management. This process is detailed in the May 2014 document entitled Standard Operating Procedures (SOP) Requirements Management Process. Working with that guidance, the TAMR program is revising its existing requirements management artifact to align the TAMR practices with the PMO practices. In addition, the revised document will address the role of the new Article 48 Working Group that was established in May 2014 to provide governance of System Technical Reports Working Group (STRWG) recommendations. The STRWG validates proposed changes to the TAMR baseline and translates them into specific contractual requirements as a formal work plan for the contractor. The STRWG also ensures that all contract requirements are formally introduced via Engineering Change Proposals to the STARS System and Subsystem Specification.

Since January 2014, the TAMR program has established processes for collaborative meetings known as the STARS User Team Events and met the objective of holding five (5) events during 2014. The events included participants from all the Phase 3 Segment 1 sites, CARTS Subject Matter Experts (SMEs), STARS SMEs and representatives from Terminal Second Level Engineering, Technical Operations, Requirements, NATCA, and the STARS training team. These events identified additional functionality needed

for operational suitability and engage stakeholders in regular communications to promote a smooth transition to STARS.

The events met with great success. They validated the need for the previously identified functionality planned for future software builds and determined that few additional requirements would be required. The events also further improved the process of familiarizing the site participants with their new system.

The program's efforts to facilitate a series of planning workshops with multiple stakeholder communities have yielded additional clarity on level of risk associated with the requirements baseline for the program. This additional information was used to develop a software estimate to complete that remains under review by PMO and FAA Executives. The program plans to conclude this review cycle by the third quarter of FY 2015.

The TAMR program continues to incorporate controls and preventative measures to reduce future financial risk. These efforts include 1) requirements and issue disposition, 2) software estimation and forecast and 3) requirements and issues tracking and reporting.

In the area of software testing, the TAMR program is also incorporating lessons learned from the ERAM program. The test strategy for TAMR includes a range of structured events with entrance and exit criteria for deploying new software to TRACONs. This includes: a) early user involvement events involving controller system testing prior to government acceptance; b) informal risk mitigation testing involving the program office and vendor prior to software delivery at the William J. Hughes Technical Center test facility; and c) formal operational test and evaluation including software bug fixes, engineering change verification, regression tests, and operational evaluation by users prior to software delivery to the sites.

Key Challenge:
Further Developing and Implementing Consolidation and Modernization Plans

Issue:
Section 804 of the FAA Modernization and Reform Act of 2012 required the FAA to develop a National Facilities Realignment and Consolidation Report to support the transition to NextGen and reduce costs without affecting safety. The FAA and Labor established a collaborative workgroup to develop criteria and the process for future realignment decisions.

Actions taken in FY 2014:
The workgroup presented the realignment analysis process to Congress in December 2013 and received approval to begin. In January 2014, the workgroup initiated analysis for the first set of realignment scenarios using a fully collaborative process including the FAA, National Air Traffic Controllers Association, and Professional Aviation Safety Specialists representation, as well as facility and stakeholder input.

In FY 2014, the workgroup held working sessions, conducted site surveys, developed technical documentation for the 25 facilities involved in Year 1 analysis, inclusive of 11 potential realignment candidates (transfers), and 14 potential receiving facilities. The workgroup initiated pre-decisional business case analysis for those scenarios for which data gathering and requirements development activities were completed.

Key Challenge:
Safely Integrating Unmanned Aircraft Systems (UAS) in the National Airspace System

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

Actions Taken in FY 2014
On November 7, 2013, FAA published the first edition of the UAS Roadmap. The Roadmap outlines the effort needed to safely integrate UAS into the national airspace system. 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 announced the six test site locations in December 2013. The first Certificate of Waiver or Authorization (COA) was issued in April 2014. All six test sites are now operational with at least one COA. FAA authorized two commercial operations over the Artic. ConocoPhillips began using Insitu's ScanEagle for its marine mammal and ice surveys. In June 2014, BP began using AeroVironment's Puma AE to survey its pipeline, roads, and equipment at Prudhoe Bay, AK, the largest oilfield in the United States.

In June 2014, FAA published its interpretation of Section 336 of the FMRA for public comment. This was in effort to better clarify guidance for model aircraft operations. The comment period was extended to September 23, 2014; as of mid-August, FAA has received more than 30,000 comments.

FAA has been executing on planned research requirements and is coordinating research activities with other Federal agencies, including National Aeronautics and Space Administration (NASA) and the Department of Defense (DOD). Research focus areas include Sense and Avoid (SAA) and Command and Control (C2). In conjunction with RTCA, the FAA launched a new Special Committee (SC-228) which will focus on standards development for Sense (Detect) and Avoid (SAA) and Command and Control (C2) systems (ongoing).

Managing Acquisitions and Contracts to Achieve Results and Save Taxpayer Dollars

Key Challenge:
Ensuring Taxpayer Dollars Are Invested and Administered Wisely on Major Contracts

Issue:

Air Traffic Control Optimum Training Solution (ATCOTS)
In 2010, the OIG made several recommendations to improve the Federal Aviation Administration's (FAA) management of its ATCOTS contract, which was awarded in 2008 to provide controller training support, reduce total training time and costs, and develop training innovations. Despite FAA's efforts to address recommendations from the OIG 2010 report, they continue to identify weaknesses in program and contract management. Notably, FAA did not identify training needs, as the OIG recommended, before exercising an option to continue the contract even though it experienced $89 million in cost overruns for the first 4 years. While FAA reduced the number of contractor instructors by 44 percent to prevent future cost overruns, this required FAA to perform more internal training—a cost FAA has not quantified.

In addition, FAA was unable to achieve key contract goals to reduce controller training times or produce sufficient training innovations, as the average time to certify controllers increased by 41 percent from fiscal year 2009 through fiscal year 2012. Finally, FAA did not effectively use cost incentives to control contract spending for the first 4 years, and award fees were not linked to the achievement of contract goals.

Actions Taken in FY 2014:
- The Quality Reliability Officer has participated in 14 site audits (FY 2014) with the contractor to verify Contractor performance and compliance with contract requirements.
- Bi-weekly meetings are held between the Office of Acquisitions, Safety and Technical Training, the Program Management Office, and the Office of Chief Counsel.
- Issuance of market survey/Request for Information was completed in November 2013.
- Assign an Acquisition Category level to the ATCOTS follow-on contract was completed in February 2014.
- Determination to issue a solicitation for a new controller training contract was made in March 2014.
- Monthly Performance Cost Board and Quarterly Performance Management Review meetings are held to monitor contractor's performance.

- Implementation of the Field Planning Tool Workbooks provides the Field Monthly training requirements as a supplemental tool in developing the Work Plan.
- Monthly update to the Annual Work Plan provides a forecast of Air Traffic Controller schedule of qualification, proficiency and development training services at the Academy and within the Field.

Building a Secure and Modern Information Technology Infrastructure

Key Challenge:
Protecting Sensitive Information

Issue:
Personally Identifiable Information (PII) data in the FAA's Civil Aviation Registry, was not encrypted or adequately protected from compromise through strong authentication techniques. Numerous configuration deficiencies in the system's software rendered the Registry vulnerable to attacks and unauthorized access.

FAA stated that it would implement upgrades to correct the software vulnerabilities and establish data encryption by the end of 2013.

Actions Taken in FY 2014:
The FAA moved the Registry database from an outlying building into one of FAA's enterprise datacenters. As part of this move, FAA implemented a one-way trust between the registry data and any non-credentialed users. This restricted access adds additional security to the data at rest.

FY 14 initiated FAA's IT shared services which provides enterprise development processes. The Registry Modernization System (RMS) planning and development was transferred of the management, planning, and development of the replacement for the to the Information Technology Solutions Delivery Directorate.

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 2014 audit.

TABLE 1: Summary of Financial Statement Audit

Audit Opinion	FY 2014-unmodified				
	FY 2013-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 2014, the FAA began implementing the most recent amendment to IPIA, the Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012 (P. L. 112-248). In particular, the FAA implemented the Do Not Pay Initiative requirements of IPERIA Section 5. The FAA plans to complete the implementation of the new reporting requirements created by IPERIA in FY 2015.

The Office of Management and Budget (OMB) Circular A-123, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments provides guidance on the implementation of IPERA. OMB A-123, Appendix C defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for the incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency's review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.

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

Federal Aviation Administration (FAA) Process

The FAA's process for complying with IPERA and OMB Circular A-123, Appendix C, consists of the following steps:

1) Review program and activities to identify those susceptible to significant improper payments
2) Obtain a statistically valid estimate of the annual amount of improper payments in programs and activities for those programs identified as susceptible to significant improper payments
3) Implement a plan to reduce erroneous payments
4) Report estimates of the annual amounts of improper payments in programs and activities and progress in reducing them

For FY 2014 reporting, the FAA conducted the above four-step process for the 12-month period of April 1, 2013 to March 31, 2014 for High Risk Programs and for the 14-month period of February 1, 2013 to March 31, 2014 for Disaster Relief Funds.

I. Risk Assessment

The FAA's Programmatic Improper Payment Risk Assessment leverages the Assessable Units (AU) Risk Profiles compiled as part of the ongoing compliance with the FMFIA. This assessment identified the Airport Improvement Program (AIP) as high-risk for FY 2014 due to the volume of payments made annually coupled with the fact that Federal funds within these programs are further administrated outside the agency by local governments or airport sponsors. The FAA's programmatic improper payment risk assessment leverages the AU risk profiles compiled as part of ongoing compliance with the FMFIA of 1982.

Table 1.1 lists the high-risk program name and the disbursements population selected for FY 2014 testing and Table 1.2 lists the same for Disaster Relief Act Program.

TABLE 1.1: High-Risk Program Selected for Testing

Program Name	FY 2014 Disbursements
Airport Improvement Program (AIP)	$2,752,148,648

TABLE 1.2: Disaster Relief Act Program Selected for Testing

Program Name	FY 2014 Disbursements
Facilities and Equipment – Disaster Relief Act	$4,426,803

The DOT is in the process of completing a revised Department-wide risk assessment for reporting in FY 2015, which will include FAA programs and funding activities. Based on the results of this risk assessment, the FAA will determine if AIP is still considered a high-risk program or if there are additional programs that should also be classified as high risk. The susceptibility of programs making significant improper payments will be determined by qualitative and quantitative factors. For quantitative factors, DOT will review 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 will include the following:

- Payment processing controls
- Quality of internal monitoring controls
- Human capital
- Age of the program
- Complexity of program
- Nature of payments and recipients
- Operating environment
- Additional grant programs factors
- Contract payment management

II. Statistical Sampling

The AIP sampling approach has not changed from the prior year. The FAA obtained the data extracts from a single source, the DOT's financial system of record, Delphi. Additionally, to verify both sample integrity and the accuracy of extrapolated programmatic improper payment estimates, we collaborated closely with the OIG's IPERA statistician to develop sampling and extrapolation methodologies mutually agreed upon by both parties.

Sample results provided an overall improper payment point estimate of the percentage of improper payment dollars at the 90 percent confidence level within precision requirement of 2.5 percent.

Table 2.1 lists the results of the High-Risk Program testing and Table 2.2 lists the results of the Disaster Relief Act Program testing.

TABLE 2.1: High-Risk Program Sample Test Results

Program	FY 2014 Payment Population	FY 2014 Sample Size – Stage 1	FY 2014 Estimated Error Amount	FY 2014 Estimated Error %
Airport Improvement Program	$2,752,148,648	$177,849,379	$5,602,444	0.20%

TABLE 2.2: Disaster Relief Act Program Sample Test Results

Program	FY 2014 Payment Population	FY 2014 Sample Size – Stage 1	FY 2014 Estimated Error Amount	FY 2014 Estimated Error %
Facilities and Equipment – Disaster Relief Act	$4,426,803	$2,435,447	$0.00	0.00%

III. Corrective Actions

The reported improper payments were under the threshold of being considered high-risk, therefore formal corrective action plans will not be developed. FAA will target grantees with improper payments identified due to administrative errors and lack of sufficient documentation to mitigate the risk of future improper payments.

IV. Fund Stewardship

The FAA stresses the importance of proper fund stewardship with its grant recipients via various grantee review programs and receives reports for each grant to assess sponsor performance. On a broader level, the FAA utilizes a risk-based approach that increases the level of review of sponsor documentation depending on the calculated risk level and prior performance of the grantee.

V. Improper Payment Reporting

Table 3A.1 summarizes improper payment amounts for the FAA's high-risk program, AIP. Table 3A.2 summarizes improper payment amounts for the FAA's Disaster Relief Funds. Improper payment percent (IP%) and improper dollar (IP$) results are provided from last year's and this year's testing of payments. Data for projected future year are based on the timing and significance of completing corrective actions.

TABLE 3A.1: Improper Payment Reduction Outlook–High Risk Testing

Program	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays ($M)	CY IP%	CY IP$ ($M)	CY+1 Est. Outlays ($M)	CY+1 IP%	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP%	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP%	CY+3 IP$ ($M)
FAA Airport Improvement Program	$3,653	0.07%	$2.5	$3,259	0.20%	$6.5	$3,759	0.50%	$18.7	$3,315	0.50%	$16.5	$3,239	0.50%	$16.1

TABLE 3A.2: Improper Payment Reduction Outlook–Disaster Relief Act Program Testing

Program	PY Outlays ($M)	PY IP%	PY IP$ ($M)	CY Outlays ($M)	CY IP%	CY IP$ ($M)	CY+1 Est. Outlays ($M)	CY+1 IP%	CY+1 IP$ ($M)	CY+2 Est. Outlays ($M)	CY+2 IP%	CY+2 IP$ ($M)	CY+3 Est. Outlays ($M)	CY+3 IP%	CY+3 IP$ ($M)
FAA Facilities and Equipment – Disaster Relief Act	N/A	N/A	N/A	$10	0.00%	$0	$10	N/A	N/A	$5	N/A	N/A	$2	N/A	N/A

Key: PY = Prior Year CY = Current Year IP = Improper Payment N/A = Not Applicable due to no baseline data this year

Overpayments and Underpayments Details

Table 3B.1 and 3B.2 provide overpayments and underpayments breakout for FAA's high-risk AIP and Disaster Relief Act Programs.

TABLE 3B.1: Extrapolated FAA Overpayment Underpayment Programmatic Estimate – High Risk Testing

	Improper Payment Dollar Amount	Improper Payment Percent
FAA Overpayment Estimate	$ 4,517,294	0.16%
FAA Underpayment Estimate	$ 1,085,149	0.04%

TABLE 3B.2: Extrapolated FAA Overpayment Underpayment Programmatic Estimate – Disaster Relief Act Testing

	Improper Payment Dollar Amount	Improper Payment Percent
FAA Overpayment Estimate	$0.00	0.00%
FAA Underpayment Estimate	$0.00	0.00%

VI. Recapture of Improper Payment Reporting

The DOT worked to recover any FAA overpayments and identify payment process weaknesses. The DOT did not, however, identify any systemic payment process weaknesses. The overpayments were of such immaterial amounts that it was not considered cost-effective to break them down by agency and therefore they were reported at the departmental level (in the DOT's Agency Financial Report)

VII. Ensuring Management Accountability

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

- The FAA has an existing control process with the OMB Circular A-123, Management's Responsibility for Internal Control, Appendix A, which requires the FAA to review internal control over financial reporting and systems. This review includes determining if the systems are well documented, sufficiently tested, and properly assessed. The scope of these reviews includes reviewing and testing the key internal controls surrounding the payment disbursements for grant and contractual payments.
- The FAA uses a vast network of regional offices to ensure that the FAA maintains regular communication with grantees as well as state and local officials. The FAA ensures that grantees understand the purpose of grant reviews during each step of the review process. This constant communication, along with the aid of grantee staff, has allowed the FAA to not only maintain a low rate of improper payments, but also achieve success in recapturing payments identified as both improper and recoverable.

VIII. Agency Information Systems and Other Infrastructure

The FAA currently possesses the internal controls, human capital, and information systems necessary to maintain improper payments levels at the targeted programmatic rates.

IX. Statutory or Regulatory Barriers

None.

X. Overall Agency Efforts

The FAA is implementing lessons learned from the past six years of testing AIP improper payments. For example, we continue to communicate and train grantees on areas of improvement to prevent improper payments. These efforts have resulted in a low improper payment percentage rate and dollar amount for the current year. The FAA will continue to put into place preventive measures on an ongoing basis.

Administrative Services Franchise Fund

Background

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), 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 Coast Guard Dauphin Rescue helicopter on display at Miramar Air Show in Miramar California USA.

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	
	2014	**2013**
Assets		
Fund balance with Treasury	$ $363,259	$ 267,335
Accounts receivable, net	13	81
Inventory and related property, net	610,515	596,658
General property, plant, and equipment, net	53,525	22,891
Other	2,290	1,394
Total assets	$ 1,029,602	$ 888,359
Liabilities		
Accounts payable	$ 28,679	$ 19,597
Advances from others	240,631	151,459
Employee related	15,942	21,590
Other	863	1,458
Total liabilities	286,115	194,104
Net position		
Cumulative results of operations	743,487	694,255
Total net position	743,487	694,255
Total liabilities and net position	$ 1,029,602	$ 888,359

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	
	2014	**2013**
Enterprise Services Center		
Revenues	$ 148,701	$ 149,108
Expenses	147,647	169,059
Profit (loss)	1,054	(19,951)
Corp Services		
Revenues	1,253	1,302
Expenses	413	1,555
Profit (loss)	840	(253)
Aircraft Maintenance and Engineering Group		
Revenues	58,635	52,413
Expenses	65,996	57,908
Profit (loss)	(7,361)	(5,495)
FLLI		
Revenues	5,450	4,011
Expenses	5,979	5,680
Profit (loss)	(529)	(1,669)
International		
Revenues	3,368	4,077
Expenses	4,339	4,614
Profit (loss)	(971)	(537)
FAA Logistics Center		
Revenues	270,516	279,695
Expenses	232,728	257,839
Profit (loss)	37,788	21,856
Acquisitions		
Revenues	8,064	8,393
Expenses	10,903	12,205
Profit (loss)	(2,839)	(3,812)
Total Consolidated		
Revenues	495,987	498,999
Expenses	468,005	508,860
Profit (loss)	$ 27,982	$ (9,861)

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 Sepember 30	
	2014	**2013**
Beginning balance, net position	$ 694,255	$ 656,012
Financing sources		
Transfers-in/out without reimbursement	(34,345)	(13,552)
Imputed financing from costs absorbed by others	55,595	61,656
Total financing sources	21,250	48,104
Profit (loss)	27,982	(9,861)
Ending balance, net position	$ $743,487	$ 694,255

Other Information

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, 2014 and 2013, total budgetary resources and spending (obligations) were:

U.S. Department of Transportation
FEDERAL AVIATION ADMINISTRATION
OTHER INFORMATION
SCHEDULE OF SPENDING
Unaudited

	As of September 30	
	2014	**2013**
Schedule of Spending		
Total resources available to spend	$ 27,048,984	$ 24,986,911
Less amount available but not agreed to be spent	1,602,316	1,388,704
Less amount not available to be spent	2,434,194	2,218,098
Total amounts agreed to be spent	$ 23,012,474	$ 21,380,109
Major spending categories		
Personnel compensation and benefits	$ 7,432,515	$ 7,499,645
Contractual services and supplies	5,368,636	5,338,487
Acquisition of assets	362,530	350,852
Grants and fixed charges	3,357,093	3,124,681
Other	6,491,700	5,066,444
Total amounts agreed to be spent	$ 23,012,474	$ 21,380,109
Amounts remaining to be spent		
Total amounts agreed to be spent	$ 23,012,474	$ 21,380,109

Glossary

ACRONYM	NAME
AA	Aviation authorities
AAE	Audit and Evaluation (FAA staff office)
AATF	Airport and Airway Trust Fund
ACAT	Acquisition categories
ACR	Civil Rights (FAA staff office)
ACT ARC	Air Carrier Training Rulemaking Committee
ADS-B	Automatic Dependent Surveillance-Broadcast
AFN	Finance and Management Staff Office (FAA staff office)
AGA	Association of Government Accountants
AGC	Chief Counsel (FAA staff office)
AGI	Government and Industry Affairs (FAA staff office)
AHR	Human Resource Management (FAA staff office)
AIP	Airport Improvement Program
AJI	ATO Safety and Technial Training
ALPA	Airline Pilot Association
AMO	Approved maintenance organization
AMS	Acquisition Management System
ANG	NextGen and Operations Planning Staff Office (FAA staff office)
AOA	Angle of Attack
AOC	Communications (FAA staff office)
APB	Acquisition program baseline
APL	Policy, International Affairs, and Environment (FAA staff office)
APT	Assessment planning tool
ARC	Aviation Rulemaking Committee
ARP	Aerospace Recommended Practice, Airports (Line of Business)
ARTCC	Air Route Traffic Control Center
ASAP	Aviation Safety Action Partnership
ASDE	Airport Surface Detection Equipment
ASDE-X	ASDE including Model X
ASH	Security and Hazardous Materials Safety (FAA staff office)
ASI	Aviation Safety Inspectors
ASIAS	Aviation Safety Information Analysis and Sharing

ACRONYM	NAME
ASSC	Airport Surface Surveillance Capability
AST	Commercial Space Transportation (FAA line of business)
ASTM	American Society for Testing and Materials
ATCOTS	Air Traffic Control Optimum Training Solution
ATO	Air Traffic Organization (FAA line of business)
ATOP	Advanced Technologies and Oceanic Procedures
AU	Assessable Unit
AVS	Aviation Safety (FAA line of business)
BPTW	Best Places to Work
C2	Command and Control
CAAS	Civil Aviation Authority of Singapore
CAEP	Committee on Aviation Environmental Protection (ICAO)
CAP	Corrective action plan
CARA	Comprehensive Airport Review and Assessment
CARP	Comprehensive Airport Review Plan
CARTS	Common Automated Radar Terminal System
CAST	Commercial Aviation Safety Team
CDA	Certificate of Waiver or Authorization
CDM	Continuous Diagnostics & Mitigation
CFO	Chief Financial Officer
CIP	Construction in Progress
CLEEN	Continuous Lower Energy, Emissions and Noise
CO_2	Carbon Dioxide
COE	Center of Excellence
COTS	Commercial off-the-shelf
CR	Continuing resolution
CSRS	Civil Service Retirement System
CY	Calendar year
DataComm	Data Communications
DNL	Day-night average sound level
DOD	Department of Defense
DOL	U.S. Department of Labor
DOT	U.S. Department of Transportation
EA	Enterprise Architecture

ACRONYM	NAME
EASA	European Aviation Safety Agency
ERAM	En Route Automation Modernization
ESC	Enterprise Services Center
F&E	Facilities and Equipment
FAA	Federal Aviation Administration
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
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
FOD	Foreign object debris
FRMS	Fatigue Risk Management System
FSIMS	Flight Standards Information Management System
FSTD	Flight Simulation Training Device
FY	Fiscal Year
GA	General Aviation
GAJSC	General Aviation Joint Steering Committee
GAO	Government Accountability Office
GF	Department of Treasury's General Fund
GIM-S	Ground-based Interval Management for Spacing
GPS	Global Positioning System
GSA	General Services Administration
ICAO	International Civil Aviation Organization
IFO	International field office
IG	Inspector General
IMS	Integrated Master Schedule
IOC	Initial Operating Capability
IP	Internet protocol
IP$	Improper payment dollar

ACRONYM	NAME
IP%	Improper payment percent
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act
IRS	Internal Revenue Service
IT	Information Technology
ITD	International Training Division (FAA Academy)
LOSS	Losses of Standard Separation
MIT	Massachusetts Institute of Technology
MMAC	Mike Monroney Aeronautical Center
NAS	National airspace system
NASA	National Aeronautics and Space Administration
NATCA	National Air Traffic Controllers Association
NEPA	National Environmental Policy Act of 1969
NextGen	Next Generation Air Transportation System
NMB	NextGen Management Board
NSIP	National Airspace System Segment Implementation Plan
NTSB	National Transportation Safety Board
nvPM	Non-volatile particulate matter
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPD	Optimized Profile Descents
OPM	Office of Personnel Management
OPT	Outsource Oversight Prioritization Tool
ORD	Operational readiness decision
OTA	Office of Tax Analysis
PAR	Performance and Accountability Report
PARTNER	Partnership for Air Transportation Noise and Emissions Reduction
PBN	Performance-Based Navigation
PED	Portable Electronic Device
PfMR	Portfolio Management Review
PII	Personally Identifiable Information

ACRONYM	NAME
PM	Particulate Matter
PMO	Program Management Office
PMO	Program Management Organization
PMTG	Particulate Matter Task Group (CAEP)
PP&E	Property, Plant, and Equipment
PRISM	Internet-based Acquisition System Integrated with Delphi
PTRS	Program Tracking Reporting System
QA	Quality Assurance
QC	Quality Control
R&D	Research and Development
R,E &D	Research, Engineering, and Development
RAP	Risk Analysis Process
RECAT	Recategorization of Aircraft for Wake-turbulance Separation
REGIS	Regional Information System
RMP	Risk Management Process
RMS	Registry Modernization System
RNP	Required Navigation Performance
RSAT	Repair Station Assessment Tool
RSSI	Required Supplementary Stewardship Information
RWSL	Runway Status Lights
SAA	Sense and Avoid
SAE	Society of Automotive Engineers
SAS	Safety Assurance System

ACRONYM	NAME
SBP	Strategy, Budget and Performance
SAVES	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
SE/TR	System Enhancements and Technical Refresh
SFFAS	Statement of Federal Financial Accounting Standards
SIP	Synthesized ISO-Paraffins
SME	Subject Matter Expert
SMS	Safety Management System
SOP	Standard Operating Procedures
SRAP	Surface Risk Analysis Process
SRER	System Risk Event Rate
SSIT	Surface Safety Initiatives Team
STARS	Standard Terminal Automation Replacement System
STRWG	System Technical Reports Working Group
TAMR	Terminal Automation Modernization and Replacement
TARP	Traffic Analysis and Review Program
TBFM	Time-Based Flow Management
TBD	To Be Determined
TSS	Terminal Spacing and Sequencing
TRACON	Terminal Radar Approach Control
UAS	Unmanned Aircraft Systems
WJHTC	William J. Hughes Technical Center
YTD	Year to Date

We Welcome Your Comments

Thank you for your interest in the FAA's FY 2014 Performance and Accountability Report. We welcome your comments on how we can make this report more informative for our readers.

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