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# *Office of Inspector General*

# *Audit Report*

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## **QUALITY CONTROL REVIEW OF AUDITED FINANCIAL STATEMENTS FOR FISCAL YEARS 2012 AND 2011**

*Federal Aviation Administration*

*Report Number: QC-2013-013*

*Date Issued: November 14, 2012*






# Memorandum

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

Subject: **INFORMATION:** Quality Control Review of  
Audited Financial Statements for Fiscal Years  
2012 and 2011, Federal Aviation Administration  
Report Number: QC-2013-013

Date: November 14, 2012

From: Calvin L. Scovel III   
Inspector General

Reply to  
Attn. of: JA-20

To: The Secretary  
Federal Aviation Administrator

I respectfully submit our report on the quality control review (QCR) of the Federal Aviation Administration's (FAA) audited financial statements for fiscal years 2012 and 2011.

The audit of FAA's financial statements, as of and for the year ended September 30, 2012, was completed by KPMG LLP (see Attachment) under contract to the Office of Inspector General. The contract required the audit to be performed in accordance with generally accepted Government auditing standards and Office of Management and Budget Bulletin 07-04, "Audit Requirements for Federal Financial Statements," as amended.

KPMG LLP concluded that the consolidated financial statements present fairly, in all material respects, FAA's financial position as of September 30, 2012, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles. Clifton Gunderson LLP, under contract to the Office of Inspector General, audited FAA's fiscal year 2011 consolidated financial statements, and expressed an unqualified opinion on those statements.<sup>1</sup>

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<sup>1</sup> Quality Control Review of Audited Financial Statements for Fiscal Years 2011 and 2010, Federal Aviation Administration, Report Number QC-2012-008, November 14, 2011. OIG reports and testimony can be found on our Web site at: [www.oig.dot.gov](http://www.oig.dot.gov).

## **KPMG LLP's Fiscal Year 2012 Audit Report**

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

1. **Insufficient Validation of Grant Accrual Estimates** – FAA has not been validating the accuracy of its Airport Improvement Program grant accrual estimates by comparing them to actual data. In addition, FAA does not have a process to collect the grantee data it needs to refine or develop future grant accrual estimation methodologies. As a result, there is a risk that these estimates will result in material misstatements in FAA's financial statements.
2. **Improvements Needed in the Financial Statement Review Process** – FAA's interim financial statements and notes contained material misstatements as a result of inadequately designed controls over the review process. Without the proper controls, there is a risk that material misstatements may occur and remain undetected.

We performed a QCR of KPMG LLP's report and related documentation. Our QCR, as differentiated from an audit performed in accordance with generally accepted Government auditing standards, was not intended for us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal controls or compliance with laws and regulations. KPMG LLP is responsible for its report dated November 9, 2012, and the conclusions expressed in that report. However, our QCR disclosed no instances in which KPMG LLP did not comply, in all material respects, with generally accepted Government auditing standards.

KPMG LLP made five recommendations to strengthen FAA's financial, accounting, and system controls. FAA officials concurred with KPMG LLP's findings on the significant deficiencies. FAA also committed to submitting to OIG, by December 31, 2012, a detailed action plan to address the findings contained in the audit report. In accordance with DOT Order 8000.1C, the corrective actions taken in response to the findings are subject to follow up.

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

Attachment



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

## **Independent Auditors' Report**

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

We have audited the accompanying consolidated balance sheet of the U.S. Department of Transportation (DOT), Federal Aviation Administration (FAA) as of September 30, 2012, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources (hereinafter referred to as "consolidated financial statements") for the year then ended. The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered the FAA's internal control over financial reporting and tested the FAA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements. The consolidated financial statements of the FAA as of September 30, 2011, and for the year ended were audited by other auditors. Those auditors expressed an unqualified opinion on the fiscal year 2011 consolidated financial statements in their report dated November 9, 2011.

### **Summary**

As stated in our opinion on the consolidated financial statements, we concluded that the FAA's consolidated financial statements as of and for the year ended September 30, 2012 are presented fairly, in all material respects, in conformity with U.S. generally accepted accounting principles.

As discussed in our opinion on the consolidated financial statements, the FAA changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new requirements under Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements*.

As discussed in our opinion on the consolidated financial statements, the consolidated financial statements reflect actual excise tax revenues deposited in the Airport and Airway Trust Fund through June 30, 2012, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2012.

Our consideration of internal control over financial reporting resulted in identifying certain deficiencies that we consider to be significant deficiencies, as defined in the Internal Control over Financial Reporting section of this report, as follows:

### Significant Deficiencies

1. Insufficient Validation of Grant Accrual Estimates
2. Improvements Needed in the Financial Statement Review Process

We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined in the Internal Control over Financial Reporting section of this report.



The results of our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* and OMB Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*, as amended.

The following sections discuss our opinion on the FAA's consolidated financial statements; our consideration of the FAA's internal control over financial reporting; our tests of the FAA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's and our responsibilities.

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated balance sheet of the Federal Aviation Administration as of September 30, 2012, and the related consolidated statements of net cost, and changes in net position, and the combined statement of budgetary resources for the year then ended.

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, 2012, and its net costs, changes in net position, and budgetary resources for the year then ended, in conformity with U.S. generally accepted accounting principles. The consolidated financial statements of the FAA as of September 30, 2011, and for the year then ended were audited by other auditors. Those auditors expressed an unqualified opinion on the fiscal year 2011 consolidated financial statements in their report dated November 9, 2011.

As discussed in Note 1.Y to the consolidated financial statements, the FAA changed its presentation for reporting the Combined Statement of Budgetary Resources in fiscal year 2012, based on new reporting requirements under OMB Circular No. A-136, *Financial Reporting Requirements*. As a result, certain balances on the FAA's Combined Statement of Budgetary Resources for fiscal year 2011 have been reclassified to conform to the current year presentation.

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, 2012, and excise tax receipts estimated by the Department of Treasury's Office of Tax Analysis for the quarter ended September 30, 2012.

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 financial statements. Such information, although not a part of the basic 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 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 financial statements, and other knowledge we obtained during our audit of the basic 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.



Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The information in the Other Accompanying Information section on pages 121 through 140 is presented for the purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Internal Control Over Financial Reporting**

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the Responsibilities section of this report and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. In our fiscal year 2012 audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting described in the Exhibit that we consider to be significant deficiencies in internal control over financial reporting. 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.

We noted certain additional matters that we have reported to management of the FAA in a separate letter dated November 9, 2012.

### **Compliance and Other Matters**

The results of our tests of compliance described in the Responsibilities section of this report, exclusive of those referred to in the *Federal Financial Management Improvement Act of 1996 (FFMIA)*, disclosed no instances of noncompliance or other matters that are required to be reported herein under *Government Auditing Standards* or OMB Bulletin No. 07-04.

The results of our tests of FFMIA disclosed no instances in which the FAA's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, (2) applicable Federal accounting standards, and (3) the United States Government Standard General Ledger at the transaction level.

\* \* \* \* \*

### **Responsibilities**

**Management's Responsibilities.** Management is responsible for the consolidated financial statements; establishing and maintaining effective internal control over financial reporting; and complying with laws, regulations, contracts, and grant agreements applicable to the FAA.



**Auditors' Responsibilities.** Our responsibility is to express an opinion on the fiscal year 2012 consolidated financial statements of the FAA based on our audit. We conducted our audit 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 OMB Bulletin No. 07-04. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control over financial reporting. Accordingly, we express no such opinion.

An audit also includes:

- Examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements;
- Assessing the accounting principles used and significant estimates made by management; and
- Evaluating the overall consolidated financial statement presentation.

We believe that our audit provide a reasonable basis for our opinion.

In planning and performing our fiscal year 2012 audit, we considered the FAA's internal control over financial reporting by obtaining an understanding of the FAA's internal control, determining whether internal controls had been placed in operation, assessing control risk, and performing tests of controls as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control over financial reporting. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

As part of obtaining reasonable assurance about whether the FAA's fiscal year 2012 consolidated financial statements are free of material misstatement, we performed tests of the FAA's 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 the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including the provisions referred to in Section 803(a) of FFMIA. We limited our tests of compliance to the provisions described in the preceding sentence, and we did not test compliance with all laws, regulations, contracts, and grant agreements applicable to the FAA. However, providing an opinion on compliance with laws, regulations, contracts, and grant agreements was not an objective of our audit and, accordingly, we do not express such an opinion.

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FAA's written response to the findings identified in our audit and presented herein was not subjected to the auditing procedures applied in the audit of FAA's consolidated financial statements, and, accordingly, we express no opinion on it.



Federal Aviation Administration  
November 9, 2012  
Page 5 of 5

This report is intended solely for the information and use of the DOT and FAA's management, the DOT's Office of Inspector General, OMB, the U.S. Government Accountability Office, and the U.S. Congress, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

November 9, 2012



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**A. Insufficient Validation of Grant Accrual Estimates**

***Criteria***

Federal Accounting Standards Advisory Board (FASAB) Technical Release 12: *Accrual Estimate for Grant Programs* states agencies must accumulate sufficient relevant and reliable data on which to base accrual estimates. Each agency should prepare grant accrual estimates based upon the best available data at the time the estimates are made. As part of the agencies' internal control procedures to ensure that grant accrual estimates for the basic financial statements were reasonable, agencies should validate grant accrual estimates by comparing the estimates with subsequent grantee reporting. Reports submitted by grantees should be reviewed to ensure their reasonableness. Agencies should have policies and procedures in place to review and verify the grantee expenditures (or expenses) reported.

The FAA's Program Guidance Letter (PGL) 10-01 states that, "We are issuing this Program Guidance Letter to comply with the Office of Management and Budget (OMB) directive for all federal agencies to begin using the new Federal Financial Report (FFR) form number SF 425 no later than October 2009..."

OMB Circular No. A-133 Compliance Supplement 2012 (the Supplement), Part 3 – Compliance Requirements, states that, "The standard financial reporting forms are ... *Federal Financial Report* (FFR) (SF-425/SF-425A (OMB No. 0348-0061)). Recipients use the FFR as a standardized format to report expenditures under Federal awards, as well as, when applicable, cash status (Lines 10.a, 10.b, and 10c). References to this report include its applicability as both an expenditure and a cash status report unless otherwise indicated."

Further, the Supplement, Part 4 - Department of Transportation (DOT), CFDA 20.106, Airport Improvement Program, III. Compliance Requirements, Section L. *Reporting*, indicates that the SF 425 is applicable to the FAA.

***Background***

In fiscal year (FY) 2012, the FAA Airport Improvement Program (AIP) awarded \$3.2 billion in discretionary and block grants to various state and local governments and airport authorities for the planning and development of over 3,000 public-use airports that are included in the National Plan of Integrated Airport Systems. Recipients of these grants are required to request payment from FAA for expenses incurred via an *Outlay Report and Request for Reimbursement for Construction Programs* (SF-271). In addition, recipients are required to report expense information to FAA on a quarterly basis via the *Federal Financial Report* (SF-425).

At the end of each fiscal year, FAA is required to estimate an accrual for AIP grant expenses incurred by grantees but not paid to grantees. The methodology used by FAA to calculate the AIP grant accrual is based on a survey performed in FY 2008. In FY 2008, FAA selected a statistical sample of disbursements to grantees and asked the grantee to confirm the specific fiscal year in which the work associated with the selected disbursement sample was performed. FAA used the results of this analysis to develop an estimation methodology for the AIP grant accrual.

**Federal Aviation Administration  
Independent Auditors' Report  
Internal Control over Financial Reporting**

**EXHIBIT  
SIGNIFICANT DEFICIENCIES**

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***Condition***

FAA has not validated the accuracy of its AIP grant accrual by comparing the estimate to subsequent grantee reporting, as required by U.S. generally accepted accounting principles, since the FAA conducted its survey in FY 2008. Since that time, FAA personnel have performed analytical procedures over annual grant disbursement data from the FAA's Delphi general ledger, and used trend analyses of annual AIP grant accrual estimates to corroborate the methodology developed in FY 2008.

In addition, we also noted that FAA does not have a process in place to accumulate sufficient relevant and reliable data from grantees that can be used as a basis for preparing future grant accrual estimates. Specifically, as part of our audit procedures over grant controls for the period of October 1, 2011 through July 31, 2012, we noted the following exceptions:

1. The SF-425 was not provided for 28 of 50 grant disbursements, as required by OMB Circular A-133 Compliance Supplement 2012 and FAA's Program Guidance Letter 10-01. FAA management did provide the SF-271 or other comparable reports to support the sample item. However, the SF-271 does not include all information required by the SF-425. Further, there was no evidence of review (e.g., signature) by FAA personnel on the SF-425 or on the SF-271 for 39 of 50 grant disbursements.
2. The SF-425 forms that were submitted by FAA's grantees were not completed in accordance with OMB requirements, and did not contain information that was necessary for validation of a grant accrual estimate.

***Cause***

The exceptions above occurred because FAA does not have policies and procedures in place to ensure that quarterly reports are submitted in a timely manner, nor does FAA require its grant recipients to complete all information requested on the SF-425 form. In addition, evidence of FAA personnel's review of information reported by grant recipients on SF-271s and SF-425s is not required under current policies and procedures.

***Effect***

Application of a grant accrual methodology without review of subsequent grantee reporting may result in improperly accruing expenses and accounts payable, and may result in a material misstatement on the associated liability and expense reported on the Consolidated Balance Sheet and Statement of Net Cost.

In addition, without adequate grantee monitoring controls, grantees may misreport (intentionally or unintentionally) or fail to report grant expenditure details.

***Recommendations***

We recommend that FAA perform the following:

1. Enhance FAA's policies and procedures to include a requirement that information contained in the quarterly SF-425 reports be submitted by sponsors in accordance with the requirements of CFR Title 2, and reviewed by project managers in a timely manner to determine if the information

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reported is complete and accurate. If management determines that information required by the SF-425 reports is not relevant to the AIP grant program, a waiver from OMB should be obtained.

2. Develop and implement policies and procedures that specify the minimum grant monitoring documentation and oversight requirements, specifically as it relates to information reported by the grantees on the SF-425 and SF-271 reports, or electronically via FAA's iSupplier application, and training on the updated policies and procedures.
3. Develop a process to accumulate sufficient relevant and reliable data from grantees to use in estimating its annual AIP grant accrual.
4. Design and implement policies and procedures, at an appropriate level of precision, to periodically validate the assumptions of the AIP grant accrual methodology through review of subsequent grantee disbursements, and to revise its methodology, if needed, based on the outcome of the validation process.

## **B. Improvements Needed in the Financial Statement Review Process**

### ***Criteria***

FAA's Financial Manual specifies that the review of the financial statements, footnotes, and disclosures be conducted on a quarterly basis, and that the financial statements comply with OMB Circular A-136, *Financial Reporting Requirements*, and U.S. generally accepted accounting principles.

### ***Background***

Financial reporting in the federal environment is a complicated and evolving process. In addition, the complex and varied operations of the FAA makes consolidated reporting, under standards issued by the FASAB and OMB, a challenge for the FAA.

### ***Condition***

During our fiscal year 2012 audit, we noted several areas for improvement in the FAA's consolidated financial statement preparation and review. Specifically, through our review of the FAA's interim consolidated financial statements as of and for the period ended June 30, 2012, we noted several material misclassifications in the financial statements and notes to the financial statements. The misclassifications occurred within the Consolidated Statement of Net Cost, and within the following notes disclosures:

- Fund Balance with Treasury;
- Employee Related and Other Liabilities;
- Earmarked Funds; and
- Imputed Financing Sources.

### ***Cause***

Existing controls related in the FAA's review of the financial statements and notes are not adequately designed, at the appropriate level of precision, to prevent a misstatement in the financial statements or notes.

**Federal Aviation Administration  
Independent Auditors' Report  
Internal Control over Financial Reporting**

**EXHIBIT  
SIGNIFICANT DEFICIENCIES**

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***Effect***

FAA corrected the misclassifications noted above prior to issuing the September 30, 2012, financial statements and notes. However, had these misclassifications not been detected, the financial statements and notes would have been materially misstated as of September 30, 2012.

***Recommendation***

We recommend that FAA develop and implement formal policies and procedures that require an assessment of the accuracy and presentation of financial information in FAA's financial statements and notes, including a review of historical account mapping.

**Department of Transportation  
Federal Aviation Administration  
MANAGEMENT'S RESPONSE TO THE FY 2012  
INDEPENDENT AUDITORS' REPORT**

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**November 9, 2012**



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

Office of Financial Services

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

NOV 09 2012

Mr. Andrew C. Lewis, Partner  
KPMG LLP  
1800 K Street, NW  
Suite 1200  
Washington, DC 20006

Dear Mr. Lewis:

We have received your Independent Auditors' Report related to the Federal Aviation Administration's (FAA's) fiscal year 2012 consolidated financial statements and offer the following comments.

We concur with the two significant deficiencies contained in your report. To address the findings, the Office of Financial Services, together with the Enterprise Services Center and the Office of Airports, will collaboratively develop a corrective action plan and submit it to the Office of Inspector General not later than December 31, 2012. I will monitor implementation of the plan throughout the corrective action process.

FAA is committed to continuously improving its financial management, and to providing excellent service to our stakeholders and taxpayers. We will continue to work in partnership with you in support of an efficient and effective audit.

As always, we welcome the opportunity for process improvements. Thank you for your candor and the professional manner in which you and your team conducted your audits.

Sincerely,

A handwritten signature in black ink that reads "Mark House".

Mark House



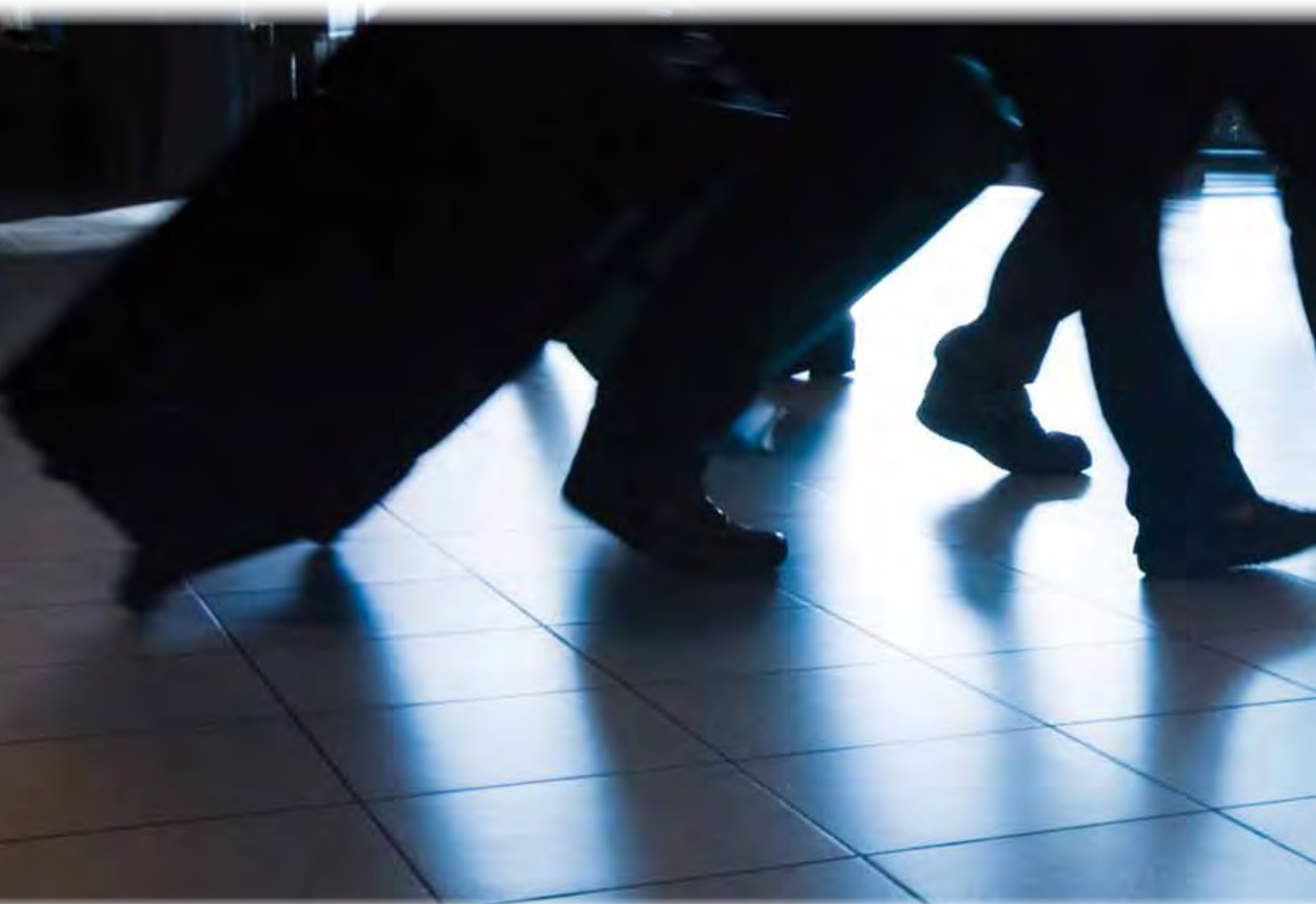
U.S. Department  
of Transportation  
**Federal Aviation  
Administration**



FISCAL YEAR 2012

# PERFORMANCE & ACCOUNTABILITY REPORT

*The FAA. Evolving Technology. Advancing Aviation.*



## **OUR MISSION**

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

## **OUR VISION**

We strive to reach the next level of safety, efficiency, environmental responsibility, and global leadership. We are accountable to the American public and our stakeholders.

## **OUR VALUES**

### **SAFETY IS OUR PASSION.**

We work so 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.





FISCAL YEAR 2012

# PERFORMANCE & ACCOUNTABILITY REPORT

*The FAA. Evolving Technology. Advancing Aviation.*

## THE FAA AT A GLANCE<sup>1</sup>

<b>ESTABLISHED</b>	▪ 1958
<b>HEADQUARTERS</b>	▪ 800 Independence Avenue, SW Washington, DC 20591 <b><a href="http://www.faa.gov">www.faa.gov</a></b>
<b>FY 2012 BUDGET (enacted)</b>	▪ \$16.1 billion
<b>TOTAL EMPLOYEES</b>	▪ 47,031 employees
<b>HEADQUARTERS</b>	▪ 6,133 employees
<b>REGIONAL AND FIELD OFFICES</b>	▪ 36,246 employees
<b>TECHNICAL CENTER ATLANTIC CITY, NJ</b>	▪ 1,131 employees
<b>AERONAUTICAL CENTER OKLAHOMA CITY, OK</b>	▪ 3,521 employees
<b>FY 2012 PASSENGERS ON U.S. CARRIERS</b>	▪ 735.5 million ( <i>estimate</i> )
<b>FY 2012 TOWER OPERATIONS AND OVERFLIGHTS</b>	▪ 53.8 million arrivals and departures ( <i>estimate</i> )

<sup>1</sup> U.S. Department of Transportation, Federal Aviation Administration, Administrator's Fact Book, June 2012, by Deputy Assistant Administrator for Financial Services (Washington, D.C., 2012).

## 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 accountability by presenting performance, management, and financial information using the same statutory and guidance framework as that used by the DOT. Thus, since fiscal year (FY) 2002, we have elected to produce our own PAR.

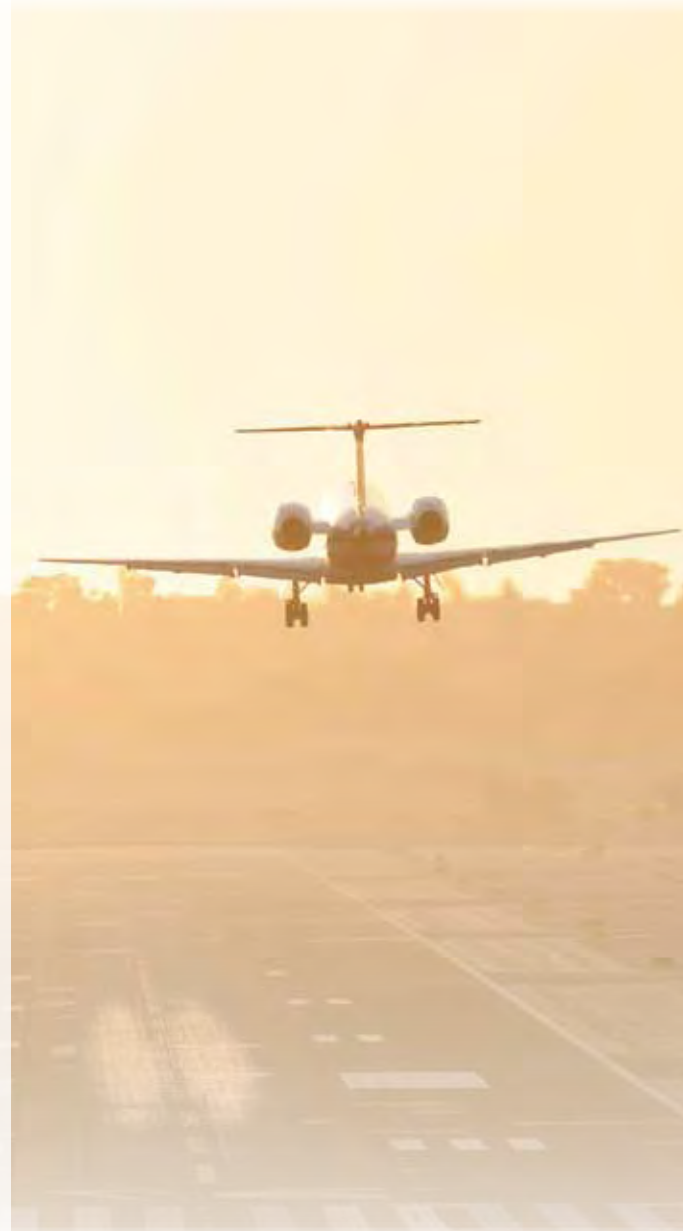
Last year, we were proud to receive our eighth prestigious Certificate of Excellence in Accountability Reporting (CEAR) Award for the PAR from the Association of Government Accountants. This award is indicative of the progress we have made in reporting financial and program performance and in candidly assessing our results. We also received a CEAR "Best in Class" award for the *FY 2011 Summary of Performance and Financial Information*, which summarizes the information in the PAR into condensed form.

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

This report and reports from prior years are available on the FAA website at  
**[www.faa.gov/about/plans\\_reports](http://www.faa.gov/about/plans_reports)**

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**MICHAEL P. HUERTA**  
**ACTING ADMINISTRATOR**

# A MESSAGE FROM THE ADMINISTRATOR

I am pleased to submit the Federal Aviation Administration's *Fiscal Year 2012 Performance and Accountability Report*. In this report, we candidly discuss the challenges we face and convey our FY 2012 major accomplishments and performance results. At the Federal Aviation Administration, operating the largest and safest aviation system in the world is our number one priority and our mission.

Congress passed the *FAA Modernization and Reform Act of 2012* (H.R. 658) and the President signed it into law on February 14, 2012. This reauthorizing legislation has major significance for both FAA employees and the critical work that we do. After 23 short-term extensions, this four-year, \$63 billion act provides the stability and predictability needed to ensure that we can plan and execute critical aviation safety programs, the Next Generation Air Transportation System (NextGen), infrastructure investments, and research and development initiatives.

We moved forward with three primary areas of focus throughout 2012.

- Make the safest aviation system in the world even safer...and smarter.
- Accelerate the benefits of NextGen right now.
- Empower the FAA's workforce of 47,000 to work even more efficiently and innovatively.

### **Aviation Safety**

More than 2.5 billion people have flown on U.S. commercial aircraft in the last three-and-a-half years and we have not had a commercial fatal accident in that time. Our safety record is a testament to the strong working relationship between the Federal Aviation Administration and all of our stakeholders. The vigilance of the FAA safety workforce remains resolute, while we continue to press for and deliver the technology that will advance aviation growth in the future.

Without question, we have made significant strides in accomplishing safety objectives. In January 2012, the FAA published a final rule on pilot fatigue. This new rule guarantees commercial passenger pilots the opportunity for proper rest before they fly. The rule draws upon the latest fatigue science research to set requirements for pilot flight time, "duty period," and rest. The rule is based on the time of day that pilots begin their first flight, the number of flight segments in their schedule, and the number of time zones they cross. Moreover, flight duty periods under the new rule include flight-related activities that are part of the workday, such as time spent training in an aircraft simulator or standing by on-call at an airport. The final rule on pilot fatigue is explained in greater detail on page 18.

We are advancing the science of aviation safety itself with a decided shift from forensic to predictive analysis. Aviation safety has evolved to the point where there is no longer a "common cause" for airplane accidents. The FAA is turning to predictive systems that anticipate potential causes of accidents. These systems use electronic data from aircraft operations and performance and input from professionals in the system, and then identify the trends that emerge. As catastrophic events become more and more rare, this new approach focuses on risk, system design, and human factors. In essence, the goal is to identify and mitigate risks before accidents occur.

### **NextGen Now**

The development and launch of the Next Generation Air Transportation System is under way. For the passenger, the pilot and the taxpaying public, "NextGen" means enhanced safety, less environmental impact, and more predictable schedules. We're already seeing these benefits in metropolitan areas around the country.

As part of the Greener Skies initiative, explained further on page 12, we are partnering with Alaska Airlines, the Port of Seattle, and the Boeing Company to create new NextGen approaches into the Seattle Tacoma Airport (SeaTac). These

new flight tracks are shorter, more fuel efficient, and more environmentally friendly. As a result, we reached a milestone this summer. For the first time, Alaska Airlines has flown customers into SeaTac using these new NextGen approaches.

These procedures will help properly equipped aircraft flying into SeaTac to significantly cut total fuel consumption and reduce carbon emissions while doing so. NextGen is a better way of doing business, and not just from a financial perspective. The benefits to the environment are well worth the investment.

To manage the NextGen effort, we have launched a new Program Management Organization within the Air Traffic Organization, specifically focused on implementing major technology programs. This new organization strengthens and improves the coordination among NextGen initiatives, taking them from the drawing board to live operation.

NextGen is not the only arena for new technology requiring a special focus. The FAA also created an Unmanned Aircraft Systems (UAS) Integration Office in 2012. This new office is the focal point for all of the agency's efforts dealing with unmanned aircraft.

There is much more to NextGen. For more information, click on <http://www.faa.gov/nextgen/>. Additionally, NextGen accomplishments and highlights appear on pages 12–13 and 15–17 of this report.

### ***Enhanced Organizational Efficiency***

In addition to being stewards of the national airspace system, the FAA also is responsible for more than 3,000 facilities, 47,000 employees and an annual budget that exceeds \$16 billion. In a day and age when resources are growing increasingly tighter, all levels of the agency must work smarter and more efficiently wherever possible.

To address this challenge, we have taken direct steps to change the way we do business and improve the efficiency of our internal workflow. In FY 2012, the FAA reorganized offices and established a shared services organization to consolidate and provide a more centralized focus for finance, acquisition, information services, and regional operations support.

The shared services effort eliminates duplicate staffs. The shared services organization also institutes an effort to reduce and eliminate information technology costs, including the move to state-of-the-art "cloud computing" for the administrative systems used by FAA employees.

## **FAA Strategic Goal Areas—FY 2012 Performance Highlights**

### ***Next Level of Safety***

In 2012, we met our target to reduce commercial aviation fatalities. Reducing general aviation fatalities is a far more daunting task. Approximately 80 percent of general aviation fatal accidents are directly related to human factors. Most general aviation fatalities occurred in the area of experimental aircraft. Experimental aircraft are mostly amateur-built. These aircraft accounted for approximately 27.8 percent of general aviation fatal accidents in FY 2012 while only contributing to slightly under 4 percent of general aviation hours. A summary of our safety performance results is presented in the Management's Discussion & Analysis on page 26.

In FY 2012, we maintained our outstanding commercial space safety record, licensing our 208th commercial space launch without any fatalities, serious injuries, or significant property damage. In May 2012, the Dragon capsule, built by

SpaceX (Space Exploration Technologies), successfully flew a demonstration mission showing that it had the capacity to deliver critical supplies to the International Space Station and return safely to earth. More information about commercial space is presented on page 19 of the Management's Discussion & Analysis. Detailed information about each of our safety performance metrics begins on page 42 of the Performance Results Section.

### ***Workplace of Choice***

The technology of tomorrow must be used by employees who operate in the workforce of tomorrow. Creating an environment marked by innovation and excellence is one of the key challenges we face in building a workforce capable of making the transition to NextGen. A successful transition requires a systematic approach to getting the right number of people with the right skills, experience, and competencies in the right jobs at the right time.

One of our strategic objectives is for the FAA to be widely recognized as a Federal employer of choice. We will create a workplace of choice marked by integrity, fairness, diversity, accountability, safety, and innovation. Building stronger leadership within the agency helps us to achieve strategic goals and manage people and resources more effectively. A summary of our workplace of choice performance results is presented on page 26 of the Management's Discussion & Analysis. Detailed information about each of these performance metrics begins on page 50 of the Performance Section.

### ***Delivering Aviation Access Through Innovation***

Aviation access is about ensuring that airport and airspace services and capacity are better able to meet the needs of the flying public. NextGen technologies and operational improvements such as ERAM already are helping to meet these needs. We have given top priority to ERAM, a modern automated system that is replacing a 40-year old computer system serving 20 air route traffic control centers. The new system will serve as a platform for adding other new NextGen tools and technologies, ever increasing the safety and efficiency of flight for the public.

A summary of our Aviation Access performance results is presented on page 27 of the Management's Discussion & Analysis. Detailed information about each of these performance metrics begins on page 53 of the Performance Section.

### ***Sustaining Our Future***

Noise pollution and fuel emissions pose the most significant environmental challenges to increasing aviation capacity, efficiency, and sustainability. The FAA met its noise and fuel emission targets for the year. We were able to cut the number of people exposed to significant aircraft noise to below 319,901. We also aimed to improve aviation fuel efficiency by 14 percent over a 2000 baseline. We exceeded this target with an improvement of 14.76 percent.

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

### ***Improved Global Performance Through Collaboration***

The FAA continues to work with governments and industries around the globe to ensure that NextGen concepts, systems, and procedures integrate with those under development internationally. The agency has established itself as a

collaborative leader in a seamless global aviation system. Our goal is to enhance the safety, efficiency, and sustainability of aviation around the world.

### **Accountability**

We are proud to have received an unqualified opinion with no material weakness from our auditors on our FY 2012 financial statements. We issued an unqualified statement of assurance, shown under “Management Assurances” on page 37, and can state that the financial and performance data are reliable and complete.

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

This *FY 2012 Performance and Accountability Report* provides a detailed accounting of our performance and financial management to both the flying public and the aviation industry and can be found at [http://www.faa.gov/about/plans\\_reports/](http://www.faa.gov/about/plans_reports/). A *Summary of Performance and Financial Information* also makes the information available in condensed form. This Summary is published in January (also at [http://www.faa.gov/about/plans\\_reports/](http://www.faa.gov/about/plans_reports/)). Our new strategic plan—*Destination 2025*—focuses our performance on the top agency targets that position us to meet the future successfully. For more information, see the *Destination 2025* sidebar on page 25 and the plan itself at [www.faa.gov/about/plans\\_reports/media/Destination2025.pdf](http://www.faa.gov/about/plans_reports/media/Destination2025.pdf).

### **Conclusion**

The decisions that we make and the new innovations and process improvements that we deliver over the next several years will determine the course of aviation in this country—and around the world—for decades to come. The FAA's capable and dedicated staff and I look forward to working collaboratively with the President, the Congress, industry partners, and stakeholders to reach our goals and ensure that the United States continues to set the world standard for safety.



**Michael P. Huerta**  
Acting Administrator  
November 9, 2012







# MANAGEMENT'S DISCUSSION & ANALYSIS

## HISTORY OF AVIATION

Orville Wright made the first sustained, powered flight on December 17, 1903, in a plane 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, and in the air. 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



*Wilbur Wright examining canoe attachment to aeroplane before 1st flight over water. (Photo provided by Library of Congress Prints and Photographs Division.)*

that, even though U.S. air traffic had more than doubled since the end of World War II, little had been done to mitigate the risk of midair collisions.

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

Today, the FAA's air traffic control system is one piece of the National Airspace System (NAS). The NAS consists of a complex network of systems and aircraft, combined with the people who certify, operate, and maintain these systems. The network includes more than 19,000 airports, 550 air traffic control facilities, and approximately 65,000 other facilities, including radar, communications nodes, ground-based navigation aids, computer displays, and radios, that operate unceasingly to provide safe and efficient flight services for users. More than 47,000 FAA personnel and 617,000 pilots manage more than 229,500

aircraft within the NAS. American air traffic controllers can be responsible for up to 2,880 flights at any given moment, half of the world's air traffic.

The NAS operates non-stop, 24 hours a day, every day of the year, providing safe air transportation for millions of

passengers. Under agreement with the International Civil Aviation Organization (ICAO), not only does the NAS span the country, it extends into the Atlantic, Pacific, and Arctic oceans. It also interfaces with neighboring countries' air traffic control systems for international flights.



(1) An early passenger service flight movement board is shown in this undated photo taken at the Wake Island Airfield, Wake Island, UM.

(2) Photo from 1937, general view of interior of air traffic control tower, Cleveland Municipal Airport, Cleveland, OH.

(3) In 1941, flight data were kept on white slips of cardboard. The Washington D.C. municipal airport had just received a new electrical control board to replace this one.

(4) Photo from 1943 of the U.S. Weather Bureau station flight advisory weather services at the National Airport in Washington, D.C. Here, pilots in flight were warned of adverse weather conditions that may have affected the safe operation of aircraft.

(5) Undated photo of air traffic control and landing system room 25 - Selfridge Field, Building No. 1050, Mount Clemens, MI. (All photos on this page provided by the Library of Congress Prints and Photographs Division, Washington, D.C. 20540 USA)

## OUR ORGANIZATION

We fulfill our mission through four Lines of Business that work collaboratively to create, operate, and maintain the National Airspace System (NAS).

- **Air Traffic Organization (ATO).** Moves air traffic safely and efficiently. The customers of the world's largest air navigation service provider are commercial, private, and military aviation. Approximately 35,000 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 state and local governments and administers the Passenger Facility Charge program; enhances environmental quality and sustainability 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 competency of pilots and mechanics; develops mandatory safety rules; and sets the standards that have helped make this one of the safest periods in aviation 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 also created two new key Staff Offices this year to further the agency's mission:

- **Finance and Management (AFN).** Consolidates support services and provides a more centralized focus for finance, acquisition, information services, and region and center operations. The resulting streamlining of agency functions enables us to be more responsible stewards of FAA resources. AFN is comprised of the following offices:
  - ◆ **Financial Services**
  - ◆ **Acquisitions and Business Services**

- ◆ **Information Services**

- ◆ **Region 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 FAA created a new NextGen office separate from the ATO, reporting to the Deputy Administrator. The NextGen Office provides leadership in planning and developing the Next Generation Air Transportation System (NextGen). The NextGen Office also coordinates NextGen initiatives, programs and policy development across the various FAA Lines of Business and Staff Offices.

- ◆ **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](http://www.faa.gov/about/office_org) for more details about our organization.

# NextGEN TRANSFORMS THE FLYING EXPERIENCE

IN FEBRUARY 2012, the agency's first long-term Congressional authorization to become law in nearly a decade began providing the FAA with the greater financial guidance and stability essential to planning for the Next Generation Air Transportation System (NextGen). This planning is necessary because the flight technology used today has evolved about as much as it can. NextGen technologies and procedures are essential to upgrading and reinvigorating an aging air transportation system.

Both operators and the flying public will reap very substantial benefits from the transition from ground-based navigational aids (NAVAIDS) and radar to satellite-based navigation and surveillance: improved safety, fewer delays, capacity better matched to public demand, fuel savings, and better environmental performance (lower carbon and exhaust emissions, development of alternative fuels, and less noise).

Satellite-based navigation signals improve upon NAVAIDS and radar by delivering unprecedented levels of traffic awareness to both controllers and pilots with properly equipped airplanes. NextGen communication technologies will also reduce misunderstandings between controllers and flight crews by replacing many voice transmissions with digital instructions.

## NEXTGEN ACHIEVEMENTS NOW

### *The FAA's investment in the future is paying off now.*

- In a major milestone, two types of alternative jet fuel have been approved for commercial use under the Commercial Aviation Alternative Fuels Initiative (CAAFI). ASTM International, formerly known as the American Society for Testing and Materials, a globally recognized leader in the development and delivery of international voluntary consensus standards, announced approval of a 50 percent blend level of alternative jet fuel mixed with petroleum jet fuel. The alternative fuel is made from biomass, coal, or natural gas. In addition, a bio-derived, oil-based fuel known as HEFA fuel, also used at a 50 percent blend level with petroleum jet fuel, has been approved.
- Further work on new fuels is being conducted by the FAA's William J. Hughes Technical Center (Atlantic City, NJ), which is putting regular fuel in one engine of a Piper Navajo and alternative fuel in the other engine, to test which performs better and by how much.
- In April 2012, the Houston Center became the first Air Route Traffic Control Center (ARTCC) in the Nation to integrate ADS-B technology (the satellite-based successor to radar) into En Route Automation Modernization (ERAM), NextGen's modernized en route automation system.
- In June 2012, ERAM permanently replaced the old airport computer systems in Seattle and Salt Lake City,

the first in a series of switchovers that is expected to make ERAM fully operational nationwide over the next two years. Preliminary ERAM operating capability already exists in Albuquerque, Denver, Minneapolis, Chicago, Los Angeles, Oakland, and Houston.

- In June 2012, Alaska Airlines flight 505 from Los Angeles landed at Seattle-Tacoma International Airport. Flight 505 was the first passenger flight in the Greener Skies Over Seattle initiative, a collaborative project between the FAA, the airlines, the Port of Seattle, and Boeing Corporation that will leave Seattle's skies quieter and greener. Alaska Airlines estimates the Greener Skies procedures will cut fuel consumption by 2.1 million gallons annually and reduce carbon emissions by 22,000 metric tons, the equivalent of taking 4,100 cars off the road every year. In addition, they will reduce overflight noise exposure for an estimated 750,000 people living within the affected flight corridor.
- Two new NextGen optimized profile descent procedures were introduced at Ronald Reagan Washington National Airport on July 26, 2012. These procedures provide more predictable and shorter flight paths into the airport and reduce carbon emissions. They also save 1,000-1,500 pounds of fuel per procedure flown. The procedures were named FRDMM ('freedom') and TRUPS ('troops') to honor the events of September 11, 2001.

A NextGen Technologies Interactive Map ([www.faa.gov/nextgen/flashmap](http://www.faa.gov/nextgen/flashmap)) shows where NextGen systems and procedures have already been implemented.



### NEXTGEN ACHIEVEMENTS COMING SOON

- An Automated Terminal Proximity Alert tool being rolled out at Minneapolis-St. Paul International Airport will help controllers keep track of spacing between aircraft lined up for final approach.
- Full ERAM deployment is planned for all 20 ARTCCs by August 2014.
- The deployment of initial ADS-B ground stations is scheduled for completion by early 2014.
- The United States and Mexico will expand ADS-B coverage over the Gulf of Mexico by 2016, adding ADS-B radio stations (in addition to 21 radio stations already in the Gulf). The new stations will make possible a five nautical mile separation between aircraft, where 100 nautical miles had been required. The FAA estimates that the expansion will result in seamless surveillance of the Gulf area and bring nearly \$70 million in fuel savings due to more efficient use of the airspace over the Gulf of Mexico and along the U.S.-Mexican border.
- As the standards for ADS-B mature, pilots will be able to see other aircraft 50-60 miles away, adding an even greater measure of safety, so that they too, like controllers, will be more fully aware of what is happening in the airspace around them.

### SPREADING THE WORD ABOUT NEXTGEN

In 2009, civil aviation constituted more than five percent of the Nation's gross domestic product and generated more than 10 million jobs. NextGen is indispensable to the aviation industry's continued role as an engine of U.S. economic growth. Key to advancing NextGen is explaining and publicizing its benefits more widely.

- In March 2012, the FAA launched web-based NextGen Performance Snapshots (Web-NPS), a reporting tool that offers aviation stakeholders and FAA staff colorful graphics and comparative charts demonstrating the ongoing transformation of the NAS. The focus is on locations (airports and metroplexes) where the transformation can be most immediately appreciated. The tool can be viewed at [www.faa.gov/nextgen/snapshots](http://www.faa.gov/nextgen/snapshots).
- The FAA is working with airline executives to identify—and track—the benefits of NextGen for commercial aviation. The results will, in turn, be shared with the public.
- This fall the U.S. Travel Association will work with the FAA on a NextGen outreach initiative, placing videos and other materials publicizing the benefits of NextGen on the tourism websites of five cities, as well as distributing materials to travel organizers planning meetings in those cities.



## THE YEAR IN HIGHLIGHTS

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

- ☑ Operates 24 hours a day, 7 days a week, 365 days a year.
- ☑ Provides more than 65,000 facilities and pieces of equipment.
- ☑ Maintains FAA-operated or -contracted towers at more than 500 airports.
- ☑ Inspects and certifies approximately 229,500 aircraft and 617,000 pilots.
- ☑ Facilitates almost 5,750 takeoffs and landings per hour.
- ☑ Transports more than 735.5 million passengers annually.
- ☑ Safely guides approximately 70,000 flights through the world's preeminent aerospace system every day.
- ☑ Generates more than 10 million jobs, with earnings of \$394 billion.
- ☑ Contributes \$1.3 trillion annually to the national economy and constitutes 5.2 percent of the gross domestic product.

### *The FAA Provides:*

- ☑ A workforce of more than 47,000 professionals to operate and maintain the most complex air traffic control system in the world.
- ☑ An array of services and programs within an annual budget of approximately \$16.1 billion.
- ☑ More than 15,000 controllers who manage and ensure ever-increasing levels of safety in the busiest air traffic system in the world.
- ☑ More than 6,000 technicians who maintain the equipment in the NAS to extremely high levels of operability.
- ☑ Research to improve aviation safety and efficiency.
- ☑ Grants to improve 3,333 eligible public-use airports in the United States.
- ☑ Protection of the public, property, and the national security and foreign policy interests of the United States during commercial





## MAJOR ACCOMPLISHMENTS

Our number one accomplishment in FY 2012 was operating the National Airspace System (NAS) in a way that allowed us to achieve one of the safest years in aviation history. We have not had a commercial aviation fatality in more than three and a half years. We safely guide about 70,000 flights through our national airspace on any given day, and we expect air travel to continue to increase over the next 20 years. In addition, we also had major accomplishments in FY 2012 in the areas of NextGen, Safety Enhancement Measures, Commercial Space Travel, and Alternative Fuel Sources. News about these accomplishments follow the discussion here of NextGen.

### NEXTGEN

The Next Generation Air Transportation System (NextGen) is the FAA's plan to modernize the NAS through 2025.

NextGen is beginning to deliver more on-time and fuel-efficient flights and continue to ensure that we operate the safest air transportation system in the world. It is a better way of doing business—for the FAA, the airlines, the airports, and, most important, the traveling public. These improvements are vital to increasing the 10 million jobs that civil aviation contributes to the workforce and the \$1.3 trillion that the sector overall contributes to the U.S. economy.

With NextGen, we are moving from radar-based to satellite-based navigation, from radios to data messages, and from airways that zig-zag across the country to more direct routes. New flight tracks will relieve bottlenecks, improve safety and efficiency, and foster the flow of commerce. And it is not just in the United States; the whole world is gradually adopting NextGen technology and procedures.

### Performance-Based Navigation (PBN)

In order to achieve NextGen goals, the FAA is implementing an array of new technologies and processes collectively called Performance-Based Navigation (PBN). New PBN routes and procedures leverage emerging technologies and aircraft navigation capabilities to help reduce fuel use, miles flown, emissions, and the noise produced while aircraft change altitude during the arrival and departure phases of flight.

The application of PBN also facilitates en route cruising at high altitudes (Q-routes) and at lower altitudes around terminal areas (T-routes). These procedures could reduce delays during inclement weather.

This year, the FAA produced 721 PBN routes and procedures, meeting our FY 2012 goal. Of that total, we published 20 Area Navigation (RNAV) routes and 118 RNAV arrival and departure procedures. We also published 47 Required Navigation Performance (RNP) approach procedures and 536 RNAV Global Positioning System approach procedures. Production of additional RNP procedures will focus on those with the most significant benefits.

### *Optimized Profile Descents (OPDs)*

During the past five years, we have completed fifty-five Standard Terminal Arrival Routes (STAR) with Optimized Profile Descent (OPD) capability. These OPDs allow aircraft to make managed descents at reduced engine power, thus saving fuel. Traditional arrival procedures have multiple segments of level flight during descent and each step-down requires a change in power settings, like walking down the stairs. It is the aviation equivalent of stop-and-go driving along the highway. The OPD procedures enable arrival aircraft to descend from cruise altitude to final approach at or near idle power with few, if any, level-offs; it is metaphorically like sliding down the bannister. Aircraft use less fuel and reduce emissions and noise.

### Automatic Dependent Surveillance-Broadcast (ADS-B)

ADS-B is one of the most important underlying technologies in the FAA's plan to transform air traffic control from the current radar-based system to a satellite-based system. ADS-B brings the precision and reliability of satellite-based surveillance to the Nation's skies. It gives pilots greater awareness of the location of other aircraft, which is especially valuable on long flights, such as those over the Pacific Ocean, where there is no radar. That means that pilots have more time to change altitude to avoid collision, as well as turbulence. Also, they can ask to change to an altitude at which their jet engines will burn fuel more efficiently.

ADS-B uses GPS signals, along with aircraft avionics (electronics designed for use in aerospace vehicles), to transmit the aircraft's location to ground receivers. The ground receivers then transmit that information to controller screens and cockpit displays on aircraft equipped with ADS-B avionics. This technology allows pilots to see what controllers see: other aircraft in the sky around them. Pilots are also able to see—and avoid—bad weather and dangerous terrain, and receive flight information, such as temporary flight restrictions. The improvement in situational awareness for pilots greatly increases safety.

The improved accuracy and reliability of satellite signals over radar means that controllers will be able to safely reduce the mandatory separation between aircraft. This will increase capacity in the Nation's skies.

ADS-B also provides greater coverage, since ADS-B ground stations are much easier to put in place than radar. Remote areas without radar coverage, such as the Gulf of Mexico and parts of Alaska, are now covered by ADS-B.

ADS-B will reduce the risk of runway incursions. Pilots and controllers will be able to see the precise location of aircraft and properly equipped ground vehicles moving on the ground—even at night or during heavy rainfall.

The year 2012 was a busy one for our continued deployment of the ADS-B ground-based infrastructure. More than 400 ground stations were operational by the end of 2012, providing satellite-based surveillance coverage of the East, West, and Gulf coasts and most of the area near the U.S. border with Canada. We expect the total complement of approximately 700 radio stations to be in place and operational by early 2014.

### East Coast Routes Project

The use of ADS-B East Coast off shore routes relieves congestion by enabling equipped flights to depart New York City area airports en route to Florida and Caribbean destinations during severe weather or high volume conditions.

For example, Route M201, off the coast of Jacksonville, Florida, is currently the only radar route from the East Coast and New York airports to Miami and the Caribbean. It is used primarily as relief from delay-constrained routes along the eastern seaboard between the northeastern United States and southern Florida. It is also used

extensively as a weather offload route during Severe Weather Avoidance Plan (SWAP) operations.

The addition of ADS-B surveillance will allow deviations east around weather impacting specific routes that are normally closed to aircraft when long-range radars are not in service. This would provide surveillance redundancy and continuity of operations along the route for rule-compliant ADS-B equipped aircraft in the event of loss of radar. In addition, airlines can use this route to avoid departure delays for flights scheduled along the East Coast mainland routes.

Working under an agreement with the FAA, JetBlue is preparing to equip up to 35 aircraft with ADS-B avionics, enabling the planes to fly in the relatively uncongested highways in the skies off the East Coast that are beyond the range of radar.

For airplanes equipped with NextGen ADS-B avionics, access to the East Coast offshore routes will mean more precise, satellite-based flights from Boston and New York to Florida and the Caribbean. The advanced technologies and procedures will be demonstrated in the East Coast offshore routes as a prelude to nationwide implementation.

### Houston Metroplex

A metroplex is a major metropolitan area with multiple airports, where heavy air traffic and environmental constraints combine to hinder efficient movement. In January of this year, the Houston Metroplex initiative was launched. It is well into the design phase on a number of strategies to streamline airspace and help reduce complexity for air traffic controllers and flight crews.

The strategies for the Houston Metroplex include:

- Creating OPD procedures for arrival at George Bush Intercontinental and William P. Hobby airports. OPDs allow pilots to nearly idle their engines while the aircraft descends at a constant rate. Current airspace procedures require planes to level off at certain points in a step-like descent pattern, necessary to allow for coordination between air traffic controllers. OPDs reduce fuel consumption and carbon emissions.
- Creating more efficient routes between Houston and the Dallas/Fort Worth Metroplex areas, thus shaving miles off each flight through this busy corridor.

- Developing efficient alternative routes that can be used when bad weather unexpectedly affects normal arrival and departure paths.
- Establishing departure and arrival routes that align airplanes on preferred paths, which will also reduce the number of miles flown.
- Utilizing side-by-side arrival routes into George Bush Intercontinental Houston Airport, resulting in more efficient use of airspace and more direct routing.
- Developing satellite-based departure procedures that will allow planes to climb without leveling off, which will bring them to a cruising altitude sooner.

The Houston Metroplex was selected by the Obama Administration as one of 14 high-priority infrastructure projects that are ideal for expedited completion. Rather than taking three years to complete, this project will be completed in two years, through environmental streamlining and concurrent reviews.

The FAA estimates that as a result of the Houston Metroplex airspace initiative, airplanes that use the airports will fly 648,000 fewer nautical miles annually. This and other NextGen procedures will save up to three million gallons of fuel and reduce carbon emissions by as much as 31,000 metric tons each year.

### THE FAA GOES PAPERLESS IN THE CLASSROOM AND THE COCKPIT

The Mike Monroney Aeronautical Center (Oklahoma City, OK) has begun to use tablet computers in its classrooms. The contemporary idea of going paperless in the classroom was suggested by an FAA employee. Used in new En Route Automation Modernization (ERAM) training for air traffic controllers headed for high-density facilities or into the field, the tablets have resulted in formidable savings on printed training manuals.

This delicate blending of new technology and the traditional hands-on approach to flight is also evident in the FAA's approval of tablet computers to make more accessible to pilots the massive amounts of information

that they must bring with them into the cockpit. This does not apply to passengers.

Forty pounds of paper—including the aircraft's operating manual, safety checklists, logbooks for entering airplane performance data, navigation charts, weather information, and airport diagrams—can now be replaced by a tablet. For pilots, it's about safety as much as convenience. It's sometimes faster to find information on a computer when a critical decision must be made.

The FAA regulates airlines' use of such devices. Permission to use tablet computers for various functions is given to carriers one by one, based on

their demonstration that the device and its software applications are safe and effective for the proposed use and that they have developed specific procedures for dealing with system or software crashes and other issues. FAA guidance instructs air carriers and pilots that using tablets for activities not related to flight duties is a safety risk, and regulations prohibit such distractions.

Tablets save money too. Applications are usually free, with subscriptions to the data costing \$75 to \$100 a year. By contrast, subscriptions to paper maps and charts cost nearly \$1,500 a year.



## OTHER MAJOR ACCOMPLISHMENTS

### Final Rule On Pilot Fatigue

In FY 2012, the FAA issued a sweeping final rule that overhauls commercial passenger airline pilot scheduling to ensure that pilots have a longer opportunity for rest before they enter the cockpit. The DOT identified the issue of pilot fatigue as a top priority during a 2009 airline safety Call to Action, following the crash of Colgan Air flight 3407. The FAA launched an aggressive effort to take advantage of the latest research on fatigue to create a new pilot flight, duty, and rest proposal, which the agency issued in FY 2011.

Key components of this final rule for commercial passenger flights include:

- **Varying flight and duty requirements based on what time the pilot's day begins.** The new rule incorporates the latest fatigue science to set different requirements for pilot flight time, duty period, and rest, based on the time of day pilots begin their first flight, the number of flight segments in their schedule, and the number of time zones they cross. The previous rules included different rest requirements for domestic, international, and unscheduled flights, whereas the current rule is uniform in that respect.
- **Flight duty period.** The allowable length of a flight duty period depends on when the pilot's day begins and the number of flight segments he or she is expected to fly. It ranges from 9 to 14 hours for single crew operations. The duty period begins when a flight crew member is required to report for duty, with the intention of conducting a flight, and ends when the aircraft is parked after the last flight. It includes the period of time before a flight or between flights that a pilot is working without an intervening rest period. Flight duty also includes "deadhead" transportation time (the time that it takes pilots to be transported free of charge, but not working, to the location where their actual flight duties begin), the time spent by pilots training in an aircraft or flight simulator, and the time spent on airport standby or reserve duty—if these tasks occur before a flight, or between flights without an intervening rest period.
- **Flight time limits of 8 or 9 hours.** The FAA limits flight time—defined as the time when the plane is moving under its own power before, during, or after



flight—to 8 or 9 hours, depending on the start time of the pilot's entire flight duty period.

- **Minimum 10-hour rest period.** The rule sets a minimum 10-hour rest period prior to the flight duty period, an increase of two hours over the old rules. The new rule also mandates that a pilot must have an opportunity for 8 hours of uninterrupted sleep within the 10-hour rest period.
- **Cumulative flight duty and flight time limits.** The new rule addresses potential cumulative fatigue by placing weekly and 28-day limits on the amount of time a pilot may be assigned any type of flight duty. The rule also places 28-day and annual limits on actual flight time. It also requires that pilots have at least 30 consecutive hours free from duty on a weekly basis, a 25 percent increase over the old rules.
- **Fitness for duty.** The FAA expects pilots and airlines to take joint responsibility when considering whether a pilot is fit for duty. Consideration takes into account fatigue resulting from pre-duty activities, such as commuting. At the beginning of each flight segment, a pilot is required to affirmatively state his or her fitness for duty. If a pilot reports that he or she is fatigued and unfit for duty, the airline must remove that pilot from duty immediately.
- **Fatigue Risk Management System.** An airline may develop an alternative way of mitigating fatigue, based on science and using data that must be validated by the FAA and continuously monitored.

## Commercial Space Transportation Agreement with NASA

This year, the FAA and NASA signed a historic agreement to coordinate standards for commercial space travel of Government and non-Government astronauts to and from low-Earth orbit and the International Space Station (ISS). The two agencies will collaborate to expand efforts that provide a stable framework for the U.S. space industry, eliminate conflicting requirements and multiple sets of standards, and advance both public and crew safety.

The Memorandum of Understanding (MOU) signed by the two agencies establishes policy for operational

missions to the space station. Commercial providers of space transportation will be required to obtain a license from the FAA for public safety. Crew safety and mission assurance will be NASA's responsibility. This approach allows both agencies to incorporate experience and lessons learned as progress is made.

NASA's Commercial Crew Program aims to facilitate development of a U.S. commercial crew space transportation capability with the goal of achieving safe, reliable, and cost-effective access to and from low-Earth orbit and the ISS. The policy established in the MOU clarifies for potential commercial providers the regulatory environment for operational missions to the orbiting

### NEWS FROM COMMERCIAL SPACE

#### Commercial Space Transportation Payload

In May 2012, the Dragon capsule, built by SpaceX (Space Exploration Technologies), successfully flew a "demonstration" mission showing that it had the capacity to deliver critical supplies to the International Space Station (ISS) and return safely to earth. Having completed this milestone, Dragon will add a new dimension to commercial space flight this October by making the first of what will be several unmanned cargo flights to the ISS.

One of the most significant impacts of the Space Shuttle retirement last year was the temporary loss of American capability to transport astronauts and cargo to and from the ISS. Dragon flights will address the cargo aspect of U.S. transportation needs. These missions are regulated, inspected for safety, and licensed by

the FAA's Office of Commercial Space Transportation (AST).

To meet NASA's human transportation requirements, NASA is funding three companies' development of vehicles designed to provide astronaut flights to the ISS. This capability may emerge by 2017, if not sooner. Until then, NASA will pay the Russian space program to provide this service, at a cost of more than \$60 million per person per trip, approximately twice a year.

For U.S. commercial transportation providers, NASA will initially be the primary customer, but non-NASA customers may also emerge, increasing market size and leading to cost reduction. As commercial providers make Earth-to-orbit transportation more affordable, NASA will have more resources available for missions deeper into space.

#### On the Horizon

Also on the commercial space horizon are suborbital reusable vehicles (SRVs), rockets designed to travel into space without achieving orbit. The FAA will license, regulate, and inspect these vehicles. Initial operations may begin as early as 2013 or 2014, and market research suggests that potential customers may be willing to spend from \$300 million to more than \$1.6 billion for SRV flight services, over an initial 10-year period of industry operations. Future markets for SRVs may include not only commercial human space flight but also such activities as aerospace technology testing, basic and applied research, satellite deployment, media and public relations, and educational opportunities.



SpaceX Dragon Capsule



laboratory. It also ensures that the two agencies will have compatible processes for ensuring public safety.

The FAA is responsible for regulating and licensing all U.S. private companies and individuals involved in commercial space transportation. To date, AST has licensed 208 successful launches, including two non-orbital commercial human space flights in 2004 and the recent first launch to the ISS and back by an unmanned commercial spacecraft.

In addition, the agreement addresses proper protocols for implementation, financial obligations, liability, free exchange of data and information, and other administrative obligations between the FAA and NASA. To view the agreement, visit [http://www.faa.gov/about/office\\_org/headquarters\\_offices/ast/media/NASA-FAA\\_MOU-signed.pdf](http://www.faa.gov/about/office_org/headquarters_offices/ast/media/NASA-FAA_MOU-signed.pdf).

You can read more about AST on the FAA website at [http://www.faa.gov/about/office\\_org/headquarters\\_offices/ast/](http://www.faa.gov/about/office_org/headquarters_offices/ast/).

## AVIATION FIRE SAFETY

The William J. Hughes Technical Center in Atlantic City, NJ, the FAA's national scientific test base, is the world leader in civil aircraft fire research and testing. This includes both in-flight fire prevention and post-crash fire survivability. The FAA has set a number of fire standards that are followed by the entire aviation industry, including:

- Seat cushion fire-blocking layers
- Low-heat and smoke-release interiors
- Heat-resistant evacuation slides
- More stringent cargo compartment fire protection requirements

### Lithium Cargo Fires

The shipment of lithium batteries in passenger and freight aircraft is thought to pose an extremely serious threat of cargo compartment fires. In two recent fatal freighter fires, a large number of lithium batteries were in the cargo hold. These batteries, which can spontaneously combust, are used in mobile phones, hearing aids, tablets, and laptop computers.

The Tech Center's Fire Safety Branch has conducted numerous tests on lithium batteries. Boeing agreed with FAA warnings and recommendations

on lithium battery transport and issued a Multiple Operator Message. In February 2012, the United Nation's International Civil Aviation Organization (ICAO) proposed standards requiring packages containing more than eight lithium cells to be declared hazardous material. If approved, the standards will go into effect on January 1, 2013.

### The FAA's Western-Pacific Region Provides Firefighter Training in Micronesia

The FAA partners with the Pacific Region Aircraft Rescue Firefighter Training Center (PRATC) in Saipan (the Northern Mariana Islands) and United Airlines to provide critical firefighter workshops to Micronesia. Micronesia is an area of the western Pacific Ocean, north of Australia, that consists of thousands of small islands, including the Federated States of Micronesia, and the Republics of Palau and Marshall Islands. The FAA is involved because the United States has a compact with the three international countries (formerly trust

territories) to provide aviation services and related technical assistance.

The partnership was established to ensure that Pacific region aircraft rescue firefighters are properly trained in live fire safety techniques and emergency situations. These workshops are especially vital in an area as widely dispersed as Micronesia, where help is far away. In September 2012, a full-scale emergency exercise was conducted that included more than 300 participants.

The FAA will continue to work with Micronesia's officials to plan and create future opportunities to develop firefighters to their full potential.



*The Pacific Aircraft Rescue Firefighter Training Center in Saipan, Commonwealth of the Northern Marianas, conducts FAA-sponsored training at the simulator for airport firefighters from Micronesia.*

The FAA's Aerospace Forecast for Fiscal Years 2012-2032 is also on the website at [http://www.faa.gov/about/office\\_org/headquarters\\_offices/apl/aviation\\_forecasts/aerospace\\_forecasts/2012-2032/](http://www.faa.gov/about/office_org/headquarters_offices/apl/aviation_forecasts/aerospace_forecasts/2012-2032/).

### Laser Pointers Website and Investigations

Pointing a laser in the direction of an aircraft is dangerous for both pilots and passengers. In many cases, pilots have reported temporary blindness or had to take evasive measures to avoid the intense laser light. In a continuing effort to combat this growing problem, this fiscal year we created a new website to make it easier for pilots and the public to report laser incidents and obtain information on the subject.

The website <http://www.faa.gov/go/laserinfo> includes links for reporting laser incidents and accessing laser statistics, FAA press releases, and agency research on the dangers that lasers can pose to pilots, as well as downloadable videos.

In addition, the FAA directed its investigators and staff to pursue stiffer penalties for individuals who purposely point laser devices at aircraft.

The number of reported laser incidents nationwide rose from 2,836 in 2010 to 3,592 in 2011. Laser incident reports have increased steadily since we created a formal reporting system in 2005 to collect information from pilots.

The FAA supports the U.S. Department of Justice in its efforts to seek stern punishment for anyone who intentionally points a laser device into the cockpit of an aircraft. Our agency has initiated enforcement action against 28 people since May 2011, and in June of 2012 we directed FAA investigators and attorneys to pursue the stiffest possible sanctions for deliberate violations. The FAA has also opened investigations in dozens of additional cases and since February 2012 has maintained an average of 44 active cases per month.

The maximum penalty for one laser strike is \$11,000. We have proposed civil penalties against individuals for multiple laser incidents, with \$30,800 being the highest penalty proposed to date.

### Runway Safety Areas

A Runway Safety Area (RSA) is a defined surface surrounding the runway that is prepared or suitable

for reducing the risk of damage to aircraft in the event the aircraft undershoots, overshoots, or veers off the runway. People and structures are not permitted in the RSA. Today, a standard RSA can be as large as 500 feet wide, extending 1,000 feet beyond each runway end. The FAA increased these dimensions more than 20 years ago to accommodate larger and faster aircraft and to address higher safety expectations of aviation users. Many runways do not meet current standards because they were designed and constructed to meet an earlier standard.

In 2005, we prepared a long-term plan to improve runway safety areas for commercial runways by 2015. This RSA plan allows us to track the progress of improvements and direct Federal funds toward making all feasible improvements. In FY 2012, we continued with these improvements. Of the approximately 1,000 RSAs at these airports, an estimated 65 percent have been improved to full standards, and an estimated 90 percent have been improved to the extent possible (not including the relocation of FAA-owned navigational equipment).

### Alternative Fuel Sources

This fiscal year, we awarded contracts to eight companies to develop alternative, environmentally-friendly, sustainable sources for commercial jet fuel. The contracts address a recommendation issued by the Future of Aviation Advisory Committee, commissioned by the Secretary of Transportation last year. Comprised of experts from industry, academia, labor and Government, the committee specifically recommended that the DOT exercise strong national leadership in promoting and displaying U.S. aviation as a first user of sustainable alternative fuels.

Accordingly, the eight companies selected for the contracts will help the FAA develop and approve alternative, sustainably-sourced, "drop-in" jet fuels that can be used without changing aircraft engine systems or airport fueling infrastructure. As part of that work, the companies will develop these biofuels from sources such as alcohols, sugars, biomass, and organic materials known as pyrolysis oils. In addition, the contracts call for research into alternative jet fuel quality control, examination of how jet biofuels affect engine durability, and guidance to jet biofuel users about factors that affect sustainability.

## U.S. AVIATION GREENHOUSE GAS EMISSIONS REDUCTION PLAN

In June 2012, the United States submitted its Aviation Greenhouse Gas Emissions Reduction Plan (Action Plan) to the International Civil Aviation Organization (ICAO). The FAA led a multiagency effort to prepare and submit the Action Plan, fulfilling a voluntary commitment by ICAO member States to submit plans to ICAO regarding action to address climate change and reduce greenhouse gas emissions from aviation.

The United States is committed to addressing the climate change impacts of commercial aviation and is pursuing a multi-pronged approach to achieve greenhouse gas emissions reductions. The Action Plan identifies the plans, programs and initiatives in place across the U.S. Government to achieve meaningful emissions reductions from aviation.

### U.S. Approach

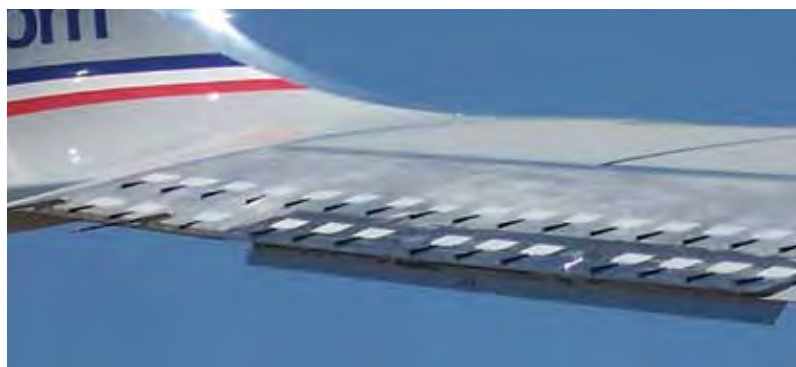
The FAA submitted the Action Plan to ICAO in June 2012 and the plan reflects efforts to reduce greenhouse gas emissions across a number of agencies and in collaboration with key stakeholders. The United States has an overarching goal of achieving carbon-neutral growth for U.S. commercial aviation by 2020, using 2005 emissions as a baseline, which is more ambitious than the global aspirational goal of two percent improvement in annual fuel efficiency agreed at ICAO in 2010. The United States is also committed to a domestic target to use 1 billion gallons of alternative fuels annually by 2018.

To achieve these goals, the Action Plan identifies U.S. plans and efforts in the following areas: aircraft and engine technology improvements; operational improvements; development of aviation alternative fuels; policies, standards and measures; and scientific understanding and modeling/analysis.

- Aircraft and engine technology improvements are being developed across various agencies with complementary commercialization targets and timeframes. The FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) Program is one of these efforts—CLEEN provides a 50 percent cost share with industry to bring new technologies to market over the course of the next several years.
- Operational improvements are largely being implemented via the FAA's overhaul of the National Airspace System through the Next-Gen program to improve efficiency and reduce aircraft fuel burn.
- Alternative fuels development and deployment have seen significant steps forward during the last five years, with the U.S. Government

facilitating the development and deployment of sustainable alternative aviation fuels. Future efforts are aimed at identifying new alternative fuels pathways as well as commercialization of fuels with up to 80 percent lower lifecycle greenhouse gas emissions.

- Various policies, standards, and measures are being pursued or considered that will supplement, and in some cases support, efforts on technology, operations and fuels in order to achieve the carbon neutral growth goal.
- Ongoing scientific understanding and modeling/analysis continue to help the U.S. Government better understand and quantify the impacts of aviation on climate, including the interdependencies and tradeoffs with other environmental impacts. Taken together, these complementary efforts will allow the U.S. Government to meet both its domestic targets and continue to demonstrate leadership in addressing the climate change impacts of commercial aviation at the international level.



*Close-up view of Boeing's Adaptive Trailing Edge (ATE) technology developed under the FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) program. (Image courtesy of Boeing.)*



## 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 our constant reevaluation of our efforts create a recurring cycle of planning, program execution, measurement, verification, and reporting. We have created a strong link between resources and performance that focuses us on accomplishing defined priorities in the context of their costs.

### MANAGING PERFORMANCE

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

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

Each year we improve on this strategy through changes and technology enhancements that support the process.

#### Set Goals

The first step in the performance management process includes consulting with management, employees, and stakeholders to identify areas for improvement. These areas include near-term priorities and long-standing management challenges. Goals, performance measures, targets, and initiatives are laid out in our new strategic plan, *Destination 2025*.

#### Plan, Work, and Budget

The second step in overseeing our performance focuses on the critical activities and resources required to achieve our goals. Budget formulation involves a series of activities that the FAA conducts to determine: where

a program or activity stands presently, 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 formulation process is to ensure that decision makers have the information they need to decide how to best allocate resources to meet needs and achieve goals.

Our complete FY 2012 Congressional Justification and Budget in Brief are available at [www.faa.gov/about/budget](http://www.faa.gov/about/budget). *Destination 2025* and FY 2012 business plans for all FAA organizations are available at [http://www.faa.gov/about/plans\\_reports/](http://www.faa.gov/about/plans_reports/).

#### Monitor Work

This third step occurs during the various performance management activities in which our executives and employees participate each month. In FY 2011, we formed the Strategy, Budget and Performance Committee. The Performance Subcommittee from this group meets monthly to review goals and related performance targets so as to identify areas needing management's attention. These sessions also result in decisions about resource allocation to support priorities. Managers and employees review monthly status reports at the initiative and activity levels and make adjustments as needed.

#### Assess Results

This is the last, but also a 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. The table on page 25 summarizes how well we are doing year-to-year in achieving our performance goals. As the table indicates, we have expanded our strategic focus over the past seven years. As our strategic management processes continue to mature and the focus becomes sharper, the number and mix of performance targets will shift. This plan is reviewed on a yearly basis to ensure that we are on track to meet future challenges.

## PERFORMANCE GOALS

In our first annual PAR in FY 2002, we listed 10 performance goals in the strategic areas of safety, system efficiency, and organizational excellence. From 2003 through 2011, we published several strategic plans, formerly known as Flight Plans. Beginning in FY 2012, we developed a new strategic plan, *Destination 2025*. Like all of our former Flight Plans, it provides the framework to match resources with initiatives for long-term change.

As we moved from our Flight Plans to Destination 2025, we restructured our strategic goals and the performance measures supporting these goals. For FY 2012, we are reporting on 14 performance measures in the PAR rather than the 29 measures we tracked in FY 2011. However, we continue to track 16 additional measures internally. We report the status on all measures in our monthly performance meetings and in our monthly performance scorecards reviewed by the FAA Administrator.

### Strategic Goals

Our *Destination 2025* strategic goals are

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

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

In FY 2012, we met five of six safety goals, missing our target for General Aviation Fatal Accident Rate. For a more complete discussion of all safety measures and performance results for FY 2012, as well as next steps, see page 42.

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

We operate the largest and safest aerospace system in the world. To do this efficiently, we must continually provide stronger leadership, a better-trained and safer workforce, and improved decisionmaking. We will not



have the FY 2012 results for the two workplace of choice performance measures until early FY 2013. For a more detailed discussion of all workplace measures and performance results for FY 2012, as well as next steps, see page 50.

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

Improved access and increased capacity are the backbone of air travel. In FY 2012, we met three of three aviation access measures. For a more complete discussion of these measures and performance results for FY 2012, as well as next steps, see page 53.

**Sustaining Our Future.** Our goal is to develop and operate an aviation system that is a model of sustainability: reducing aviation's environmental and energy impacts, yet not constraining growth. In FY 2012, we met two of our two environmental goals. For a complete discussion of all sustainability measures and performance results for FY 2012, as well as next steps, see page 57.

**Improved Global Performance through Collaboration.** Our goal is to achieve enhanced safety, efficiency, and sustainability of aviation worldwide. We aim to provide leadership in collaborative standard setting and help with the creation of a seamless global aviation system. In FY 2012, we met our one global performance goal. For a complete discussion of this global performance measure and performance result for FY 2012, as well as next steps, see page 61.

## PERFORMANCE AT A GLANCE

The following tables summarize our performance on all 14 of our FY 2012 *Destination 2025* performance measures. The measures are listed by the strategic goal and objectives in our strategic plan. The Performance Results section, beginning on page 40, contains full discussions of the FAA's FY 2012 performance and results for each of these measures.

YEAR TO YEAR PERFORMANCE GOALS ACHIEVED							
	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
<b>Number of Performance Targets Met</b>	27 of 30	24 of 30	26 of 29	28 of 31	28 of 31	27 of 29	11 of 14
<b>Percentage of Performance Targets Met</b>	90%	80%	90%	90%	90%	93%	92%

The results of 2 of 14 FY 2012 targets are not yet available as of the date of publication. Therefore, only targets with known results are reported herewith. The percentage is computed based on only the 12 targets for which results are available at this date. To view the full array of performance data please visit: <http://www.dot.gov/budget/dot-budget-and-performance>. For archived performance information visit: <http://www.dot.gov/mission/budget/dot-annual-budget-and-performance-archive>.

### THE FAA TAKES FLIGHT WITH *DESTINATION 2025*

*Destination 2025* envisions the ideal future that the FAA strives toward—a transformation of the Nation's aviation system in which air traffic will move even more safely, swiftly, efficiently, and seamlessly around the globe than it does now. It updates the prior agency blueprint, the 2009-2013 Flight Plan. The new document reflects NextGen goals and benchmarks, since NextGen is recognized as the future of the agency and the industry. (See NextGen spread on pages 12–13)

Highlighted goals from *Destination 2025* include the following:

- No accident-related fatalities occur on commercial service aircraft in the United States.
- Employees rate the FAA in the top 25 percent of places to work in the Federal Government.

- NextGen capabilities are fully implemented and utilized, based on U.S. aviation needs.
- The United States works internationally to improve and harmonize global aviation performance through interoperable standards, procedures, and technologies.
- Environmental sustainability is advanced by accelerating NextGen innovations that reduce noise, fuel burn, and carbon emissions, even with continued growth in aviation.

*Destination 2025* sets the blueprint for transforming not only the aviation system, but also the FAA itself. It acknowledges the need to streamline operations by working in a more cross-organizational and cross-functional manner and the challenge of "providing an attractive and

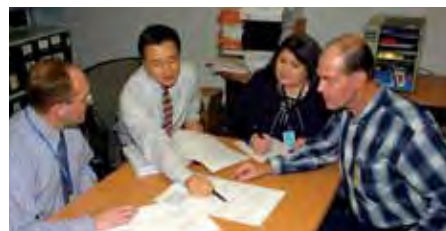
challenging place to work."

Another major challenge mentioned in the document is working with domestic and international partners to encourage "open reporting of safety concerns" in order to address hazards before they become accidents.

As a result of fulfilling 2025 goals, it is predicted that "Costs will be contained for both operators and passengers." The document provides metrics for 2018 as a midpoint for evaluating progress toward 2025.

*Destination 2025* is the product of extensive outreach to employees, aviation stakeholders, and the public, with more than 450 people commenting through a Web-based discussion tool.

[www.faa.gov/about/plans\\_reports/media/Destination2025.pdf](http://www.faa.gov/about/plans_reports/media/Destination2025.pdf)



STRATEGIC GOAL: NEXT LEVEL OF SAFETY				
Performance Measure	FY 2012 Target	FY 2012 Results	FY 2012 Status	FY 2013 Target
<b>STRATEGIC OBJECTIVE: NO ACCIDENT-RELATED FATALITIES OCCUR ON COMMERCIAL SERVICE AIRCRAFT IN THE U.S.</b>				
<b>Commercial Air Carrier Fatality Rate</b> In FY 2012, the commercial air carrier fatality rate will not exceed 7.6 fatalities per 100 million people on board. <i>Agency Priority Goal</i>	7.6	0.0 <sup>1</sup>	✓	7.4
<b>STRATEGIC OBJECTIVE: AVIATION RISK IS REDUCED THROUGH ALL PHASES OF FLIGHT (GATE-TO-GATE)</b>				
<b>Serious Runway Incursions Rate</b> Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.	0.395	0.356 <sup>2</sup>	✓	0.395
<b>System Risk Event Rate</b> 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	8.95 <sup>2</sup>	✓	20
<b>Information Security</b> Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	0	0	✓	0
<b>STRATEGIC OBJECTIVE: THERE IS A REDUCTION IN THE GENERAL AVIATION FATAL ACCIDENT RATE</b>				
<b>General Aviation Fatal Accident Rate</b> Reduce the general aviation fatal accident rate to no more than 1.07 fatal accidents per 100,000 flight hours. <i>Agency Priority Goal</i>	1.07	1.10 <sup>3</sup>	✗	1.06
<b>STRATEGIC OBJECTIVE: THERE ARE NO FATALITIES RESULTING FROM COMMERCIAL SPACE LAUNCHES</b>				
<b>Commercial Space Launch Accidents</b> No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0
<b>STRATEGIC GOAL: WORKPLACE OF CHOICE</b>				
Performance Measure	FY 2012 Target	FY 2012 Results	FY 2012 Status	FY 2013 Target
<b>STRATEGIC OBJECTIVE: THE FAA IS WIDELY RECOGNIZED AS AN EMPLOYER OF CHOICE</b>				
<b>FAA Ratings</b> 75th percentile rank in the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents.	75%	TBD	TBD	75%
<b>Outside Ratings</b> Achieve a 90 percent success rate in the areas of financial management and human resources management.	90% success rate	TBD	TBD	90% success rate
1 Preliminary estimate. Final result confirmed by NTSB March 2014. 2 Preliminary estimate. Final result available January 2013. 3 Preliminary estimate. Final result available March 2014.	✓ Target met		✗ Target not met	

STRATEGIC GOAL: DELIVERING AVIATION ACCESS THROUGH INNOVATION				
Performance Measure	FY 2012 Target	FY 2012 Results	FY 2012 Status	FY 2013 Target
<b>STRATEGIC OBJECTIVE: NEXTGEN CAPABILITIES ARE FULLY IMPLEMENTED AND UTILIZED BASED ON U.S. AVIATION COMMUNITY SYSTEM NEEDS</b>				
<b>Air traffic control systems can improve the efficiency of airspace.</b> By September 30, 2013, replace a 40-year old computer system serving 20 air traffic control centers with a modern, automated system that tracks and displays information on high altitude planes. <i>Agency Priority Goal</i> <i>Systems were replaced in two centers in 2011.</i>	7	7	✓	11
<b>Major Systems Investments</b> In FY 2012, maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline (APB) total budget at completion. <sup>4</sup>	90%	100%	✓	90%
<b>STRATEGIC OBJECTIVE: THE GENERAL AVIATION AIRPORT SYSTEM SUPPORTS THE FULL RANGE OF FUNCTIONS FOR REMOTE POPULATIONS AND EMERGENCY RESPONSE CAPABILITIES</b>				
<b>LPV Procedures</b> Publish 500 LPV or LP procedures in FY 2012 to ensure Localizer Performance (LP) or Localizer Performance w/Vertical (LPV) procedures are available at 5,218 runways in the NAS.	500	536	✓	500
<b>STRATEGIC GOAL: SUSTAINING OUR FUTURE</b>				
Performance Measure	FY 2012 Target	FY 2012 Results	FY 2012 Status	FY 2013 Target
<b>STRATEGIC OBJECTIVE: COMMUNITY NOISE CONCERNS ARE NOT A SIGNIFICANT CONSTRAINT ON GROWTH</b>				
<b>Noise Exposure</b> Reduce the number of people exposed to significant aircraft noise to less than 386,000 in calendar year 2012.	386,000	319,901 <sup>5</sup>	✓	371,000
<b>STRATEGIC OBJECTIVE: AVIATION'S CARBON FOOTPRINT DOES NOT BECOME A CONSTRAINT TO GROWTH</b>				
<b>NAS Energy Efficiency</b> Improve aviation fuel efficiency by 14 percent, as measured by the calendar year 2011 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-14.00%	-14.76%	✓	-16.00%
<b>STRATEGIC GOAL: IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION</b>				
Performance Measure	FY 2012 Target	FY 2012 Results	FY 2012 Status	FY 2013 Target
<b>STRATEGIC OBJECTIVE: REDUCE AVIATION ACCIDENTS AND FATALITIES WORLDWIDE</b>				
<b>World-wide Fatal Aviation Accidents</b> In FY 2012, limit world-wide fatal accidents in Part 121-like operations to no more than 20 fatal accidents per million revenue aircraft departures.	20	10 <sup>6</sup>	✓	20
4 Preliminary estimate. The System Approach to Safety to Oversight (SASO) program is under technical status review and could still exceed its baseline. This will not affect achievement of the overall goal.				
5 Preliminary estimate based on Terminal Area Forecast operations for 2012. Final estimate based on actual 2012 operations will be available in May 2013.				
6 Preliminary estimate. Final result available July 2013.				

✓ Target met

✗ Target not met

## ALIGNMENT OF FAA COSTS AND GOALS

We use our Cost Accounting System (CAS) to track our costs in a matrix fashion by organizational unit and project. At the beginning of each project, we determine the degree to which the project will contribute to one or more of our strategic goal areas: Next Level of Safety, Workplace of Choice, Delivering Aviation Access through Innovation, Sustaining our Future, and Improved Global Performance through Collaboration. We allocate actual project costs to the strategic goal areas that are supported by the project. Because we also routinely accumulate costs by organizational unit, we are then able to assign total net costs among our four Lines of Business and our combined Staff Offices, by strategic goal area.

The FAA total net cost of more than \$16.1 billion was allocated to our strategic goal areas as described below.

**NEXT LEVEL OF SAFETY.** Nearly \$9.7 billion, or about 60 percent, of our total net cost was devoted to our primary goal of ensuring the safety of the NAS.

- The Office of Airports (ARP) directed more than \$1.6 billion to establishing 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 \$1.4 billion on its programs to regulate and certify aircraft, pilots, and airlines, directly supporting the safety of commercial and general aviation.
- The Office of Commercial Space Transportation (AST), the other FAA Staff Offices, and other programs spent slightly more than \$357 million to further support the agency's safety mission.

**WORKPLACE OF CHOICE.** Approximately \$687 million supported our workplace of choice goal, to which nearly all the Lines of Business and Staff Offices contributed.

**DELIVERING AVIATION ACCESS THROUGH INNOVATION.** Approximately \$5.7 billion—or or about 35 percent of total net costs—was assigned to support our goal of expanding the capacity of the NAS, particularly through the pursuit of programs contributing to the NextGen initiative.



- The ATO spent about \$4.3 billion, largely to finance its facilities and equipment projects.
- The ARP spent nearly \$1.5 billion to enhance the capacity of the country's airports through runway projects and other efforts.
- The AST contributed more than \$6.7 million to improving commercial space launch capabilities through its Spaceport Grant program.

**SUSTAINING OUR FUTURE.** As a whole, we committed approximately \$91.3 million to support environmental sustainability. This funding supported research programs in alternative fuels and increases in aircraft energy efficiency. AIP grants were also targeted toward the reduction of exposure to aviation noise near large airports.

**IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION.** As a whole, we committed approximately \$6.7 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.

## FINANCIAL HIGHLIGHTS

### DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

The 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 2012 Financial Statement Audit

The *Chief Financial Officers Act of 1990* (Public Law 101-576), as amended by the *Government Management Reform Act of 1994*, requires that financial statements be prepared by certain agencies and commercial-like activities of the Federal Government and that the statements be audited in accordance with Government auditing standards. The FAA is required to prepare its own financial statements under OMB Bulletin No. 07-04, Audit Requirements for Federal Financial Statements. The DOT's OIG is statutorily responsible for the manner in which the audit of the FAA's financial statements is conducted. The OIG selected KPMG LLP, an independent certified public accounting firm, to audit the FAA's FY 2012 financial statements.

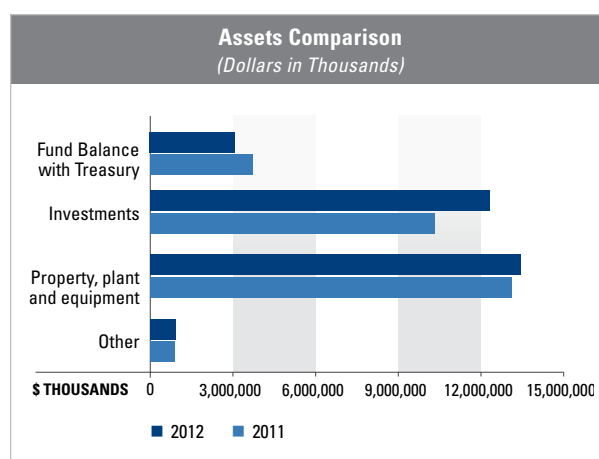
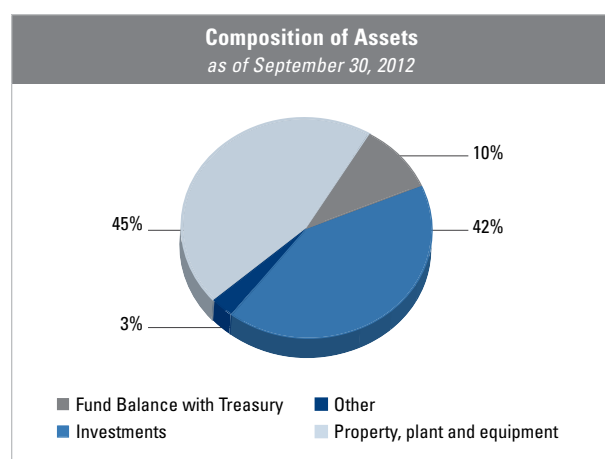
In 2002, the DOT's OIG and Chief Financial Officer, along with the FAA's Chief Financial Officer, established an Audit Coordination Committee to promote and encourage open communication among the OIG, FAA management,

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 Reporting and Accountability and includes representatives from the OIG; the DOT's Office of Financial Management; the 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 unqualified opinion on the FAA's FY 2012 financial statements.

#### Understanding the Financial Statements

The FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the *Chief Financial Officers Act of 1990* and the *Government Management Reform Act of 1994*. The following section provides a brief description of (a) the nature of each financial statement and its relevance to the FAA, (b) significant fluctuations from FY 2011 to FY 2012, 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 the FAA (assets) against the amounts owed (liabilities) and amounts that comprise the difference (net position).

**Assets**

Total assets were \$29.8 billion as of September 30, 2012. 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, 2011 and 2012.

*Fund balance with Treasury* (FBWT) represents 10 percent of the FAA's current period assets and consists of funding available through U.S. Department of the Treasury accounts from which the FAA is authorized to make expenditures to pay liabilities. It also includes passenger ticket and other excise taxes deposited to the Airport and Airway Trust Fund (AATF), but not yet invested. Fund balance with Treasury decreased from \$3.7 billion to \$3.1 billion.

At \$12.3 billion, *Investments* represent 42 percent of the FAA's current period assets, and are derived from passenger ticket and other excise taxes deposited to the AATF and premiums collected from the Aviation War Risk 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 \$2.0 billion due to an increase in excise tax revenues of \$1.0 billion, yearly War Risk premiums of \$160.6 million, and earned interest of \$244.9 million. Additionally, investments are not liquidated until needed

to fund expenses which accounts for the remaining increase on a comparative basis.

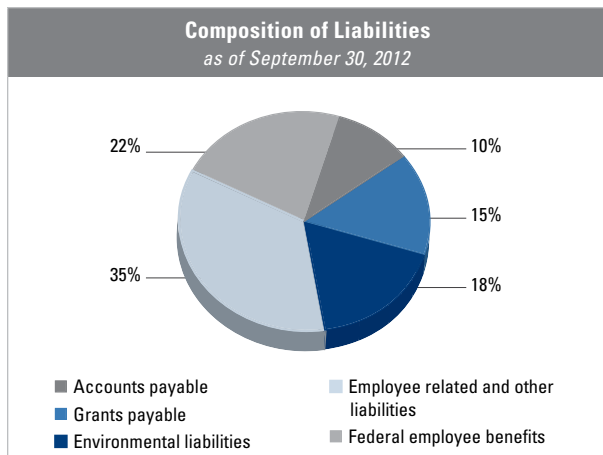
At \$13.4 billion, *General property, plant, and equipment, net* (PP&E) represents 45 percent of the FAA's assets as of September 30, 2012, and primarily comprises construction-in-progress related to the development of National Airspace System assets, and capitalized real and personal property. There was an increase of \$328 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 greater than the offsets by retirements, disposals, and depreciation.

**Liabilities**

As of September 30, 2012, the FAA reported liabilities of \$4.4 billion. Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The *Composition of Liabilities* chart depicts the FAA's major categories of liabilities as a percentage of total liabilities.

The *Liabilities Comparison* chart presents comparisons of major liability balances between September 30, 2011 and September 30, 2012. Below is a discussion of the major categories.

At \$1.5 billion, *Employee related and other liabilities* represent 35 percent of the FAA's total liabilities. These liabilities decreased slightly by \$13 million as of September 30, 2012 and are comprised mainly of \$162.1 million in advances received, \$206.1 million in *Federal Employee's Compensation Act* payable, \$435 million in accrued payroll and benefits, \$531.4 million in accrued leave and benefits, \$34.3 million in legal claims liability and \$82.3 million in capital lease liability.





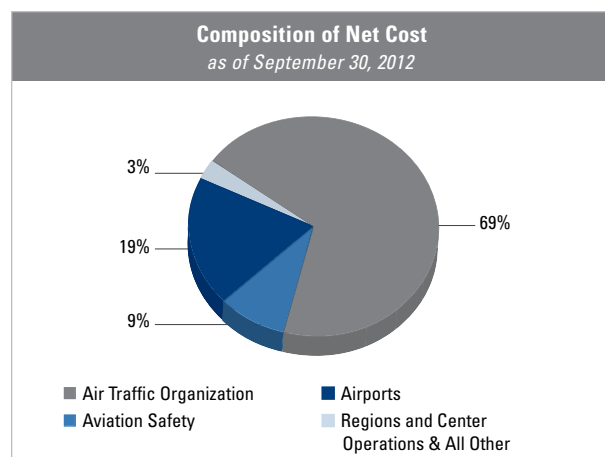
At \$946.8 million, *Federal employee benefits* represent 22 percent of the FAA's current year liabilities, and consist of the FAA's expected liability for death, disability, and medical costs for approved workers compensation cases, plus a component for incurred but not reported claims. The U.S. Department 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 FAA employees over the preceding four years. This liability is updated on an annual basis at year end.

*Environmental liabilities* represent 18 percent of the FAA's total liabilities and were \$810.4 million as of September 30, 2012, compared with \$757.4 million a year earlier. Environmental liabilities include a component for remediation of known contaminated sites and the estimated environmental cost to decommission assets presently in service.

The FAA's *grants payable* are estimated amounts incurred but not yet claimed by Airport Improvement Program (AIP) grant recipients and represent 15 percent of liabilities. *Grants payable* decreased slightly by \$12.8 million. *Accounts payable* decreased \$104.7 million and are amounts the FAA owes to other entities for unpaid goods and services.

### Statement of Net Cost

The Statement of Net Cost presents the cost of operating 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, 2012, and September 30, 2011, the FAA's net costs were \$16.1 billion and \$16.7 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, 2011, and September 30, 2012 net costs.

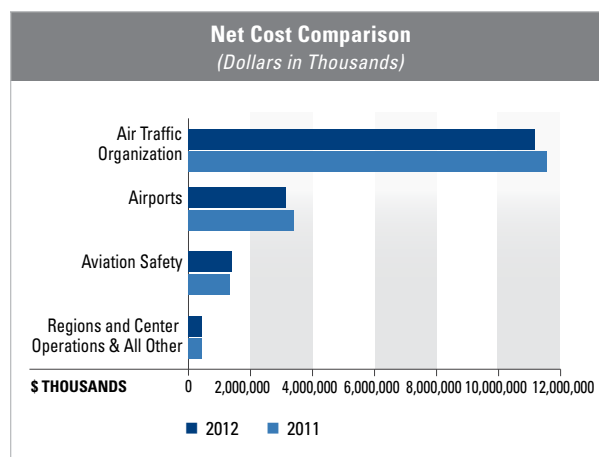
With a net cost of \$11.2 billion, the *Air Traffic Organization* is the FAA's largest Line of Business, comprising 69 percent of total net costs. Air Traffic Organization's net costs decreased by \$392.9 million, on a comparative basis, primarily from decreases in contractor services and property related activities partially offset by increases in labor costs.

*Airports* is the FAA's second largest Line of Business with a net cost of \$3.1 billion as of September 30, 2012, which is 19 percent of the FAA's total net costs. Net costs decreased by \$249.1 million from the prior year primarily due to a decrease in Airport Improvement Program grant disbursements on a comparative basis.

The net cost of *Aviation Safety* represents 9 percent of the FAA's total net costs, while *Region and Center Operations and All Other* comprise 3 percent of total net costs.

### Statement of Changes in Net Position

The *Statement of Changes in Net Position* presents those accounting items that caused the net position section of the balance sheet to change from the beginning to the end of the reporting period. Various financing sources increase net position. These financing sources include appropriations received and non-exchange revenue, such as excise taxes and imputed financing from costs



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, 2012, increased by \$1.9 billion due primarily to a combination of financing sources of \$4.6 billion from appropriations used, non-exchange revenue of \$12.8 billion, imputed financing of \$552.1 million, and donations of property of \$156.8 million offset by transfers out of \$129.3 million and net costs of \$16.1 billion. Unexpended appropriations decreased slightly by \$85 million.

**Statement of Budgetary Resources**

This statement provides information on the budgetary resources available to the FAA as of September 30, 2012, and September 30, 2011, and the status of those budgetary resources.

*Budget authority, gross* is the authority provided to the FAA by law to enter into obligations that will result in outlays of Federal funds. *Obligations incurred* result from an order placed, contract awarded, service received, or similar transaction, which will require payments during the same or a future period. *Obligations incurred* are sourced from current year budget authority and unobligated balances carried forward. *Gross outlays* reflect the actual cash disbursed by Treasury for FAA obligations. The FAA reported gross budget authority of \$21.9 billion on September 30, 2012, compared to \$21.4 billion on September 30, 2011. *Obligations incurred* increased \$660.2 million to \$22.2 billion. *Gross outlays* also increased by \$664.2 million to \$21.8 billion.

**Stewardship Investments**

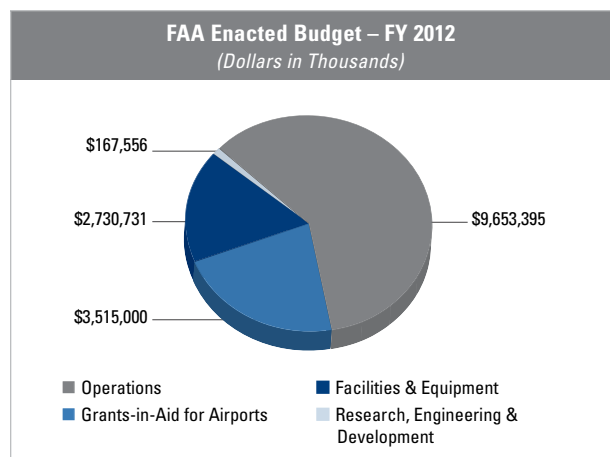
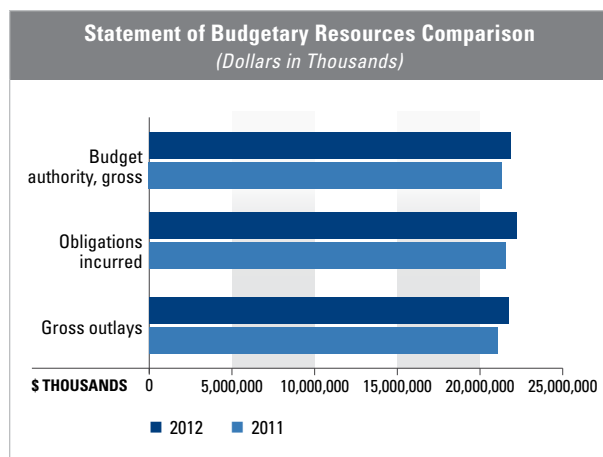
Stewardship investments are substantial investments made by the FAA for the benefit of the Nation, but do not result in physical ownership of assets by the FAA. When incurred, these amounts are treated as expenses in the Consolidated Statements of Net Cost. Our Required Supplementary Stewardship Information (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 in FY 2012 by \$17.8 million primarily in the category of lab testing which is part of R&D Plant. Two areas of focus this year included the development of Current and Forecasting Icing Products which provide substantial diagnostic improvements in identifying icing conditions during flight and the development of a National Ceiling and Visibility Analysis that provides real time analysis of current ceiling and visibility conditions for the general aviation community.

**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 OMB, the statements are in addition to the financial reports used to monitor and control budgetary



resources, which are prepared from the same books and records.

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

### ***Budgetary Integrity: FAA Resources and How They Are Used***

In FY 2012, the AATF provided approximately 71 percent of our enacted budgetary authority. Created by the *Airport and Airway Revenue Act of 1970*, the AATF derives its funding from excise taxes and earned interest. It provides a source of revenue to finance investments in the airport and airway system, and covers a portion of FAA operating costs.

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

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

We are financed through annual and multiyear appropriations authorized by Congress. The FY 2012 enacted budget of \$16.1 billion was a slight increase from the FY 2011 enacted level of \$15.93 billion. This included \$11.51 billion from the AATF and \$4.59 billion from the General Fund, as enacted by the *Consolidated and Further Continuing Appropriations Act, 2012* (P.L. 42-55).

The FAA has four appropriations. The largest, Operations, is funded by both the Treasury's General Fund and the AATF. In FY 2012, the AATF provided 52.4 percent of the revenue for Operations. The AATF is the sole revenue source for our three capital investment appropriations:

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

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

The FY 2012 Operations appropriation was \$9.65 billion, approximately 1.47 percent more than in FY 2011, an increase primarily attributable to payroll and inflation costs.

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

FY 2012 funding for AIP was \$3.515 billion. Funding for the Small Community Air Service Development program was \$6 million, the same as the FY 2011 appropriation.

**F&E.** The programs funded by the F&E appropriation are our principal means of modernizing and improving air traffic control and airway facilities, particularly through programs supporting NextGen. The account finances major capital investments to enhance the safety and capacity of the NAS. F&E was funded at \$2.73 billion in FY 2012, the same level as in FY 2011. Several major systems that contribute to the NextGen effort reached significant milestones in FY 2012. These include Automatic Dependent Surveillance-Broadcast (ADS-B), System Wide Information Management (SWIM), and En Route Automation Modernization (ERAM).

**R,E,&D.** The FY 2012 appropriation for R,E,&D of \$167.56 million was about 1.2 percent lower than the FY 2011 level. The reduction for FY 2012 included small cuts in programs supporting safety and improvements in the efficiency of the air traffic control system. At the same time, research supporting the reduction of aviation's environmental impacts was increased by nearly 10 percent.

## MANAGEMENT CONTROLS HIGHLIGHTS

### IMPROVING FINANCIAL MANAGEMENT

#### Cost-Effectiveness and Efficiency

*Destination 2025* includes a strategic objective to improve the financial management of the agency while delivering quality customer service. A cost-control target is essential to the *Destination 2025* goals tracked each month. Due to this target, the agency was able to achieve \$102 million in recurring savings in FY 2012 (from efforts put in place from FY 2005 to FY 2011). FAA efforts in this area are described below:

**Service Area Restructuring.** By reevaluating and changing the structure of ATO service areas, the FAA sharply reduced staffing requirements. This activity achieved an estimated savings of \$39 million in FY 2012.

**Workers' Compensation Consolidation.** The FAA has saved a total of \$119 million in workers' compensation claims since FY 2005. Because of the FAA's record of success in this area, the DOT gave us centralized, department-wide responsibility for managing workers' compensation claims. In FY 2012, we saved \$8 million in workers' compensation costs.

**Information Technology.** As in most businesses, information technology (IT) investments at the FAA can be expensive and the technology can quickly become obsolete. To address this, we are becoming more proactive about IT decisions by implementing agency-wide IT initiatives to consolidate resources and improve efficiency. This is yielded a cost savings of more than \$40 million in FY 2012.

**SAVES Program.** The Strategic Sourcing for the Acquisition of Various Equipment and Supplies (SAVES) Program is an ambitious effort that began in FY 2006 to implement private sector best practices in the FAA procurement of administrative supplies, equipment, IT hardware, commercial off-the-shelf (COTS) software, and courier services. The SAVES program oversees nine national contracts in six different categories. Since the initiation of these contracts, we have exceeded our expected compliance rate. We currently purchase 90 percent of our office supplies through contracts, well

above the target of 70 percent. The SAVES program has enabled us to gain better financial oversight in addition to significant cost savings.

Through SAVES contracts, we achieved more than \$22 million in cost savings for FY 2012 and a total savings of more than \$116 million since program implementation. SAVES contracts produced the following savings rates:

- 31 percent for office supplies
- 26 percent for office equipment
- 19 percent for IT hardware
- 16 percent for financial systems support
- 12 percent for COTS software
- 9 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 efficiency activities for each FAA organization must be targeted towards at least 75 percent of operating resources.

**Cost Per Controlled Flight.** This cost-based metric provides a broader historic picture of overall cost efficiency at various FAA organizational levels per flight. Cost per controlled flight is reviewed as part of periodic benchmarking initiatives within the global air navigation service community.

**Air Traffic Overhead Rate.** We capture overhead rates to provide insight into the cost-effectiveness of overhead resources provided to support ATO. The agency regularly reviews current and historic performance and selected benchmarking with other air navigation service providers. The resulting performance indicator informs management decisions on the mix, level, and allocation of general and administrative services and mission support services.

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

## IMPLEMENTING EXPENSE CONTROLS

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

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

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 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 acquisition.

**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 (CIO). 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 non-NAS, IT-related personnel resources, and oversees funding to meet our IT needs.

**Conferences.** In 2009, our CFO and our Chief Acquisition Officer issued guidance requiring that all conferences costing \$100,000 or more be approved by the CFO before funds were committed. This guidance was further strengthened in March 2010 with the requirement that such conferences also be approved by the Administrator. In addition, any conference of more than 20 FAA employees meeting outside of their normal duty stations must be approved by the Administrator.

## FINANCIAL MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

In an October 19, 2012 memorandum, the FAA Administrator reported to the Secretary of the DOT an unqualified statement of assurance under the *Federal Managers' Financial Integrity Act of 1982* (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 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. Weaknesses deemed material, if any, are consolidated in a Statement of Assurance signed memorandum by the Administrator and sent to the 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 2012, we are reporting overall substantial compliance.

## IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT OF 2010 (IPERA)

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

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

The purpose of these regulations and guidance is to improve agency efforts to reduce and recover improper payments. Specifically, IPERA requires that agencies identify and estimate improper payments, conduct payment recovery audits, reuse recovered improper

payments, and complete lists of compliance actions per the law.

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

Based on IPERA, agencies are required to review all programs and activities in order to identify those that

are most susceptible to improper payments. This risk assessment will allow agencies to identify areas that have the potential for "significant" improper payments.

The FAA's FY 2012 IPERA review did not find any programs or activities at risk for "significant erroneous payments," as determined in accordance with the OMB's criteria (i.e., programs with erroneous payments exceeding both \$10 million and 2.5 percent of program payments). This threshold will be adjusted in FY 2013 to provide a higher level of scrutiny. In FY 2013, an agency will be at risk for "significant erroneous payments" if the program's erroneous payments exceed both \$10 million and 1.5 percent of the programs payments or exceed \$100 million.

## MANAGEMENT ASSURANCES

### ***Federal Managers' Financial Integrity Act of 1982*** **Assurance Statement—Fiscal Year 2012**

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

These objectives are to ensure:

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

Internally, we assess the vulnerability of our programs and systems through FMFIA. We are pleased to report that taken as whole, the management controls and financial management systems in effect from October 1, 2011, through September 30, 2012, provide reasonable assurance that the objectives of both Sections 2 and 4 of the FMFIA are being met. Management controls are in place and our financial systems conform to Government-wide standards

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

The results of this evaluation provide reasonable assurance that the FAA's internal control over financial reporting was operating effectively as of September 30, 2012. Due to unlimited scope of processes tested this year and no material weaknesses reported on our financial statements, the FAA is issuing an unqualified statement of assurance.



**Michael P. Huerta**  
Acting Administrator  
November 9, 2012

## FINANCIAL MANAGEMENT SYSTEMS STRATEGY AND ACTIONS

### OVERVIEW

The FAA used the Federal Enterprise Architecture (FEA) to redesign its financial management systems' architecture, creating a financial segment that cut across all FAA organizations. Enterprise Architecture links the business, mission, strategy, and processes of an organization to its IT strategy. The FEA is the Federal Government's enterprise architecture and provides a common methodology for Government IT acquisition, use, and disposal.

Our financial management systems strategy is based on the FEA framework and divided into five categories—Business, Applications, Data, Information, and Services. A summary of our financial system strategy is provided below.

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

### SYSTEMS CRITICAL TO FINANCIAL MANAGEMENT

We keep an inventory of the various financial systems we use and we maintain the status of each system. We are constantly working to make further improvements. Below is a summary of the systems critical to financial management and the activities or improvements that are planned for each.

**Accounting.** Delphi is the DOT's comprehensive financial management system. We use Delphi to record our financial transactions and account balances. Currently, the DOT is working on a major upgrade to Delphi and we are now using the iSupplier application for grants and vendor payments.

**Acquisition.** PRISM is a Web-based acquisition system that integrates with Delphi's purchasing functions to provide vendor information and communicate accounting information. We are migrating toward a business process management suite of tools that will automate and integrate all activities related to procurement. We are continuing to pilot business process automation tools before we fully implement them.

**Budget.** We are planning to eliminate duplicative budget systems. In addition, we will be standardizing agency "cuff record" systems and budgeting tools.

**Financial Reporting.** The current FAA financial reporting systems are the Report Analysis and Distribution System; Regional Information System, the Financial Management System; and the Research, Engineering & Development Monitoring, Analysis and Control System. We plan to combine these systems' functionalities into a single data warehouse.

The Financial Information Transformation (FIT) and Platform for Unified Reporting (PURE) programs are the drivers towards our strategic five-year Financial Services IT Plan.





MANAGEMENT'S DISCUSSION & ANALYSIS



# PERFORMANCE RESULTS

## PERFORMANCE MEASURES OVERVIEW

In this section, we list our fourteen performance measures, organized by strategic goal and objective as outlined in our strategic plan, *Destination 2025* (D2025). Our five strategic goals, as detailed in D2025 ([http://www.faa.gov/about/plans\\_reports/media/Destination2025.pdf](http://www.faa.gov/about/plans_reports/media/Destination2025.pdf)), are:

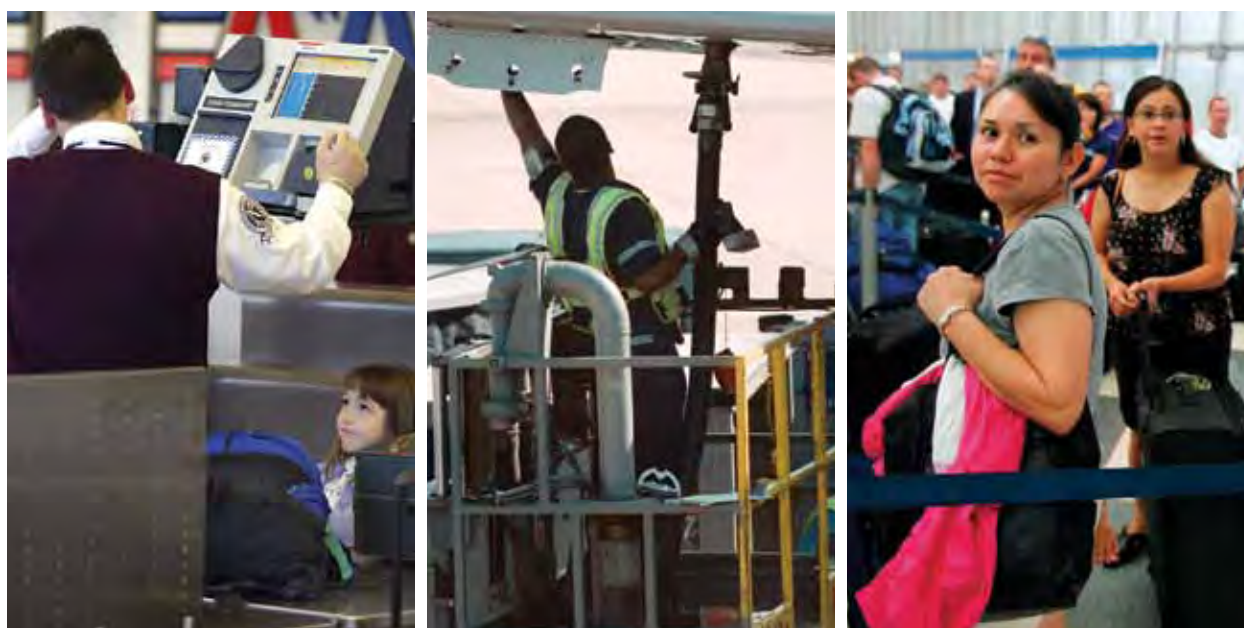
1. **Next Level of Safety** (page 42)
2. **Workplace of Choice** (page 50)
3. **Delivering Aviation Access through Innovation** (page 53)
4. **Sustaining our Future** (page 57)
5. **Improved Global Performance through Collaboration** (page 61)

We provide the FY 2012 target, actual performance, a discussion of our FY 2012 performance and five years of historical trend data when available. We have also prepared a graph of performance measures with three or more years of data. Technical definitions, data source information, statistical issues and completeness and reliability statements for our FY 2012 performance measures can be found in the *FY 2012 Portfolio of Goals*

located on our website at [http://www.faa.gov/about/plans\\_reports/media/FY12\\_POG.pdf](http://www.faa.gov/about/plans_reports/media/FY12_POG.pdf).

In FY 2012, we were able to meet 11 of the 12 performance measure targets for which we had end of year data. For the two performance measures for which year-end data are not available, we will report this data in the *Fiscal Year 2013 Performance and Accountability Report* (PAR). We have provided preliminary data on FY 2012 where available. Also in this FY 2012 PAR, we have updated FY 2011 performance results for the six performance measures for which we did not have end of year data when the FY 2011 PAR was published. Several of these FY 2011 measures were discontinued in the new strategic plan. Those measures are presented at the end of the performance summary.

We have included discussions of the ways our performance data are verified and validated as well as of the completeness and reliability of our performance data on page 64. Our FY 2012 Performance Results section concludes with a selection of summaries of the program evaluations conducted during FY 2012 (page 64).



## 1 NEXT LEVEL OF SAFETY

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

### FY 2012: SAFETY PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2012 Target	FY 2012 Result	FY 2012 Status	FY 2013 Target
<b>Commercial Air Carrier Fatality Rate</b> In FY 2012, the commercial air carrier fatality rate will not exceed 7.6 fatalities per 100 million people on board. <i>Agency Priority Goal</i>	7.6	0.0 <sup>1</sup>	✓	7.4
<b>Serious Runway Incursion</b> Reduce Category A and B (most serious) runway incursions to a rate of no more than 0.395 per million operations, and maintain or improve through FY 2013.	0.395	0.356 <sup>2</sup>	✓	0.395
<b>System Risk Event Rate</b> 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.	20	8.95 <sup>2</sup>	✓	20
<b>Information Security</b> Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	0	0	✓	0
<b>General Aviation Fatal Accident Rate</b> Reduce the fatal accident rate per 100,000 flight hours by 10 percent over a 10-year period (2009-2018). <i>Agency Priority Goal</i>	1.07	1.10 <sup>3</sup>	✗	1.06
<b>Commercial Space Launch Accidents</b> No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and reentry activities.	0	0	✓	0

1 Preliminary estimate. Final result to be confirmed by NTSB March 2014.

2 Preliminary estimate. Final result available January 2013.

3 Preliminary estimate. Final result available March 2014.

✓ Target met

✗ Target not met



The FAA's Western Pacific Region conducted triennial airport emergency operations training in the Federated States of Micronesia, which included a live airport emergency exercise. Local students acted as accident victims during the simulation.

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

### Commercial Air Carrier Fatality Rate

**Reduce the commercial air carrier fatalities per 100 million persons on board by 24 percent over 9-year period (2010-2018). No more than 6.2 in 2018.**

<b>FY 2012 Target</b>	In FY 2012, the commercial air carrier fatality rate will not exceed 7.6 fatalities per 100 million people on board.
<b>FY 2012 Result</b>	0.0 <i>(Preliminary estimate. Final result to be confirmed by NTSB March 2014)</i>
<b>Public Benefit</b>	As fatal air carrier accidents have declined in terms of average fatalities per accident, this measure will sharpen the FAA's focus on helping air travel become even safer.

*This performance measure supports the DOT Agency Priority Goal, Reduce Risk of Aviation Accidents.*

With more than 10.4 million flights and 735.5 million passengers in FY 2012, commercial aviation continues to be one of the safest forms of transportation. As the stewards of aviation safety, the FAA and industry have built a system that has reduced the risks of flying to all-time lows. Commercial aviation includes both scheduled and nonscheduled flights of U.S. passenger and cargo air carriers and scheduled passenger flights of regional operators. Accidents involving passengers, crew, ground personnel, and the public are all included in this fatality rate.

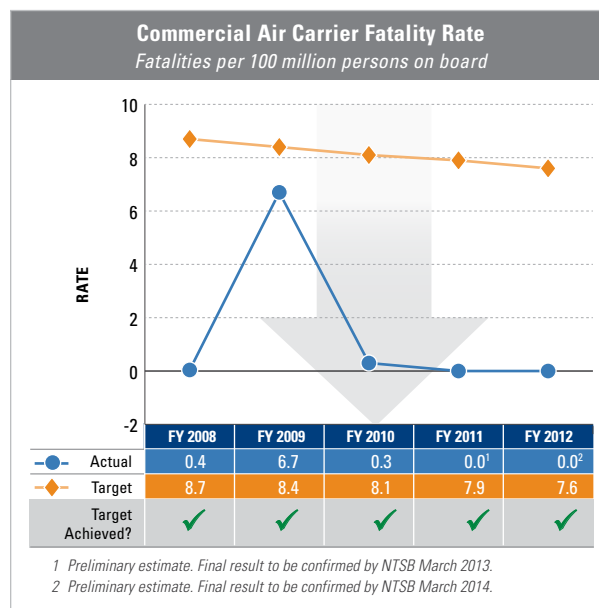
In FY 2012, with no commercial fatal accidents, we were successful in maintaining the commercial air carrier rate below 7.6 fatalities per 100 million people on board. Our FY 2012 results are not expected to change. However, they will not be confirmed as final by the National Transportation Safety Board until March 2014. Our focused data driven safety agenda, with its emphasis on using the latest technology and training to break the chain of events that lead to accidents, along with the work of the Commercial Aviation Safety Team (CAST), continues to keep the skies safe for commercial passengers.

The technology used by our pilots, mechanics, flight attendants, and air traffic controllers has evolved. Pilots today must possess not only the navigation, stick, and rudder skills that they have always had to learn, but they must be "system managers" who are intimately familiar

with the complexity of operations. Our training programs equip our pilots with the skills that they need to deal with any situation.

We are challenged by the number of projects directly tasked to us by Congress in the *Airline Safety and FAA Extension Act of 2010*. This year we continued our efforts on a pilot training rule that we expect to complete in 2013. The rule represents the most significant overhaul of crew training in the last 20 years. It would require pilots, flight attendants and dispatchers to demonstrate their skills in real operations. We will never forget the lives that were lost in the Colgan Air accident in 2009 and the new rule will address the lessons learned from that accident.

While our achievements have brought aviation to an unprecedented level of safety, identified sources of risk within aviation provide the basis for moving forward to the next level of safety. Our work with stakeholders to stimulate cooperation for the open reporting of safety concerns is key to the FAA's successful safety efforts. Each member of the aviation community plays a vital role in our efforts to ensure we continue to have the safest airspace system in the world.



**OBJECTIVE: Aviation Risk is Reduced Through All Phases of Flight (Gate-to-Gate)**
**Serious Runway Incursion Rate  
(Category A & B)**

<b>Reduce Category A &amp; B (most serious) runway incursions to a rate of no more than .395 per million operations, and maintain or improve through FY 2013.</b>	
<b>FY 2012 Target</b>	Reduce Category A & B (most serious) runway incursions to a rate of no more than .395 per million operations.
<b>FY 2012 Result</b>	0.356 <i>(Preliminary estimate. Final result available January 2013.)</i>
<b>Public Benefit</b>	Reduced probability that the public will be injured or killed in an accident resulting from a runway incursion.

A runway incursion is any unauthorized intrusion onto a runway, regardless of whether or not an aircraft presents a potential conflict. This includes the incorrect presence of an aircraft, vehicle, or person on the protected area of a surface designated for the landing and takeoff of aircraft. Such an event can create dangerous situations that can lead to serious accidents that potentially involve fatalities, injuries, and significant property damage.

The FAA tracks the following two categories of most serious runway incursions:

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

The reduction in the number and severity of runway incursions is one of the FAA's top priorities. The FY 2012 preliminary estimate for the rate of Category A and B runway incursions was 0.356, just below the established end-of-year goal of 0.395 serious events per million of operations. We are currently meeting expectations for this indicator with 18 Category A&B runway incursion surface events. As there are events pending assessment, we remain cautiously optimistic that we will meet the end-of-year limit. It is estimated the maximum number of Category A and B runway incursions allowed within the established rate limit is 20.

This year, we requested and received updated action plans describing steps to be taken to reduce runway

incursions. Additionally, separate focused efforts were initiated to address surface risk associated with airport construction, closed runways, and call sign confusion. We have taken specific actions to instill an open reporting culture so that safety issues are brought to light and addressed. The implementation of non-punitive voluntary safety reporting programs and simplified safety reporting processes outlined in new FAA safety orders, along with new tools to support these processes, have resulted in removing barriers to reporting all events on the surface.

In FY 2012, the total number of reported runway incursions resulting from operational incidents and pilot deviations increased by almost 17 percent compared to the prior year. We are working diligently with the aviation community to implement mitigations, raise awareness, and educate pilots, drivers and controllers on the risks of runway incursions. Since many foreign air carriers operate within the United States, we also continue to support International Civil Aviation Organization (ICAO) runway safety programs. These efforts will have a positive impact, resulting in a reduced risk to the flying public.

We are working to improve pilot training, checking, and testing. *The Pilot's Handbook of Aeronautical Knowledge* has been updated to include a section on runway incursion avoidance; the written and practical test standards have been and/or are in the process of being updated to include surface safety topic requirements; remedial training program has been established; Designated Pilot Examiner training is being updated; and the advisory circulars for taxi operations have been updated and will be published shortly.

Our safety team will make surface safety a special emphasis item for FY 2013 and require specific outreach plans for controllers, pilots, airports, and airlines. These plans will be based on event data and collaboration with the respective Regional Runway Safety Program Managers. We will continue to work to improve driver training through updated training requirements and improved training course material. Advisory circulars for new technology have been and will be published to allow airport authorities to employ GPS and Automatic



Dependent Surveillance-Broadcast (ADS-B) based technologies to improve driver situational awareness and provide warning/alerting. We are working to revise procedures at specific airports, improve controller training, and raise awareness through a quarterly mandatory bulletin.

Several years ago, the FAA held a Call to Action Safety Summit with aviation leaders from the FAA, the airlines, airports, aerospace manufacturers, and the air traffic controller and pilot unions—who joined forces to address runway incursions. Following that forum, an intense effort was launched to expedite the installation of new technologies at airports, conduct outreach, retrain pilots and improve airport infrastructure, such as lighting, signage, and markings.

One of the latest technologies now in use is the Runway Status Light System, which gives direct warnings to pilots about potential runway incursions or collisions through a network of red lights embedded in the airfield pavement. The lights warn pilots when it is unsafe for a pilot to enter, cross, or proceed down a runway. Pilots must stop when the red lights are illuminated and may not continue without clearance from air traffic control. These initiatives, combined with the Runway Safety Council's efforts to identify and mitigate the root causes of runway incursions, are expected to reduce the rate of serious runway incursions.

Future initiatives in our plan to reduce runway incursions include:

#### **Runway Safety Council**

- By 2013, reduce serious runway incursion rate by 25 percent.
- By September 30, 2012, the Root Cause Analysis Team will analyze and evaluate 17 serious runway incursions and report the results and recommendations to the Council.

#### **Runway Safety Action Teams (RSAT)**

- Support Local RSAT meeting performed by Air Traffic Facility Managers.
- Support and conduct 200 outreach programs.

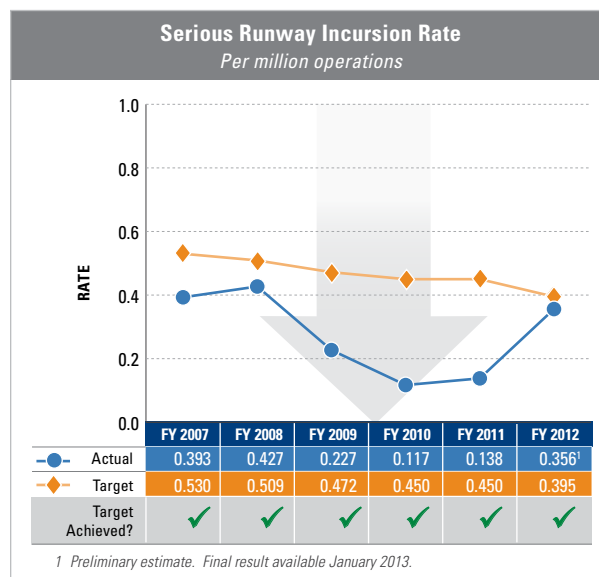
#### **Runway Status Lights**

- By the end of 2015, runway status lights will be operational at 23 airports.

#### **Low Cost Ground Surveillance (LCGS)**

- By December 30, 2012, conduct operational evaluation of LCGS at pilot sites.

We are committed to mitigating the risks of runway incursions. We continue our ongoing outreach, education, and awareness programs to affected groups through mass electronic mail communications, training animations, and a new webpage [http://www.asias.faa.gov/portal/page/portal/asias\\_pages/asias\\_home/welcome\\_tab](http://www.asias.faa.gov/portal/page/portal/asias_pages/asias_home/welcome_tab).



### System Risk Event Rate

**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.**

<b>FY 2012 Target</b>	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.
<b>FY 2012 Result</b>	8.95 <i>(Preliminary estimate. Final result available January 2013.)</i>
<b>Public Benefit</b>	An increase in data reporting results in an increase in safety. A similar approach (increased data collection from pilots using the Aviation Safety Action Program) produced a dramatic decrease in the accident rate during the first part of the 21st century.

The System Risk Event Rate (SRER), introduced in FY 2011, is a Safety Management System-based approach to separation loss mitigation. This measure incorporates a risk analysis process developed, established and used by multiple international air navigation service providers. It will improve analysis and increase our ability to mitigate risks associated with losses of separation. The SRER measure replaces the Operational Errors performance measure which will continue to be tracked for one more year.



We ensure that aircraft flying within the National Airspace System (NAS) maintain required separation from each other. To control losses of separation, we need an accurate picture of system safety performance. Until now, the agency measured a subset of system performance, which limited our ability to identify risk.

In FY 2012, with a preliminary result of 8.95, we did achieve our target of limiting the rate of the most serious losses of standard operation to 20 or fewer for every thousand (.02) of standard separation within the NAS. The initial target of 20 was based on a projection of SRER from historical Operational Error and Pilot Deviation data. The target of 20 set for FY 2011 through FY 2014 will establish a baseline while deploying improved analysis and loss-detection equipment. It will set a minimum level of system performance that should be attainable, while we continue to strive for an improving trend over historical performance.

The SRER allows us to:

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

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

System Risk Event Rate			
Rate of serious losses of standard separation per thousand losses			
	FY 2010	FY 2011	FY 2012
Actual	This was a new measure for FY 2011	24.54	8.95 <sup>1</sup>
Target		20	20
Target Achieved?		✗	✓

<sup>1</sup> Preliminary estimate. Final result available January 2013.



## Information Security

Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.	
<b>FY 2012 Target</b>	Ensure no cyber security event significantly degrades or disables a mission-critical FAA system.
<b>FY 2012 Result</b>	Zero cyber security events.
<b>Public Benefit</b>	The benefit to the public is a safe and secure National Airspace System with no disruption of service due to cyber events.

Attackers seek to disrupt or exploit critical infrastructure across the United States. As identified by the President in Homeland Security Presidential Directive-7 (HSPD-7), critical infrastructure includes our transportation system. Accordingly, the FAA must be protected against the threat of cyber attack to achieve its mission of ensuring the safe and efficient movement of aircraft. The Office of Information Services (AIO) has the agency lead for ensuring that these attacks do not significantly degrade FAA mission-critical Lines of Business and Staff Office systems.

We averaged approximately 11.87 billion cyber events in FY 2012, an average of 32.54 million per day. However, none of these events disabled or seriously degraded FAA services. This is the seventh consecutive year we have met this goal. Enhanced situational awareness and cooperation throughout FAA Lines of Business and Staff Office have contributed to the success of the performance target. Other contributing factors include frequent assessments of security configurations, enclave deployments, and scanning activities, which close operating system vulnerabilities before they may be exploited.

The FAA has made positive strides in facilitating collaboration between the FAA Lines of Business and Staff Offices performing cyber security and network operations for the enterprise. In particular, the Cyber Security Management Center collaborated with FAA Lines of Business and Staff Offices to create a Risk Management Framework to enhance cyber operations. This framework correlates the information about the

evolving cyber threat, the results of vulnerability scanning activities, and the detailed information on FAA mission-critical systems to provide an understanding of the business impact of a cyber-incident.

The Cyber Security Management Center continues to work towards the goal of balancing the risks posed by a cyber threat's technical profile of threat and vulnerability against its operational profile of potential consequences, thereby providing 'operational relevance' that clearly defines the impact of a threat within the customer's realm of responsibility. In addition, the Cyber Security Management Center participates in the Enterprise Network Operations Center Working Group and the Information Security and Privacy Working Group by providing facilitation on organizational change management with respect to the cyber security mission.

Our Compliance Program meets Federal, departmental, and agency policies that require the regular testing and evaluation of information security policies, procedures, and practices. During FY 2012, we completed a comprehensive assessment of 72 security systems to ensure that policies were correctly implemented and were providing full protection to FAA systems. We also successfully completed 222 system assessments. For both types of assessments; we achieved a 100 percent completion rate.

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

Information Security						
<i>Number of cyber security events that significantly degrade or disable a mission-critical FAA system</i>						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Actual	0	0	0	0	0	0
Target	0	0	0	0	0	0
Target Achieved?	✓	✓	✓	✓	✓	✓

### General Aviation Fatal Accident Rate

Reduce the general aviation fatal accident rate to no more than 1 fatal accident per 100,000 flight hours by 2018.	
<b>FY 2012 Target</b>	Reduce the general aviation fatal accident rate to no more than 1.07 fatal accidents per 100,000 flight hours.
<b>FY 2012 Result</b>	1.10 <i>(Preliminary estimate. Final result available March 2014)</i>
<b>Public Benefit</b>	By tracking the rate of fatal accidents per flight hours, the FAA can more accurately pinpoint safety concerns or trends indicating potential safety concerns.
<i>This performance measure supports the DOT Agency Priority Goal, Reduce Risk of Aviation Accidents.</i>	

The United States has the largest and most diverse general aviation (GA) community in the world. The more than 300,000 GA aircraft include amateur-built aircraft, rotorcraft, balloons, and highly sophisticated turbojets (executive jets). Reducing GA fatalities is one of our top priorities. Our goal is to reduce the GA fatal accident rate by 10 percent over a 10-year period (2009-2018).

We did not meet the FY 2012 GA target. We finished the year with a rate of 1.10 fatal accidents per 100,000 flight hours. A disproportionate number of the fatalities occurred in the area of experimental aircraft. "Loss of Control" continues to be the leading cause, accounting for about 70 percent of all fatal GA accidents. Approximately 80 percent of fatal accidents are directly related to human factors.

Experimental aircraft are mostly amateur-built. That is, they have been fabricated and assembled by people who undertook the construction project solely for their own education or recreation. These aircraft accounted for approximately 27.8 percent of GA fatal accidents in FY 2012 while only contributing to slightly under 4 percent of GA hours.

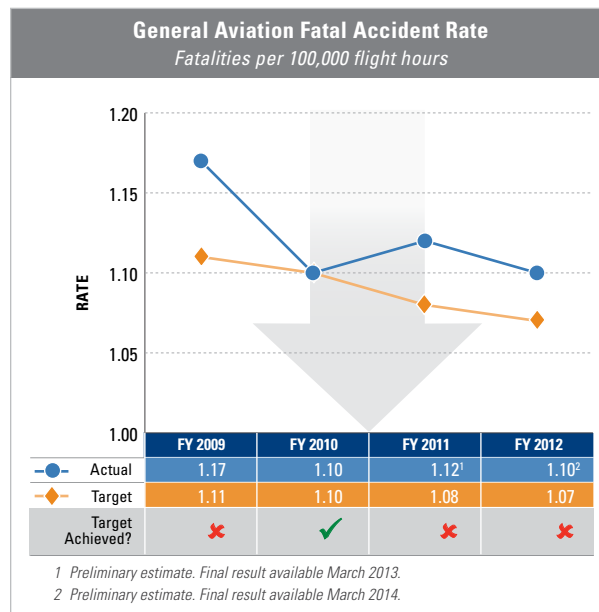
Many GA accidents occur in Alaska. More than three-quarters of Alaskan communities have no access to highways or roads and depend on general aviation for access to food, mail, jobs, schools, medical services and travel. However, the state's topography and extreme weather present unique safety challenges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

In FY 2012, we continued to work jointly with the Alaska aviation community through a number of organizations

and safety programs, such as the Medallion Foundation, the Circle of Safety program, the FAA Safety Team, the Alaska Air Carriers Association, the Alaska Aviation Safety Foundation, and the Alaska Airman's Association.

Our General Aviation Joint Steering Committee (GAJSC) continues efforts to take a more focused, data-driven approach to understanding fatal accident causes and contributing factors. This is a government-industry group that manages efforts to reduce fatal GA accidents. The GAJSC meets to review GA accident trends, establishing areas for special emphasis, and sharing information.

The FAA is working with manufacturers to define equipage requirements and support NextGen by streamlining the certification and installation of NextGen technologies. The introduction of Automatic Dependent Surveillance-Broadcast (ADS-B) enhances GA pilots' awareness of other traffic and improves safety in areas that radar cannot reach, such as Alaska and the Gulf of Mexico. In addition, we continue to work with various members of the GA community to promote education and training on night landings, weather, and other areas of concern. Furthermore, the FAA will rely on GAJSC for a data-driven approach, as well as focus on training initiatives, such as the Airmen Testing Standards and the Training Aviation Rulemaking Committee.



## OBJECTIVE: There are No Fatalities Resulting from Commercial Space Launches

### Commercial Space Launch Accidents

<b>No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and re-entry activities.</b>	
<b>FY 2012 Target</b>	No fatalities, serious injuries, or significant property damage to the uninvolved public during licensed or permitted space launch and re-entry activities.
<b>FY 2012 Result</b>	Zero fatalities, serious injuries, or significant property damage
<b>Public Benefit</b>	The FAA's oversight of the commercial space launch industry activities resulted in no loss of life or property damage to the uninvolved public.

The FAA's Office of Commercial Space Transportation was established by Executive Order in 1984 and is the single entity with authority to regulate all commercial space launch and re-entry activities. The Office of Commercial Space 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 the United States space transportation infrastructure.

In FY 2012, we met our target of zero fatalities, zero serious injuries, and zero significant property damage to the general public. The target was maintained with three licensed launches, one licensed reentry, and zero "permitted launches." "Permitted launches" are test launches conducted primarily for purposes of research and development.

Our internal safety activities played an important role in achieving the target. These activities included conducting 81 safety inspections this year. These inspections ensure that licensees and permittees are adhering to regulatory requirements. Inspections include at least one annual inspection at commercial launch site operations, at least

one inspection of launch operations at time of flight, and multiple pre-flight inspections. In addition to inspections, our activities in support of FAA safety goals include granting licenses and experimental permits, issuing safety approvals, developing and issuing regulations, performing accident investigation and prevention activities, and supporting Federal range operations and space traffic management.

In May 2012, we licensed the successful launch and reentry of the Dragon capsule, built by SpaceX (Space Exploration Technologies). This demonstration mission showed that Dragon has the capacity to deliver critical supplies to the International Space Station and return safely to Earth. As for human space flight, the FAA and NASA signed a historic Memorandum of Understanding to coordinate standards for commercial space travel of Government and non-Government astronauts to and from low Earth orbit and the International Space Station. Commercial providers will be required to obtain a license from the FAA for public safety. Crew safety and mission assurance will be NASA's responsibility. This approach allows both agencies to incorporate experience and lessons learned in their respective areas as commercial space launches move forward.

The first U.S. licensed launch was a suborbital launch of a Starfire vehicle on March 29, 1989. Since then, we have licensed 208 launches without any fatalities, serious injuries, or significant property damage. This record demonstrates both the industry's and the agency's commitment to safety. The expectation of the public is that this safety record will remain unflinchingly consistent and extraordinarily strong.

<b>Commercial Space Launch Accidents</b>						
<i>Number of fatalities, serious injuries, or significant property damage during space launch and re-entry activities</i>						
	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Actual	0	0	0	0	0	0
Target	0	0	0	0	0	0
Target Achieved?	✓	✓	✓	✓	✓	✓

## 2 WORKPLACE OF CHOICE

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

FY 2012 WORKPLACE OF CHOICE PERFORMANCE MEASURES AND RESULTS				
Performance Measure	FY 2012 Target	FY 2012 Result	FY 2012 Status	FY 2013 Target
<b>FAA Ratings</b> 75th percentile rank in the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents. <sup>1</sup>	75%	TBD	TBD	75%
<b>Outside Ratings</b> Achieve a 90 percent success rate in the areas of financial management and human resources management. <sup>1</sup>	90% success rate	TBD	TBD	90% success rate
1 Preliminary estimate. Result expected by November 30, 2012.		✓ Target met	✗ Target not met	



## OBJECTIVE: The FAA is Widely Recognized as an Employer of Choice

### FAA Ratings

<b>The FAA is rated in the top 25 percent of places to work in the federal government by employees.</b>	
<b>FY 2012 Target</b>	75th percentile rank in the Best Places to Work (BPTW) Index for Federal Agencies Subcomponents.
<b>FY 2012 Result</b>	TBD <i>(Results expected by November 30, 2012)</i>
<b>Public Benefit</b>	Improvements in Employee Viewpoint Survey 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.

The Workplace of Choice goal indicates that the FAA will be an organization that supports its employees and provides them with the knowledge, skills, and abilities that they need to accomplish the FAA mission. An important aspect of being a workplace of choice is for our employees to have a positive view of the FAA as a place to work. The Best Places to Work (BPTW) index directly measures employees' attitudes with respect to job and organizational satisfaction.

The BPTW index is used to rank Federal agencies. This ranking is generally the most well publicized Federal Employee Viewpoint Survey (FedView) result. The Office of Personnel Management (OPM) administers the FedView Survey, maintains the database, and provides the official results and reports for the entire Government and individual agencies. The Partnership for Public Service (PPS) obtains the FedView data from OPM and calculates the BPTW Index results and rankings.

The 2012 FedView survey should be available in late November 2012. We will report final results in the *FY 2012 Summary of Performance and Financial Information Report*. There will be no change from the 2011 FAA FedView results or agency standing in the BPTW rankings

until such time as the 2012 results reports are released to agencies and the PPS calculates and releases the BPTW rankings Government-wide. As a government-wide survey program, it is managed by OPM. Therefore, we have left the rating yellow pending the FY 2012 FAA survey results in the first quarter of FY 2013.

Although we do not have the FY 2012 rankings, we do have statistics regarding the FAA response rate. In August OPM released the final Government-wide response rate on the 2012 FedView survey. The 2012 Government-wide response rate was at 46 percent, down from the 49 percent obtained in 2011. The 2012 DOT response rate on FedView was 62 percent, a decline from the 69 percent rate in 2011. However, the final FAA 2012 FedView response rate was 59 percent, the same response rate obtained by the agency in 2011 and a significant 13 percentage points higher than the Government-wide average.

The Air Traffic Controller response rate improved from 31 percent in 2011 to 41 percent in FY 2012, contributing significantly to the response rate.

Plans are underway to create a cross-agency action learning team to address FAA FedView results and develop strategies and actions to improve the FAA's Fedview survey results and possible future ranking on the BPTW index.

<b>FAA Ratings</b>	
<i>The FAA is rated in the top 25 percent of places to work</i>	
<b>FY 2012</b>	
<b>Actual</b>	
<b>Target</b>	Results expected November 30, 2012.
<b>Target Achieved?</b>	This is a new measure in FY 2012.

### Outside Ratings

Achieve a 90 percent success rate in the areas of financial management and human resources management.	
<b>FY 2012 Target</b>	Achieve a 90 percent success rate in the areas of financial management and human resources management.
<b>FY 2012 Result</b>	TBD <i>(Results expected by November 30, 2012)</i>
<b>Public Benefit</b>	The public benefits by being reasonably assured the agency is being operated in a transparent and fiscally responsible manner and that our human resources management system is legally compliant with merit systems principles, adheres to veterans' preference rules and maintains an internal system of accountability. The public also benefits by knowing that our human resource practices, programs and policies position us to compete for the best and brightest talent to ensure a safe, efficient, and responsive air transportation system for the flying public.

This performance measure demonstrates our success in financial and human resources management as indicated by assessments from outside sources. The Office of Personnel Management (OPM) manages the FedView process as part of the President's efforts to improve workforce engagement. Research by the Corporate Leadership Council and other organizations has shown that employee development and training has lasting positive impacts on employee engagement as does effective leadership. OPM has identified the Human Capital Assessment and Accountability Framework (HCAAF) Leadership and Talent Management indices as the FedView-based measures of those areas.

We measure four indicators to determine if we have achieved a 90 percent success rate in the areas of financial management and human resources management:

- Receive an unqualified audit opinion with no material weaknesses each fiscal year.
  - ◆ For FY 2012, we received an unqualified opinion on our consolidated financial statements, with no material weaknesses, for the fifth consecutive year. An unqualified audit opinion signals to the public and Congress that the agency is transparent and accountable in how it is using scarce taxpayer resources. Achieving an unqualified audit with no material weaknesses requires, for example, every FAA organization to assume responsibility for following accounting policy by entering accurate and timely source data into the accounting system.
- Maintain the competitive status of all FAA employees within the Federal personnel system.
  - ◆ An independent, biennial assessment and audit of the FAA's personnel management system, policies and practices by OPM are sources for this indicator.
- Improve the "effective leadership" index score on the OPM Employee Viewpoint Survey by 8 percent.
- Improve "the talent management" index score on the OPM FedView by 8 percent.

The end-of-year result is computed by calculating the sum of weighted scores for the four components. To achieve a 90 percent success rate, the scores of the financial management and human resources management components must be perfect to contribute 40 percent each of the total, while the index scores will be weighted at 10 percent each.

Outside Ratings	
<i>90 percent success rate in the areas of financial management and human resources management achieved</i>	
FY 2012	
Actual	Results expected November 30, 2012. This is a new measure in FY 2012.
Target	
Target Achieved?	

### 3 DELIVERING AVIATION ACCESS THROUGH INNOVATION

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

#### FY 2012 AVIATION ACCESS PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2012 Target	FY 2012 Result	FY 2012 Status	FY 2013 Target
<b>Air traffic control systems can improve the efficiency of airspace.</b> By September 30, 2013, replace a 40-year old computer system serving 20 air traffic control centers with a modern, automated system that tracks and displays information on high altitude planes. <i>Agency Priority Goal</i>	7	7	✓	11
<b>Major Systems Investments</b> In FY 2012, maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline (APB) total budget at completion. <sup>1</sup>	90%	100%	✓	90%
<b>LPV Procedures</b> Publish 500 LPV or LP procedures in FY2012 to ensure Localizer Performance (LP) or Localizer Performance w/Vertical (LPV) procedures are available at 5,218 runways in the NAS.	500	536	✓	500

<sup>1</sup> Preliminary estimate. SASO is under technical status review and could still exceed its baseline. This will not affect achievement of the overall goal.

✓ Target met

✗ Target not met



### Air Traffic Control Systems Can Improve The Efficiency Of Airspace.

**By September 30, 2013, replace a 40-year old computer system serving 20 air traffic control centers with a modern, automated system that tracks and displays information on high altitude planes**

<b>FY 2012 Target</b>	Achieve initial operating capability at 7 centers by September 30, 2012.
<b>FY 2012 Result</b>	7
<b>Public Benefit</b>	The En Route Automation Modernization System enables the Federal Aviation Administration to maximize its use of airspace by substantially increasing the number of flights that can be tracked and displayed simultaneously, as well as providing an enhanced back-up capability.

*This performance measure is a DOT and FAA Priority Goal.*

The En Route Automation Modernization (ERAM) System replaces the 40-year-old “Central Computer Complex HOST” used at Air Route Traffic Control Centers around the country to guide airplanes flying at high altitudes. ERAM enables the FAA to maximize its use of airspace, substantially increase the number of flights that can be tracked and displayed, and enhance its back-up capability.

ERAM was originally planned to be completed by December 2010. Due to several testing and implementation challenges, the program was rebaselined in June 2011.

We met our FY 2012 target to achieve initial operating capability (IOC) at seven sites. We had achieved IOC at two sites by the end of FY 2011. As of September 30, 2012, ERAM was operating in some capacity at nine centers:

- Salt Lake City, UT
- Seattle, WA
- Denver, CO
- Albuquerque, NM
- Minneapolis, MN
- Chicago, IL
- Oakland, CA
- Los Angeles, CA
- Houston, TX

While ERAM is needed to replace the aging legacy automation system infrastructure, it will also serve as a platform for NextGen capabilities. ERAM will facilitate the evolution of the National Airspace System to trajectory based operations and will incorporate future NextGen capabilities.

Site IOC preparation begins months in advance of the planned IOC date, and runs in parallel with National-level planning activities. As the process advances, the site undertakes the following activities:

- Testing — Identify issues and provide sufficient lead-time for the resolution of problems.
- Training — Orient (initially and through refresher) the workforce to the new software.
- Procedures — Review and finalize locally maintained procedures in sufficient time to allow for development of supplemental training and as a means to understand adaptation requirements.
- Adaptation — Make final, pre-IOC adjustments to locally adapted software parameters.

We plan to achieve IOC at the remaining 11 sites by the end of FY 2013. Following is the FY 2013 schedule:

- First quarter FY 2013 — Kansas City , New York and Boston
- Second quarter FY 2013 — Indianapolis, Washington, Cleveland and Memphis
- Third quarter FY 2013 — Fort Worth and Atlanta
- Fourth quarter FY 2013 — Jacksonville and Miami

Air Traffic Control Systems Can Improve the Efficiency of Airspace			
<i>Replace a 40-year old computer system serving 20 air traffic control centers</i>			
	FY 2010	FY 2011	FY 2012
Actual	This is a new measure in FY 2012	2	7
Target		2	7
Target Achieved?		✓	✓



## Major Systems Investments

<b>Maintain 90 percent of major system investments within 10 percent variance of current baseline total budget at completion.</b>	
<b>FY 2012 Target</b>	In FY 2012, maintain 90 percent of major system investments within 10 percent variance of current acquisition program baseline (APB) total budget at completion.
<b>FY 2012 Result</b>	100% <i>(Preliminary estimate)</i>
<b>Public Benefit</b>	The FAA's ability to keep major investments within budget goals will allow for the efficient management, completion and transition to NextGen programs. The transition to NextGen involves acquiring numerous systems to support precision satellite navigation, networked digital communications, integrated weather information, and layered, adaptive security.

For FY 2012, we met our target by maintaining 90 percent (preliminary) of major system investments within 10 percent variance of the current acquisition program baseline (APB) total budget at completion. A program is considered a major investment program when designated with an Acquisition Management System approved FAA Program Acquisition Category of 1, 2 or 3. The designation of "major system investments" in the title of this performance measure refers to programs with total Facilities and Equipment costs greater than \$100 million.

FAA organizations track and report the status of all investment acquisition program baseline targets using an automated database. We use this data during periodic program reviews for determining resource requests. The status is also used during the annual budget preparation

process, for reporting progress made in the President's budget and for making key program management decisions. If a program breaches its acquisition budget baseline by 10 percent, the variance will be recorded in the fiscal year being measured and applied to the 90 percent Major System Investments goal. The variance is also reported to Congress in *Appendix D* of the FAA's *Five Year Capital Investment Plan* and to the FAA Administrator as required by Public Law 104.264, dated October 9, 1996.

For FY 2012 there were 18 major baselined category 1, 2 and 3 programs. One program, the System Approach to Safety Oversight (SASO) program, failed to stay within its schedule baseline. As a result, the program may have also exceeded its budget baseline. The budget baseline will be updated after completion of its technical status review in FY 2013. Even if SASO fails to stay within its budget baseline, the overall Major Systems Investment goal would be met at 94%.

<b>Major Systems Investments</b>		
<i>Maintain 90 percent of major system investments within budget</i>		
	<b>FY 2011</b>	<b>FY 2012</b>
<b>Actual</b>	This is a new measure for FY 2012	100%
<b>Target</b>		90%
<b>Target Achieved?</b>		✓

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

**LPV Procedures**

<b>Ensure Localizer Performance (LP) procedures are available at 5,218 runways in the NAS by 2018.</b>	
<b>FY 2012 Target</b>	Publish 500 LPV or LP procedures in FY 2012 to ensure Localizer Performance (LP) or Localizer Performance w/Vertical (LPV) procedures are available at 5,218 runways in the NAS.
<b>FY 2012 Result</b>	536
<b>Public Benefit</b>	Vertically guided approach procedures provide a safety benefit to all users compared to non-precision approach services. In addition because LPV or LP procedures can be published at any qualifying runway, users obtain a significant access benefit over ILS. As of July 2011, there are twice as many LPV/LP procedures than ILS.



Localizer Performance with Vertical guidance, or LPV, is a satellite-based system that provides the same navigational service as an Instrument Landing System (ILS). LPV is less expensive than an ILS because it doesn't require any navigational equipment to be installed at the runway.

This is a new measure for FY 2012. We met our FY 2012 target of publishing 500 LPV or LP procedures per year. With over 3,000 procedures published, the target of 500 procedures per year will very likely decrease in future years. No reduction in the performance metric is currently planned; however, in the next few years as we get closer to reaching the projected ~5000 Wide Area Augmentation System (WAAS) procedure end-state, it will become increasingly difficult to qualify the remaining runways due to less conducive obstruction environments and lesser airport infrastructure, i.e. in other words, we've picked the runway ends for which we had higher confidence for qualifying for WAAS procedures early in the production run leaving the less promising runways for the end of the production run.

The WAAS safety benefits derived primarily from vertical procedure guidance were achieved and increased airport access was achieved. Aircraft equipped to fly the LPV procedures can get as low as 200 feet above the runway using onboard instruments during periods of low visibility. With LPV, airports can maintain the same number of arrivals during poor weather as during optimal weather. Performance-based routes and procedures result in shorter distances flown, which add up to both fuel and time savings. Safety is increased as air traffic operations become more predictable. Environmental impacts are also reduced, not only with decreased emissions due to lower fuel usage, but also noise reduction as aircraft are able to perform continuous vertical descents.

<b>LPV Procedures</b>		
<i>Ensure Localizer Performance (LP) procedures are available at runways in the NAS</i>		
	<b>FY 2011</b>	<b>FY 2012</b>
<b>Actual</b>	This is a new measure for FY 2012	536
<b>Target</b>		500
<b>Target Achieved?</b>		✓

## 4 SUSTAINING OUR FUTURE

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

### FY 2012 SUSTAINING OUR FUTURE PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2012 Target	FY 2012 Result	FY 2012 Status	FY 2013 Target
<b>Noise Exposure</b> Reduce the number of people exposed to significant aircraft noise to less than 386,000 in calendar year 2012.	386,000	319,901 <sup>1</sup>	✓	371,000
<b>NAS Energy Efficiency</b> Improve aviation fuel efficiency by 14 percent, as measured by the calendar year 2011 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.	-14.00%	-14.76%	✓	-16.00%

<sup>1</sup> Preliminary estimate based on Terminal Area Forecast operations for 2012.  
 Final estimate based on actual 2012 operations will be available in May 2013.

✓ Target met

✗ Target not met



**OBJECTIVE: Community Noise Concerns are Not a Significant Constraint on Growth**

**Noise Exposure**

<b>The U.S. population exposed to significant aircraft noise around airports has been reduced to less than 300,000 persons.</b>	
<b>FY 2012 Target</b>	Reduce the number of people exposed to significant aircraft noise to less than 386,000 in calendar year 2012.
<b>FY 2012 Result</b>	The number of people exposed to significant noise was reduced by 34.66% from the calendar year 2005 to 319,901 persons. <i>(Preliminary estimate based on Terminal Area Forecast operations for 2012. Final estimate based on actual 2012 operations will be available in May 2013.)</i>
<b>Public Benefit</b>	Public benefit is reduced exposure to unwanted aircraft noise and increased capacity, reducing airport congestion and delays.

The number of people in the United States who are exposed to significant aircraft noise has dropped by 90 percent since 1975. Yet noise remains a predominant aviation environmental concern of the public and one of the primary environmental obstacles to expanding airport and airspace capacity. By mitigating and reducing exposure to excessive noise, we can help communities increase capacity at their airports by building additional runways. In FY 2012, we met our target to reduce noise exposure.

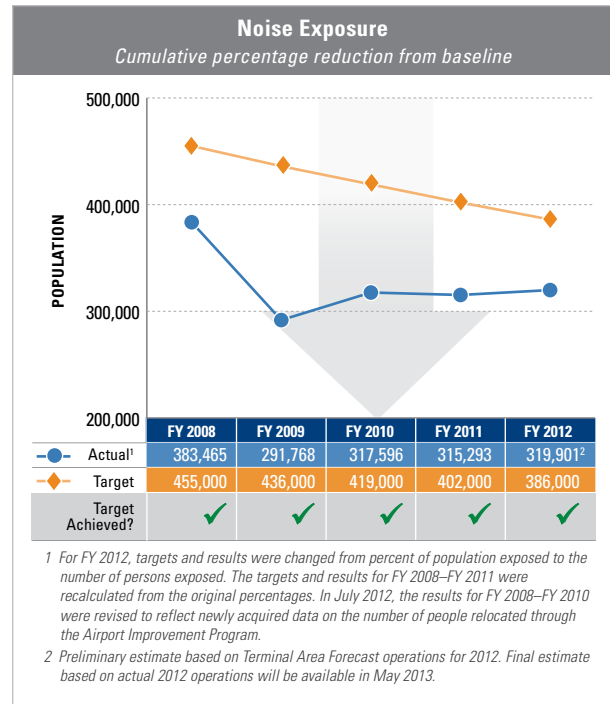
Air carrier fleet and operational changes have driven the significant reduction in noise exposure since the base year of 2005. Carriers continue to retire older, less fuel-efficient aircraft that tend to produce more noise. In addition, passenger demand continues to be well below 2005 levels, resulting in decreased air traffic. These programs help foster the type of fleet and performance change required to meet our current target.

The persistence of significant levels of aircraft noise in communities around airports is the major impact, but not the only one. There are increasing concerns in areas of moderate noise exposure and public complaints from suburban and rural areas where ambient noise is lower. At noise exposure levels below those involving health and welfare concerns, there are also sensitivities with respect to national resources such as national parks. While techniques and tools for measuring and modeling noise exposure provide a reliable means of assessing the levels

of aircraft noise to which people are exposed, focused research could improve our scientific knowledge base of the extent of impacts and appropriate mitigation below historically defined significant noise levels.

In FY 2009, we partnered with NASA to develop the Continuous Lower Energy, Emissions, and Noise (CLEEN) program. The goal of this five-year program is to introduce CLEEN technologies into production aircraft in the 2015-2017 timeframe.

NextGen technologies and our many noise mitigation approaches allow us to make significant improvements in aviation noise exposure. We continue to pursue a program of aircraft noise control, in cooperation with the aviation community and local governments, through source noise reduction, soundproofing, buyouts of homes and other noise-sensitive buildings near airports, operational flight control measures, and land use planning strategies. In FY 2012, we committed an additional \$186 million in Airport Improvement Program grants to support noise compatibility planning and noise mitigation initiatives.



## OBJECTIVE: Aviation Emissions Do Not Contribute to Significant Adverse Health Impacts

### NAS Energy Efficiency

**Improve NAS energy efficiency (fuel burned per miles flown) by at least 2 percent annually.**

**FY 2012 Target** Improve aviation fuel efficiency by 14%, as measured by the calendar year 2011 fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.

**FY 2012 Result** -14.76%

**Public Benefit** Today's aircraft are up to 70 percent more efficient than early commercial jet aircraft. However there is growing concern over aviation's impact on the environment and public health. Aviation is currently viewed as a relatively small contributor to those emissions that have the potential to influence air quality and global climate. Carbon dioxide (CO<sub>2</sub>) emissions are a primary greenhouse gas and are directly related to the fuel burned during the aircraft's operation. As air traffic grows, this contribution will increase without improvements in technology, more efficient air traffic operations, and renewable fuels.

This metric supports improvements to reduce aviation's impact on the environment and thereby improve public health and welfare. In addition, more fuel efficient aircraft should contribute to improving the financial well-being of commercial airlines and a growing economy.

The aircraft energy efficiency improvement over the last 20 years has outpaced other forms of transportation in the United States. Notwithstanding this success, there is renewed emphasis on improving the fuel efficiency of the aviation system. Fuel currently represents the largest operating cost for U.S. airlines, and this cost category has grown dramatically in recent years.

Measuring and tracking fuel efficiency from aircraft operations allows the FAA to monitor improvements in aircraft/engine technology and operational procedures, and enhancements in the airspace transportation system. This metric provides an assessment of their influence on reducing aviation's emissions contribution. With a result of -14.76%, the FAA exceeded the FY 2012 energy efficiency target as measured by the calendar year 2011 rate of fuel burned per revenue mile flown, relative to the calendar year 2000 baseline.

Our FY 2012 performance demonstrates continued progress in maintaining efficiency of commercial aircraft operations within the airspace system, thereby minimizing environmental impact.

A combination of factors is responsible for our meeting our target. Better aircraft fleet performance, low air traffic growth, and air traffic management of the airspace system all contributed to our success. Aircraft fleet performance is still improving due to efforts by airlines to minimize use of aircraft that are less efficient. Air traffic growth has not yet returned to the levels previously seen. Therefore, from a system standpoint, there is less likelihood of delays and congestion, which would influence this performance measure in a negative manner.

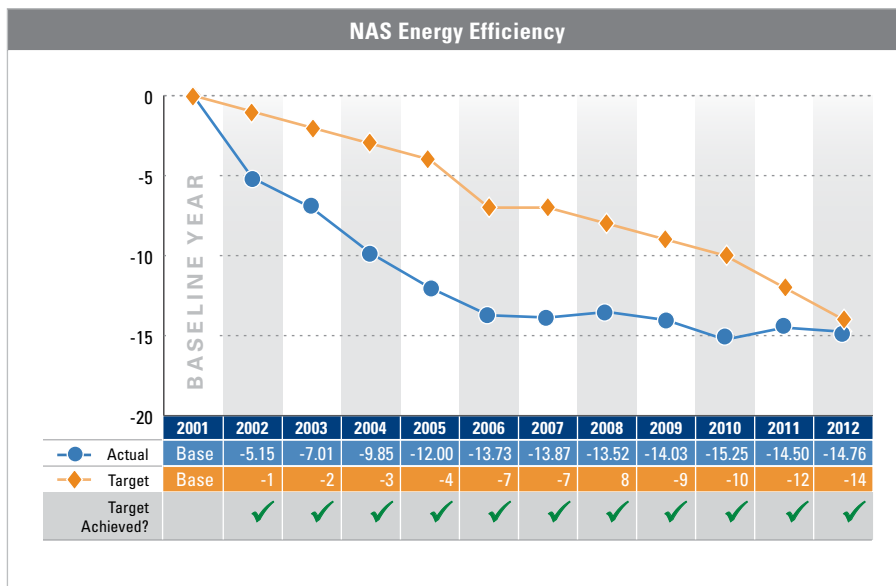
The air traffic modernization planned under NextGen should further improve efficiency by reducing delays and enabling more direct routings. Sustainable practices by airport operators can conserve energy, make use of renewable resources (solar, wind, geothermal), and deploy low emission vehicles and ground support equipment.



Under FAA's Continuous Lower Energy, Emissions and Noise (CLEEN) Program, Boeing developed the Ceramic Matrix Composite (CMC) acoustic engine nozzle to reduce fuel burn, emissions and noise. CMC material (shown as white color) allows operation at higher temperatures, leading to more efficient engines. The CMC nozzle and center body above are instrumented for ground tests on a Trent 1000 engine, scheduled for December 2012. (Image courtesy of Boeing.)

Moreover, advances in the development of sustainable alternative fuels offer great promise for emissions reduction. Nearly 100 percent of the fuel used in aviation operations is petroleum based—raising issues of energy supply, energy security, and fossil fuel emissions affecting air quality and climate. In response to these multiple concerns, government and the aviation industry have a strong interest in “drop in” alternative aviation fuels that can be blended with or replace petroleum

jet fuel with no changes to existing engines, aircraft, ground infrastructure, and supply equipment. Alternative fuel options that use plant oils, sugars, or cellulose from plants have the potential to dramatically reduce carbon dioxide emissions, if produced in a sustainable manner. Generally, all alternative aviation fuel options appear to reduce particulate matter emissions in engine exhausts—a cause of respiratory ailments, although not unique to aviation as a source.



## 5 IMPROVED GLOBAL PERFORMANCE THROUGH COLLABORATION

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

### FY 2012 GLOBAL PERFORMANCE MEASURES AND RESULTS

Performance Measure	FY 2012 Target	FY 2012 Result	FY 2012 Status	FY 2013 Target
<b>World-wide Fatal Aviation Accidents</b> In FY 2012, limit world-wide fatal accidents in Part 121-like operations to no more than 20 fatal accidents per million revenue aircraft departures.	20	10 <sup>1</sup>	✓	20
<small>1 Final numbers for 2012 will be available when ICAO updates their worldwide departure data in July 2013.</small>		✓ Target met	✗ Target not met	

### OBJECTIVE: Reduce Aviation Accidents and Fatalities World-wide

#### World-wide Fatal Aviation Accidents

##### World-wide fatal aviation accident rate declines 10 percent compared to 2010.

<b>FY 2012 Target</b>	In FY 2012, limit world-wide fatal accidents in Part 121-like operations to no more than 20 fatal accidents per million revenue aircraft departures.
<b>FY 2012 Result</b>	10 <i>(Preliminary result. Final result available July 2013)</i>
<b>Public Benefit</b>	The public will benefit from safer travel on foreign air carriers and from the economic contributions of a safe international aviation system.

A safe, efficient, and seamless aviation system is the ultimate goal of international air transportation. It is also the driver of economic growth and expansion, opportunity and development.

In FY 2012 we established a performance metric that tracks aviation-related fatalities around the world. With a preliminary result of 10, it appears that we will achieve our target to limit world-wide fatal accidents in Part 121-like (commercial aviation) operations to no more than 20 fatal accidents per million revenue-earning aircraft departures.

Achieving a consistent level of safety in global air transport is a challenge. Many countries and regions around the world have competing priorities, insufficient resources, unstable political and economic environments,

or diverging approaches to legislative and regulatory requirements affecting civil aviation safety. Many such factors beyond the direct influence of the FAA or of the aviation community can influence results.

Increased public confidence in air transportation world-wide will result in an increase in passenger traffic. FAA recognition as a global leader allows for greater influence to achieve U.S. safety goals in the international arena. Further, oversight authorities including the Office of Inspector General (OIG) and the Government Accountability Office (GAO) continue to request detailed documentation of performance measure results from external sources. These Internal Data Verification Review reports continue to demonstrate that the FAA is committed to global safety and aviation excellence. Our leadership in achieving enhanced safety around the world is reflected in the following collaborative efforts:

- A bilateral agreement with the FAA and European Aviation Safety Agency completed the Maintenance Annex Guide describing compliance procedures.
- A Bilateral Aviation Safety Agreement, the Implementing Procedure for Airworthiness, was concluded with India describing procedures for reciprocal acceptance of airworthiness approvals and certain design approvals.

The FAA's Office of Aviation Safety takes the lead by:

- Being a founding member of the Safety Management International Collaboration Group to promote a common understanding of safety management principles, requirements, and their application across the international aviation community. This group supports ICAO in driving the direction of safety management worldwide.
- Being an active member of the International Volcanic Ash Group providing technical guidance on volcanic ash contingency plans and operational response for volcanic ash contaminated airspace.
- Being an active member of the Regional Aviation Safety Groups and Teams for both Asia Pacific and Latin America, with the goal of assisting in risk reduction activities using proven safety enhancements developed by the Commercial Aviation Safety Team (CAST).
- Devoting senior-level engagement to strengthen bonds with well-established parties in Europe, North America, and Asia Pacific.

In addition:

- The FAA's International Aviation Safety Assessment Program ensures Civil Aviation Authorities provide

oversight of their air carriers serving the United States in accordance with ICAO standards.

- The FAA's International Aviation Safety Data Exchange Program continues efforts to exchange inspection data with partner states to facilitate a cooperative approach to trend analysis and corrective action among international air carriers.

Continued close and consistent collaboration with other countries, at the regional and national levels, has resulted in improvements in addressing operational and aircraft performance issues. Such collaboration is critical to the FAA's efforts to ensure the highest levels of aviation safety throughout the world.

World-wide Fatal Aviation Accidents		
<i>No more than 20 fatal accidents per million departures</i>		
	FY 2011	FY 2012
Actual		10 <sup>1</sup>
Target	This is a new measure for FY 2012.	
Target Achieved?		✓

1 Preliminary result. Final result available July 2013.





## FY 2011 PERFORMANCE MEASURES AND RESULTS— FINAL DATA WAS NOT AVAILABLE IN FY 2011

The following FY 2011 performance measures were not carried over to *Destination 2025*. The final FY 2011 data for these measures were not available in time for publication in the *FY 2011 Performance and Accountability Report*. The FY 2011 results are presented below.

DISCONTINUED FY 2011 PERFORMANCE MEASURES AND RESULTS			
Performance Measure	FY 2011 Target	FY 2011 Result	FY 2011 Status
<b>Alaska Accident Rate</b> By the end of FY 2019 reduce the Rate of Fatal and Serious Injury Accidents by 10% in 10 Years.	1.84	1.43 <sup>1</sup>	✓
<b>Total Runway Incursion</b> By the end of FY 2013, reduce total runway incursions by 10% to 909 from the FY 2008 baseline number of 1009.	959	954	✓
<b>Average Daily Airport Capacity (Core Airports)</b> Achieve an average daily airport capacity for the Core Airports of 86,606 arrivals and departures per day by FY 2011 and maintain through FY 2013.	86,606	87,338	✓
<b>Average Daily Airport Capacity (7 Metro Areas)</b> Achieve an average daily airport capacity for the seven major metropolitan areas of 39,484 arrivals and departures per day by FY 2009, and maintain through FY 2013.	39,484	42,824	✓
<b>Adjusted Operational Availability</b> Sustain adjusted operational availability at 99.70% for the reportable facilities that support the Core Airports through FY 2013.	99.70%	99.72%	✓
<b>NAS On-Time Arrivals</b> Achieve a NAS on-time arrival rate of 88.00% at the Core Airports and maintain through FY 2013.	88.00%	90.41%	✓

1 Preliminary estimate. Final results will be available March 2013.

✓ Target met    ✗ Target not met

## QUALITY ASSURANCE

### VERIFICATION AND VALIDATION OF PERFORMANCE INFORMATION

We employ strong management controls to ensure the accuracy, completeness, and timely reporting of performance data. By exercising rigorous internal and external reviews, the FAA verification and validation process supports the confidence of agency managers and the Administrator in the performance results.

In addition to FAA internal verification reviews, the DOT independently verifies performance data. Also, the incidents that are included in several FAA safety performance measures such as the Commercial Air Carrier Fatality Rate and General Aviation Fatal Accident Rate-require independent verification by the National Traffic Safety Board (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 internal review processes supports the integrity of performance data. At the beginning of each fiscal year, we update the Portfolio of Goals, a clearinghouse for accurate and detailed documentation of *Destination 2025* performance measures. An exhaustive report includes technical definitions for each measure, as well as data source information, statistical issues, and completeness and reliability statements. Where the criteria for targets have changed, it is noted and the changes are explained. (See [http://www.faa.gov/about/plans\\_reports/media/FY12\\_POG.pdf](http://www.faa.gov/about/plans_reports/media/FY12_POG.pdf) to review the FY 2012 Portfolio of Goals.)

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

### PROGRAM EVALUATIONS

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

Several of our FY 2012 program evaluations are described in detail in the Summary of Inspector General's Top Management Challenges beginning on page 121 of the Other Accompanying Information section. These evaluations include:

- Managing the Next Generation Air Transportation System Advancement (page 127)
- Managing DOT Acquisitions (page 130)
- Improving the Department's Cyber Security (page 131).





# FINANCIAL RESULTS



**MARK HOUSE**  
**CHIEF FINANCIAL OFFICER**

## A MESSAGE FROM THE CHIEF FINANCIAL OFFICER

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The Federal Government is facing a period of significant budget uncertainty. We are all being asked to do more with less. However, we remain committed in our efforts to meet the American people's expectations and accomplish our mission in the most efficient and effective manner possible.

To date, the FAA has successfully managed to strike the optimal balance between maintaining the Nation's aviation infrastructure while deploying the capabilities needed to advance NextGen. However, a key challenge, as noted by the DOT Inspector General, will be setting realistic plans, budgets, and expectations for NextGen in a fiscally constrained environment. But we will always maintain our focus on safety.

Over the past several years, the FAA has implemented effective cost reduction efforts such as concentrating purchasing power; consolidating information technology resources; strengthening the management of capital programs through the establishment of a dedicated Program Management Office; and reducing travel and support contracts. Using solid financial management practices, the FAA has kept non-payroll costs essentially flat since 2008.

The FAA has also established a new shared services organization, the Office of Finance and Management. Shared services is a business model in which internal support services, such as financial management, acquisitions, and information technology, are consolidated. Over the next few years, we will standardize these services to optimize cost and service performance.

I am pleased to report that we achieved an unqualified audit opinion with no material weaknesses on our FY 2012 financial statements. Additionally, for the eighth time, the Association of Government Accountants (AGA) awarded us the Certificate of Excellence in Accountability Reporting (CEAR), their highest form of recognition in Federal Government financial and performance management reporting. The FAA won the award for superior work on the *FY 2011 Performance and Accountability Report*.

The agency also earned a Best In Class award from AGA for producing the best agency *FY 2011 Summary of Performance and Financial Information*.

The FAA has adopted cross-cutting approaches to achieving common agency goals. We have managed key programmatic, operational, and financial indicators to ensure that we provide the safest aviation system in the world. We will continue to do this with the professionalism and fiscal integrity that has come to characterize the FAA.



Mark House

**Mark House**  
Chief Financial Officer  
November 9, 2012

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## FINANCIAL STATEMENTS

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

<b>Assets</b>	<b>2012</b>	<b>2011</b>
Intragovernmental		
Fund balance with Treasury (Note 2)	\$ 3,085,202	\$ 3,724,592
Investments, net (Note 3)	12,331,464	10,335,745
Accounts receivable, prepayments, and other (Note 4)	240,254	187,429
Total intragovernmental	<u>15,656,920</u>	<u>14,247,766</u>
Accounts receivable, prepayments, and other, net (Note 4)	47,949	82,692
Inventory, operating materials, and supplies, net (Note 5)	632,320	607,160
Property, plant, and equipment, net (Notes 6 and 9)	13,442,573	13,114,738
<b>Total assets</b>	<u>\$ 29,779,762</u>	<u>\$ 28,052,356</u>
<b>Liabilities</b>		
Intragovernmental liabilities		
Accounts payable	\$ 15,656	\$ 13,597
Employee related and other (Note 8)	425,300	405,960
Total intragovernmental liabilities	<u>440,956</u>	<u>419,557</u>
Accounts payable	417,445	524,154
Grants payable	640,646	653,432
Environmental (Note 7, 15, and 16)	810,399	757,389
Employee related and other (Notes 8, 9, and 16)	1,121,798	1,154,414
Federal employee benefits (Note 10)	946,778	909,616
<b>Total liabilities</b>	<u>4,378,022</u>	<u>4,418,562</u>
Commitments and contingencies (Notes 9 and 16)		
<b>Net position</b>		
Unexpended appropriations—earmarked funds (Note 12)	1,037,316	1,088,171
Unexpended appropriations—other funds	31,225	65,775
<b>Subtotal unexpended appropriations</b>	<u>1,068,541</u>	<u>1,153,946</u>
Cumulative results of operations—earmarked funds (Note 12)	14,859,763	12,873,270
Cumulative results of operations—other funds	9,473,436	9,606,578
<b>Subtotal cumulative results of operations</b>	<u>24,333,199</u>	<u>22,479,848</u>
<b>Total net position</b>	<u>25,401,740</u>	<u>23,633,794</u>
<b>Total liabilities and net position</b>	<u>\$ 29,779,762</u>	<u>\$ 28,052,356</u>

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

U.S. Department of Transportation  
 FEDERAL AVIATION ADMINISTRATION  
**CONSOLIDATED STATEMENTS OF NET COST**  
 For the Years Ended September 30  
 (Dollars in Thousands)

	<b>2012</b>	<b>2011</b>
<b>Line of Business programs (Note 11)</b>		
<b>Air Traffic Organization</b>		
Expenses	\$ 11,439,702	\$ 11,834,055
Less earned revenues	(281,226)	(282,672)
<b>Net costs</b>	11,158,476	11,551,383
<b>Aviation Safety</b>		
Expenses	1,422,325	1,340,034
Less earned revenues	(12,016)	(11,402)
<b>Net costs</b>	1,410,309	1,328,632
<b>Airports</b>		
Expenses	3,139,685	3,388,712
Less earned revenues	(86)	(21)
<b>Net costs</b>	3,139,599	3,388,691
<b>Commercial Space Transportation</b>		
Expenses	18,400	16,564
<b>Net costs</b>	18,400	16,564
<b>Non Line of Business programs</b>		
<b>Regions and center operations and other programs</b>		
Expenses	783,696	820,051
Less earned revenues	(379,320)	(416,593)
<b>Net costs</b>	404,376	403,458
<b>Net cost of operations</b>		
Total expenses	16,803,808	17,399,416
Less earned revenues	(672,648)	(710,688)
<b>Total net cost</b>	\$ 16,131,160	\$ 16,688,728

*The accompanying notes are an integral part of these 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)

	<b>UNEXPENDED APPROPRIATIONS</b>					
	<b>2012</b>			<b>2011</b>		
	Earmarked	Other funds	Totals	Earmarked	Other funds	Totals
<b>Beginning balances</b>	\$ 1,088,171	\$ 65,775	\$ 1,153,946	\$ 1,151,893	\$ 207,341	\$ 1,359,234
Budgetary financing sources						
Appropriations received (Note 14)	4,592,701	—	4,592,701	4,974,028	—	4,974,028
Appropriations transferred-in/out	14,082	—	14,082	9,240	—	9,240
Rescissions, cancellations and other	(58,748)	—	(58,748)	(75,067)	—	(75,067)
Appropriations used	(4,598,890)	(34,550)	(4,633,440)	(4,971,923)	(141,566)	(5,113,489)
Total budgetary financing sources	(50,855)	(34,550)	(85,405)	(63,722)	(141,566)	(205,288)
<b>Ending balances</b>	<u>\$ 1,037,316</u>	<u>\$ 31,225</u>	<u>\$ 1,068,541</u>	<u>\$ 1,088,171</u>	<u>\$ 65,775</u>	<u>\$ 1,153,946</u>
	<b>CUMULATIVE RESULTS OF OPERATIONS</b>					
	<b>2012</b>			<b>2011</b>		
	Earmarked	Other funds	Totals	Earmarked	Other funds	Totals
<b>Beginning balances</b>	\$ 12,873,270	\$ 9,606,578	\$ 22,479,848	\$ 11,576,024	\$ 10,155,438	\$ 21,731,462
Budgetary financing sources						
Appropriations used	4,598,890	34,550	4,633,440	4,971,923	141,566	5,113,489
Non-exchange revenue—excise taxes and other (Note 12)	12,777,130	24,456	12,801,586	11,754,809	31,844	11,786,653
Transfers-in/out without reimbursement	(199,016)	(16)	(199,032)	(158,171)	(15)	(158,186)
Other financing sources						
Donations and forfeitures of property	—	156,817	156,817	—	—	—
Transfers-in/out without reimbursement	(951,817)	1,021,572	69,755	(793,400)	789,166	(4,234)
Imputed financing from costs absorbed by others (Note 13)	489,032	63,112	552,144	656,596	67,776	724,372
Other	(37)	(30,162)	(30,199)	325	(25,305)	(24,980)
Total financing sources	16,714,182	1,270,329	17,984,511	16,432,082	1,005,032	17,437,114
Net cost of operations	14,727,689	1,403,471	16,131,160	15,134,836	1,553,892	16,688,728
<b>Net change</b>	1,986,493	(133,142)	1,853,351	1,297,246	(548,860)	748,386
<b>Ending balances</b>	<u>\$ 14,859,763</u>	<u>\$ 9,473,436</u>	<u>\$ 24,333,199</u>	<u>\$ 12,873,270</u>	<u>\$ 9,606,578</u>	<u>\$ 22,479,848</u>

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

U.S. Department of Transportation  
FEDERAL AVIATION ADMINISTRATION  
**COMBINED STATEMENTS OF BUDGETARY RESOURCES**

For the Years Ended September 30  
(Dollars in Thousands)

	<b>2012</b>	<b>2011</b>
<b>Budgetary resources (Note 14)</b>		
Unobligated balance brought forward, transfers and other	\$ 3,556,211	\$ 3,321,905
Recoveries of prior year obligations	413,890	486,422
Other changes in unobligated balance	(116,841)	(66,041)
Unobligated balance from prior year budget authority	<u>3,853,260</u>	<u>3,742,286</u>
Appropriations	12,552,370	12,416,672
Contract authority	3,350,000	3,515,000
Spending authority from offsetting collections	<u>5,969,879</u>	<u>5,427,894</u>
<b>Total budgetary resources</b>	<u><u>\$ 25,725,509</u></u>	<u><u>\$ 25,101,852</u></u>
<b>Status of budgetary resources</b>		
Obligations incurred	\$ 22,205,831	\$ 21,545,641
Apportioned	1,430,914	1,670,513
Unapportioned	<u>2,088,764</u>	<u>1,885,698</u>
<b>Total status of budgetary resources</b>	<u><u>\$ 25,725,509</u></u>	<u><u>\$ 25,101,852</u></u>
<b>Change in obligated balance</b>		
Obligated balance, net, beginning of period	\$ \$8,955,059	\$ 8,943,013
Obligations incurred	22,205,831	21,545,641
Gross outlays	(21,766,301)	(21,102,064)
Recoveries of prior year obligations	(413,890)	(486,422)
Change in uncollected customer payments from Federal sources	<u>(42,652)</u>	<u>54,891</u>
<b>Obligated balance, net, end of period</b>	<u><u>\$ \$8,938,047</u></u>	<u><u>\$ 8,955,059</u></u>
<b>Budget authority and outlays</b>		
Budget authority, gross	\$ 21,872,249	\$ 21,359,566
Actual offsetting collections	(5,927,227)	(5,482,785)
Change in uncollected customer payments from Federal sources	<u>(42,652)</u>	<u>54,891</u>
<b>Budget authority, net</b>	<u><u>\$ 15,902,370</u></u>	<u><u>\$ 15,931,672</u></u>
<b>Outlays</b>		
Gross outlays	\$ 21,766,301	\$ 21,102,064
Collections, net of offsetting receipts	(5,927,227)	(5,482,785)
Distributed offsetting receipts	<u>(11,560)</u>	<u>(10,742)</u>
<b>Net outlays</b>	<u><u>\$ 15,827,514</u></u>	<u><u>\$ 15,608,537</u></u>

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



## NOTES TO THE FINANCIAL STATEMENTS

### ► NOTE 1. Summary of Significant Accounting Policies

#### A. Basis of Presentation

The financial statements have been prepared to report the financial position, net cost of operations, changes in net position, and status and availability of budgetary resources of the Federal Aviation Administration (FAA). The statements are a requirement of the *Chief Financial Officers Act of 1990*, and the *Government Management Reform Act of 1994*. They have been prepared from, and are fully supported by, the books and records of the FAA in accordance with (1) the hierarchy of accounting principles generally accepted in the United States of America and standards approved by the principals of the Federal Accounting Standards Advisory Board (FASAB), (2) Office of Management and Budget (OMB) Circular Number A-136, *Financial Reporting Requirements*, and (3) U.S. Department of Transportation (DOT) and FAA accounting policies, 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 Number 07-04, *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 Number 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. Reporting Entity

The FAA, which was created in 1958, is a component of the DOT, a cabinet-level agency of the Executive Branch of the United States Government. The FAA's mission is to provide the safest, most efficient aerospace system in the world. As the leading authority in the international aerospace community, the FAA is responsive to the dynamic nature of stakeholder needs, economic conditions, and environmental concerns. The FAA

reporting entity is comprised of the following major funds:

- **Airport and Airway Trust Fund (AATF).** The AATF, an earmarked fund, is funded by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. As presented in Note 3, these receipts are held for investment and unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. The AATF fully finances the following additional FAA funds:
  - ◆ **Grants-in-Aid to Airports-AATF.** As authorized, grants are awarded with Grants-in-Aid to Airports funding and used for planning and development to maintain a safe and efficient nationwide system of public airports. These grants fund approximately one-third of all capital development at the Nation's public airports, and are administered through the Airport Improvement Program.
  - ◆ **Facilities and Equipment-AATF.** The Facilities and Equipment funds are the FAA's principal means of modernizing and improving air traffic control and airway facilities. These funds also finance major capital improvements required by other FAA programs as well as other improvements to enhance the safety and capacity of the national airspace system.
  - ◆ **Research, Engineering and Development-AATF.** Research, Engineering, and Development funds finance long-term research programs to improve the air traffic control system.
- **Operations General Fund and Operations-AATF.** Operations finances operating costs, maintenance, communications, and logistical support for the air traffic control and air navigation systems. It also finances the salaries and costs associated with carrying out the FAA's safety and inspection and regulatory responsibilities. Operations-AATF is financed through transfers from the Airport and Airway Trust Fund. 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 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 hull loss and passenger, crew, and third-party liability insurance 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 September 30, 2013.
- **Administrative Services Franchise Fund (Franchise Fund).** The Franchise Fund is a revolving fund designed to create competition within the public sector in the performance of a wide variety of support services.
- **Other Funds.** The consolidated financial statements include other funds such as Aviation Overflight User Fees, which is a special fund in which receipts are earmarked by law for a specific purpose. Aviation Overflight User Fees are charges to operators of aircraft that fly in U.S. controlled airspace, but neither take off or land in the U.S. Other funds also include Facilities, Engineering & Development General Fund and General Fund Miscellaneous Receipts accounts established for receipts of non-recurring activity, such as fines, penalties, fees, and other miscellaneous receipts for services and benefits.

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

### C. Budgets and Budgetary Accounting

Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. In FY 2012 and 2011, the FAA was accountable for amounts made available in appropriations laws from the AATF, Revolving Funds, a Special Fund, and General Fund

appropriations. The FAA recognizes budgetary resources as assets when cash (funds held by the U.S. Treasury) is made available through U.S. Department of the Treasury General Fund warrants, and transfers from the AATF are apportioned by OMB.

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

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

### D. 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 A-136.

Intragovernmental 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 “intragovernmental.” This could occur, for example, when the FAA provides goods or services to another Federal government entity on a reimbursable basis. The purpose of this classification is to enable the Federal Government to prepare consolidated financial statements, and not to match public and intragovernmental revenue with costs that are incurred to produce public and intragovernmental revenue.

## E. Revenues and Other Financing Sources

Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and overflight fees), war risk insurance 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 earmarked funds. Therefore, the U.S. Treasury makes initial semi-monthly distributions to earmarked funds 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, 2012, financial statements reflect excise taxes certified (as actual collections) by IRS through June 30, 2012, and excise taxes estimated by OTA for the period July 1 through September 30, 2012, as specified by SFFAS Number 7, *Accounting for Revenue and Other Financing Sources*. Actual excise tax collections data for the quarter ended September 30, 2012, will not be available from the IRS until February 2013. When actual amounts are certified by the IRS, generally three to four months after each quarter-end, 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 is recognized as revenue on the accrual basis of such collections for those quarters.

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. War-risk insurance 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 took 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.

## F. Taxes

The FAA, as a Federal entity, is not subject to Federal, state, or local income taxes and, accordingly, no provision for income taxes was recorded in the accompanying financial statements.

## G. Fund Balance with the U.S. Treasury

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

## H. Investment in U.S. Government Securities

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

## I. Accounts Receivable

Accounts receivable consists of amounts owed to the FAA by other Federal agencies and the public. Amounts due from Federal agencies are considered fully collectible. Accounts receivable from the public include, for example, overflight fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. These amounts due from the public are

presented net of an allowance for loss on uncollectible accounts based on historical collection experience or an analysis of the individual receivables.

### J. Inventory

Within the FAA's Franchise Fund, inventory is held for sale to FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies the FAA uses to support the National Airspace System (NAS) and is predominantly located at the FAA Mike Monroney Aeronautical Center in Oklahoma City. Inventory cost includes material, labor, and applicable manufacturing overhead, and is determined using the weighted moving average cost method.

The FAA field locations trade 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. The cost of repair is capitalized and these items are reclassified as "held for sale."

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.

### K. 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.

### L. Property, Plant and Equipment (PP&E)

The FAA capitalizes acquisitions of PP&E when the cost equals or exceeds \$100,000 and the useful life equals or exceeds two years. The FAA records PP&E at original acquisition cost. However, where applicable, the FAA allocates an average cost of like assets within a program, commonly referred to as unit costing. The FAA purchases some capital assets in large quantities, which are known as "bulk purchases." If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

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

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

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

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

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

The FAA occupies certain real property that is leased by the DOT from the General Services Administration.

Payments made by the FAA are based on the fair market value for similar rental properties.

The FAA conducts a significant amount of research and development into new technologies to support the NAS. Until such time as the research and development project reaches “technological feasibility” the costs associated with the project are expensed in the year incurred.

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

### O. Accounts Payable

Accounts payable are amounts 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 the NAS, and estimated amounts incurred but not yet claimed by Airport Improvement Program 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 bi-weekly pay period, the balance in the accrued annual leave account is adjusted to reflect the latest pay rates and unused hours of leave. Liabilities associated with other types of vested leave, including compensatory, credit hours,

restored leave, and sick leave in certain circumstances, are accrued based on latest pay rates and unused hours of leave. Sick leave is generally nonvested, except for sick leave balances at retirement under the terms of certain union agreements. Funding will be obtained from future financing sources to the extent that current or prior year appropriations are not available to fund annual and other types of vested leave earned but not taken. Nonvested leave is expensed when used.

### 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 U.S. Department of Labor (DOL) two years after the actual payment of expenses by the DOL. Future appropriations will be used for the reimbursement to 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 DOL for compensation to recipients under the FECA.

### R. Retirement Plan

The FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in CSRS are beneficiaries of FAA's matching contribution, equal to 7% 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% of pay and matches any employee contribution up to an additional 4% of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security. The FAA's matching contributions are recognized as operating expenses.

The FAA recognizes the full cost of pensions and other retirement benefits during an employee's active years of service through a combination of costs financed by the FAA's appropriations and imputed costs. 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 OPM's costs factors is the imputed cost. 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 these costs will be paid by 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 via an electronic payment process. Expenses are recorded at the time of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the Line of Business program "Airports."

### 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 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.

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

### 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. Earmarked Funds Reporting

The FAA adopted Statement of Federal Financial Accounting Standards (SFFAS) Number 27, *Identifying and Reporting Earmarked Funds*, effective October 1, 2005. SFFAS Number 27 defines "earmarked funds" 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 "earmarked":

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

The AATF is funded by excise taxes that the IRS collects from airway system users. These receipts are unavailable until appropriated by the U.S. Congress. Once appropriated for use, the FAA transfers AATF receipts necessary to meet cash disbursement needs to several other funds, from which expenditures are made. Those funds that receive transfers from the AATF are the Operations-AATF, Grants-in-Aid for Airports, 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, the Operations General Fund is primarily funded through transfers from Operations-AATF, but is also supplemented by funding from the General Fund of the U.S. Treasury through annual appropriations. Because the Operations General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus General Fund appropriations, the Operations General Fund is presented as an earmarked fund. The earmarked funds from the Facilities and Equipment fund are used to purchase or construct property, plant, and equipment (PP&E). When earmarked funds are used to purchase or construct PP&E, they are no longer available for future expenditure, have been used for their intended purpose, and therefore are 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 earmarked funds available for future expenditure and earmarked funds previously expended on PP&E projects and therefore unavailable for future expenditure.

Additional disclosures concerning earmarked funds can be found in Note 12.

## **X. American Recovery and Reinvestment Act of 2009**

*The American Recovery and Reinvestment Act of 2009* (ARRA) was enacted primarily to preserve and create jobs, promote economic recovery, assist those most impacted by the recession and to invest in transportation, environmental protection and other infrastructure that will provide long term economic benefits.

The FAA received supplemental funding from ARRA of \$1.1 billion for Grant-In-Aid to Airports and \$200 million for Facilities and Equipment (F&E) activities. The F&E funding was used for improvements to power systems, air route traffic control centers, air traffic control towers, terminal radar approach control facilities and navigation and landing equipment. ARRA also stipulated that priority be given to F&E activities that will be completed within two years of enactment of this act or by February 17, 2011. As of September 30, 2011 this project was essentially completed.

The Grant-In-Aid to Airports funding was to be used for discretionary grants and for the procurement, installation and commissioning of runway incursion prevention devices and systems at airports. ARRA also stipulated that priority be given to Grant-In-Aid to Airport projects that will be completed within two years of enactment of this act or by February 17, 2011. Of the \$1.1 billion ARRA funding for Grant-In-Aid to Airports, an amount not to exceed \$2.2 million may be used to fund the award and oversight of grants made under this provision. As of September 30, 2011 this project was essentially completed.

## **Y. Reclassifications**

In FY 2012, changes to the presentation of the Combined Statements of Budgetary Resources were made, in accordance with guidance provided in OMB Circular A-136 and as such, activity and balances reported on the FY 2011 Combined Statement of Budgetary Resources have been reclassified to conform to the presentation in the current year. Certain other prior year amounts have also been reclassified to conform with the current year presentation.

► **NOTE 2. Fund Balance with Treasury**

Fund balance with Treasury account balances as of September 30, 2012 and 2011, were:

	<b>2012</b>	<b>2011</b>
Earmarked and other funds	\$ 2,350,899	\$ 2,496,183
Franchise Fund	271,519	257,152
Aviation Insurance Revolving Fund	19,818	49,565
AATF	442,966	921,692
<b>Total</b>	<u>\$ 3,085,202</u>	<u>\$ 3,724,592</u>
 <b>Status of fund balance with Treasury</b>		
Unobligated balance		
Available	\$ 1,430,914	\$ 1,670,513
Not available	2,088,764	1,885,698
Obligated balance not yet disbursed	8,938,047	8,955,059
Investments and Contract Authority supporting obligated and unobligated balances	(9,904,858)	(9,784,168)
Non-budgetary FBWT	532,335	997,490
<b>Total</b>	<u>\$ 3,085,202</u>	<u>\$ 3,724,592</u>

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

change over time, because they can be used for upward adjustments of obligations that were incurred during the period of availability or for paying claims attributable to that time period.



### ► NOTE 3. Investments

As of September 30, 2012 and 2011, the FAA's investment balances were as follows:

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

Intragovernmental Securities	2011			
	Cost	Amortized (Premium) Discount	Investments (Net)	Market Value Disclosure
Non-marketable par value	\$ 8,640,889	\$ —	\$ 8,640,889	\$ 8,640,889
Non-marketable market-based	1,630,564	11,685	1,642,249	1,642,249
Subtotal	10,271,453	11,685	10,283,138	10,283,138
Accrued interest	52,607		52,607	
Total Intragovernmental Securities	<u>\$ 10,324,060</u>	<u>\$ 11,685</u>	<u>\$ 10,335,745</u>	<u>\$ 10,283,138</u>

The Secretary of the Treasury invests AATF funds on behalf of the FAA. FAA investments are considered investment authority and available to offset the cost of operations to the extent authorized by Congress. As of September 30, 2012 and 2011, \$10.4 billion and \$8.6 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury Certificates of Indebtedness are special series debt securities issued by the Bureau of Public Debt to Federal accounts, and are purchased and redeemed at par (face value) exclusively through the Federal Investment Branch of the U.S. Treasury's Bureau of Public Debt. The securities are held to maturity and redeemed at face value on demand; thus, investing entities recover the full amount invested plus interest. Investments as of September 30, 2012, mature on various dates through June 30, 2013, and investments as of September 30, 2011, matured on various dates through June 30, 2012. 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 2012 and FY 2011 was 2.2% and 2.3%, 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, 2012, these nonmarketable, market-based securities had maturity dates ranging from October 2012 to August 2015 and have an average rate of return of approximately 2.1%. As of September 30, 2011, these nonmarketable, market-based securities had maturity dates ranging from October 2011 to December 2014 and had an average rate of return of approximately 2.0%.

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 to the U.S. Treasury, and used for general Government purposes. Treasury securities are issued to the FAA as evidence of the collections by the AATF and

Aviation Insurance Fund. Treasury securities are an asset to the FAA and a liability to the U.S. Treasury. Because the FAA and the U.S. Treasury are both parts of the U.S. Government, these assets and liabilities offset each other from the standpoint of the U.S. Government as a whole. For this reason, they do not represent an asset or a liability in the U.S. Government-wide financial statements.

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA requires redemption of these securities, the U.S. Government finances those expenditures out of accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same way that the U.S. Government finances all other expenditures.

#### ► NOTE 4. Accounts Receivable, Prepayments, and Other Assets

Accounts receivable, prepayments, and other assets as of September 30, 2012 and 2011, were comprised of the following:

	<u>2012</u>	<u>2011</u>
<b><u>Intragovernmental</u></b>		
Accounts receivable	\$ 68,236	\$ 42,240
Prepayments and other	172,018	145,189
Intragovernmental total	<u>240,254</u>	<u>187,429</u>
<b><u>With the public</u></b>		
Accounts receivable, net	44,739	46,206
Prepayments	2,709	2,164
Other assets	501	34,322
With the public total	<u>47,949</u>	<u>82,692</u>
Total accounts receivable, prepayments, and other	<u>\$ 288,203</u>	<u>\$ 270,121</u>

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 \$16.5 million and \$19.3 million, as of September 30, 2012 and 2011.

► **NOTE 5. Inventory, Operating Materials, and Supplies**

As of September 30, 2012 and 2011, inventory, operating materials, and supplies were:

	<b>2012</b>		
	<u>Cost</u>	<u>Allowance</u>	<u>Net</u>
<b>Inventory</b>			
Held for sale	\$ 90,540	\$ —	\$ 90,540
Held for repair	582,567	(135,234)	447,333
Raw materials, finished goods and other	51,030	(10,591)	40,439
Excess, obsolete, and unserviceable	8,956	(8,956)	—
Inventory total	<u>733,093</u>	<u>(154,781)</u>	<u>578,312</u>
<b>Operating materials and supplies</b>			
Held for use	40,969	—	40,969
Held for repair	24,387	(12,193)	12,194
Excess, obsolete, and unserviceable	1,888	(1,043)	845
Operating materials and supplies total	<u>67,244</u>	<u>(13,236)</u>	<u>54,008</u>
Total inventory, operating materials, and supplies	<u>\$ 800,337</u>	<u>\$ (168,017)</u>	<u>\$ 632,320</u>
	<b>2011</b>		
	<u>Cost</u>	<u>Allowance</u>	<u>Net</u>
<b>Inventory</b>			
Held for sale	\$ 91,036	\$ —	\$ 91,036
Held for repair	550,604	(119,266)	431,338
Raw materials, finished goods and other	40,712	(10,590)	30,122
Excess, obsolete, and unserviceable	13,766	(13,766)	—
Inventory total	<u>696,118</u>	<u>(143,622)</u>	<u>552,496</u>
<b>Operating materials and supplies</b>			
Held for use	41,509	—	41,509
Held for repair	26,192	(13,037)	13,155
Excess, obsolete, and unserviceable	325	(325)	—
Operating materials and supplies total	<u>68,026</u>	<u>(13,362)</u>	<u>54,664</u>
Total inventory, operating materials, and supplies	<u>\$ 764,144</u>	<u>\$ (156,984)</u>	<u>\$ 607,160</u>

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 at September 30, 2012 and 2011, were:

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

Class of fixed asset	2011		
	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	\$ 5,646,118	\$ (3,085,403)	\$ 2,560,715
Personal property	17,749,562	(10,594,078)	7,155,484
Assets under capital lease (Note 9)	184,777	(90,139)	94,638
Construction in progress	3,303,901	—	3,303,901
Total property, plant and equipment	<u>\$ 26,884,358</u>	<u>\$ (13,769,620)</u>	<u>\$ 13,114,738</u>

The FAA's CIP relates primarily to NAS 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, 2012, construction in progress includes \$2.110 billion related to the ERAM system.

While the deployment schedule for ERAM is not finalized and will depend upon results of continued testing of the system, the FAA expects to deploy the ERAM system at 20 air route traffic control centers over the next several years. When fully deployed and operational, the ERAM

system will replace three legacy air traffic systems currently being depreciated over service lives ranging from 5-20 years.

The net acquisition cost of the three air traffic legacy systems in use at September 30, 2012 and September 30, 2011 was unchanged at \$2,143 million with a net book value of \$634 million and \$745 million, respectively. Depreciation on these air traffic legacy systems was \$111 million and \$121 million in FY 2012 and 2011, respectively. As the ERAM deployment schedule becomes more certain, the FAA will re-evaluate the remaining service lives of the legacy air traffic systems and their estimated value at disposal. Adjustments will then be made to the FAA accounting records in accordance with applicable accounting standards.

## ► NOTE 7. Environmental Liabilities

The FAA's environmental liabilities as of September 30, 2012 and 2011, were:

	<u>2012</u>	<u>2011</u>
Environmental remediation	\$ 517,273	\$ 501,454
Environmental cleanup and decommissioning	293,126	255,935
Total environmental liabilities	<u>\$ 810,399</u>	<u>\$ 757,389</u>

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

## ► NOTE 8. Employee Related and Other Liabilities

As of September 30, 2012 and 2011, the FAA's employee related and other liabilities were:

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

	<b>2011</b>		
	<b>Non-current liabilities</b>	<b>Current liabilities</b>	<b>Total</b>
<b>Intragovernmental</b>			
Advances received	\$ —	\$ 40,536	\$ 40,536
Accrued payroll & benefits payable to other agencies	—	86,111	86,111
Liabilities covered by budgetary resources	—	126,647	126,647
Federal Employees' Compensation Act payable	117,528	90,990	208,518
Other	—	70,795	70,795
Liabilities not covered by budgetary resources	117,528	161,785	279,313
Intragovernmental total	117,528	288,432	405,960
<b>With the public</b>			
Advances received and other	—	110,381	110,381
Accrued payroll & benefits payable to employees	—	336,210	336,210
Liabilities covered by budgetary resources	—	446,591	446,591
Accrued unfunded annual & other leave & assoc. benefits	—	402,932	402,932
Sick leave compensation benefits for eligible employees	66,145	52,465	118,610
Capital leases (Note 15)	96,591	9,721	106,312
Legal claims	—	66,200	66,200
Other accrued liabilities	—	13,769	13,769
Liabilities not covered by budgetary resources	162,736	545,087	707,823
Public total	162,736	991,678	1,154,414
Total employee related and other liabilities	\$ 280,264	\$ 1,280,110	\$ 1,560,374

Accrued payroll and benefits to other agencies consist of FAA contributions payable to other Federal agencies for employee benefits. These include the FAA's 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 DOL bills the FAA two years after it pays such claims, the FAA's liability accrued as of September 30, 2012, includes workers' compensation benefits paid by DOL during the periods July 1, 2010, through June 30, 2012, and accrued liabilities for the quarter July 1, 2012, through September 30, 2012. The FAA's liability accrued as of September 30, 2011, included workers' compensation benefits paid by DOL during the period July 1, 2009, through June 30, 2011, and accrued liabilities for the quarter July 1, 2011, through September 30, 2011.

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% of their accumulated sick leave as of their effective retirement date. Based on sick leave balances, this estimated liability was \$126.7 million and \$118.6 million as of September 30, 2012 and 2011, respectively.

The FAA estimated that 100% of its \$34.3 million and \$66.2 million legal claims liabilities as of September 30, 2012 and 2011, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the U.S. Department of the Treasury.

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

## ► NOTE 9. Leases

### Capital Leases

Following is a summary of the FAA's assets under capital lease as of September 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Land, Buildings, and Machinery	\$ 126,629	\$ 184,777
Accumulated Depreciation	(49,669)	(90,139)
Assets Under Capital Lease, net	<u>\$ 76,960</u>	<u>\$ 94,638</u>

As of September 30, 2012, the FAA's future payments due on assets under capital lease were:

<b>Future payments due by fiscal year</b>	
(Liabilities not covered by budgetary or other resources)	
Year 1 (FY 2013)	\$ 8,852
Year 2 (FY 2014)	8,681
Year 3 (FY 2015)	8,648
Year 4 (FY 2016)	8,639
Year 5 (FY 2017)	8,640
After 5 Years	70,601
Less: Imputed interest	(31,757)
Total capital lease liability	<u>\$ 82,304</u>

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, 2012, were:

<b>Fiscal year</b>	
Year 1 (FY 2013)	\$ 186,618
Year 2 (FY 2014)	124,626
Year 3 (FY 2015)	103,009
Year 4 (FY 2016)	81,423
Year 5 (FY 2017)	67,374
After 5 Years	163,518
Total future operating lease payments	<u>\$ 726,568</u>

Operating lease expense incurred during the years ended September 30, 2012 and 2011 was \$231.9 million and \$209.3 million, respectively, including General Services Administration (GSA) leases that have a short termination privilege, but 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, 2012 and 2011, FECA actuarial liabilities were \$946.8 million and \$909.6 million, respectively. The DOL calculates the FECA liability for the DOT, and the DOT allocates the liability amount to the FAA based on actual workers' compensation payments to FAA employees over the preceding four years.

FECA liabilities include the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but not reported claims. The estimated liability is not covered by budgetary or other resources and thus will require future appropriated funding.

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

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

describes the FAA's vision for future air travel and defines the strategic goal areas focused on reaching that vision. FY11 has been aligned with this change for comparative purposes.

The following are net costs for the years ended September 30, 2012 and 2011 by strategic goal:

Effective for FY12, the Strategic Goal Areas are reported in alignment with *Destination 2025*. *Destination 2025*

#### For the Year Ended September 30, 2012 Strategic Goal Areas

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

#### For the Year Ended September 30, 2011 Strategic Goal Areas

	Next level of Safety	Aviation Access	Workplace of Choice	Sustain our Future	Global Collaboration	Total
<b>Line of Business programs</b>						
Air Traffic Organization	\$ 6,422,674	\$ 4,547,491	\$ 518,004	\$ 54,390	\$ 8,824	\$ 11,551,383
Aviation Safety	1,319,155	861	7,205	1,196	215	1,328,632
Airports	1,773,480	1,604,260	503	10,448	—	3,388,691
Commercial Space Transportation	10,613	5,473	105	327	46	16,564
<b>Non Line of Business programs</b>						
Regions and center operations and other	402,831	(211,401)	199,319	12,495	214	403,458
<b>Net cost</b>	<b>\$ 9,928,753</b>	<b>\$ 5,946,684</b>	<b>\$ 725,136</b>	<b>\$ 78,856</b>	<b>\$ 9,299</b>	<b>\$ 16,688,728</b>



The following is the FAA's distribution of FY 2012 and FY 2011 net costs by intragovernmental-related activity versus with the public:

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

## For the Year Ended September 30, 2011

	Intra- governmental	With the Public	Total
<b>Line of Business programs</b>			
<b>Air Traffic Organization</b>			
Expenses	\$ 2,361,257	\$ 9,472,798	\$ 11,834,055
Less earned revenues	(238,596)	(44,076)	(282,672)
<b>Net costs</b>	2,122,661	9,428,722	11,551,383
<b>Aviation Safety</b>			
Expenses	362,565	977,469	1,340,034
Less earned revenues	(2,095)	(9,307)	(11,402)
<b>Net costs</b>	360,470	968,162	1,328,632
<b>Airports</b>			
Expenses	33,480	3,355,232	3,388,712
Less earned revenues	—	(21)	(21)
<b>Net costs</b>	33,480	3,355,211	3,388,691
<b>Commercial Space Transportation</b>			
Expenses	4,395	12,169	16,564
<b>Net costs</b>	4,395	12,169	16,564
<b>Non Line of Business programs</b>			
<b>Regions and center operations and other programs</b>			
Expenses	160,329	659,722	820,051
Less earned revenues	(54,055)	(362,538)	(416,593)
<b>Net costs</b>	106,274	297,184	403,458
<b>Net cost of operations</b>			
Total expenses	2,922,026	14,477,390	17,399,416
Less earned revenues	(294,746)	(415,942)	(710,688)
<b>Total net costs</b>	<u>\$ 2,627,280</u>	<u>\$ 14,061,448</u>	<u>\$ 16,688,728</u>

## ► NOTE 12. Earmarked Funds

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

The second classification of other earmarked funds is comprised of the financial statement balances of all the related funds that receive funding from the AATF and includes the Operations-AATF, Grants-in-Aid for Airports, Facilities and Equipment, and Research Engineering and Development, all of which are funded exclusively by the AATF. The other earmarked funds 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 General Fund is primarily funded from the AATF, it is properly presented as an earmarked fund. The second classification of other earmarked funds also includes the Aviation Insurance Revolving Fund and Aviation User Fees.

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

### Airport and Airway Trust Fund

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

The Act provides a dedicated source of funding to 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 2012 included OTA's estimate of \$2.7 billion for the quarter ended September 30, 2012 and \$2.2 billion for the quarter ended September 30, 2011.

As discussed in Note 1 E., FY 2012 excise tax revenue includes amounts certified as actual by the IRS for the

first three quarters and amounts estimated by OTA for the fourth quarter. Excise taxes estimated by OTA in the 1st quarter overstated amounts subsequently certified as actual by the IRS by \$24.6 million, and overstated amounts certified in the 2nd and 3rd quarters by \$119.3 million and \$333.3 million, respectively.

The following table summarizes the 4th quarter excise taxes accrued in the FAA's FY 2011 and 2010 financial statements and the amounts certified as actual by the IRS several months after the issuance of those financial statements:

	<u>4th Quarter 2011</u>	<u>4th Quarter 2010</u>
Estimates	\$ 2,423,294	\$ 2,533,610
Actuals	2,652,178	2,919,237
Under (Over) Accrual	<u>\$ 228,884</u>	<u>\$ 385,627</u>

### Other Earmarked Funds

- 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 \$160.6 million and \$191.5 million for the periods ended September 30, 2012 and 2011, respectively. The Aviation Insurance Program activity is reported below as other earmarked funds. The Aviation Insurance Program is discussed further at Notes 1.W. and 16.
- Aviation User Fees, commonly referred to as overflight fees, are charged to commercial airlines that fly in U.S. controlled air space, but neither take off or land in the U.S. The FAA reported overflight fees of \$64.9 million and \$56.7 million for the periods ended September 30, 2012 and 2011, respectively. Aviation User Fees activity is reported below as other earmarked funds.

Fiscal data as of, and for the years ended September 30, 2012 and 2011, are summarized in the following charts. Intra-agency transactions have not been eliminated in the amounts presented.

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

	<b>2011</b>		
	AATF	Other Earmarked Funds	Total Earmarked Funds
<b>Balance Sheet</b>			
<b>Assets</b>			
Fund balance with Treasury	\$ 921,692	\$ 2,350,243	\$ 3,271,935
Investments, net	8,685,715	1,650,030	10,335,745
Accounts receivable, net	—	4,580,577	4,580,577
Other assets	—	3,545,293	3,545,293
<b>Total assets</b>	<b>\$ 9,607,407</b>	<b>\$ 12,126,143</b>	<b>\$ 21,733,550</b>
<b>Liabilities and net position</b>			
AATF amounts due to the FAA	\$ 4,515,206	\$ —	\$ 4,515,206
Other liabilities	—	3,256,903	3,256,903
Unexpended appropriations	—	1,088,171	1,088,171
Cumulative results of operations	5,092,201	7,781,069	12,873,270
<b>Total liabilities and net position</b>	<b>\$ 9,607,407</b>	<b>\$ 12,126,143</b>	<b>\$ 21,733,550</b>
<b>Statement of net cost</b>			
Program costs	\$ —	\$ 15,613,152	\$ 15,613,152
Less earned revenue:			
Aviation insurance premiums	—	(191,491)	(191,491)
Overflight user fees	—	(56,722)	(56,722)
Other revenue	—	(230,103)	(230,103)
<b>Net cost of operations</b>	<b>\$ —</b>	<b>\$ 15,134,836</b>	<b>\$ 15,134,836</b>
<b>Statement of changes in net position</b>			
Cumulative results beginning of period	\$ 4,473,264	\$ 7,102,760	\$ 11,576,024
Non-exchange revenue:			
Passenger ticket tax	8,084,593	—	8,084,593
International departure tax	2,508,289	—	2,508,289
Investment income	194,223	—	194,223
Fuel taxes	530,572	—	530,572
Waybill tax	426,703	—	426,703
Tax refunds and credits	(8,432)	—	(8,432)
Other revenue	—	18,861	18,861
Budgetary financing sources	(11,117,011)	15,930,763	4,813,752
Other financing sources	—	(136,479)	(136,479)
Net cost of operations	—	(15,134,836)	(15,134,836)
Cumulative results end of period	5,092,201	7,781,069	12,873,270
Unexpended appropriations	—	1,088,171	1,088,171
<b>Net position end of period</b>	<b>\$ 5,092,201</b>	<b>\$ 8,869,240</b>	<b>\$ 13,961,441</b>

### ► 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, 2012 and 2011, imputed financing was as follows:

	<u>2012</u>	<u>2011</u>
Office of Personnel Management	\$ 504,516	\$ 680,172
Treasury Judgment Fund	47,628	44,200
Total imputed financing sources	<u>\$ 552,144</u>	<u>\$ 724,372</u>

### ► 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, earmarked and special funds. 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:

	<u>2012</u>	<u>2011</u>
Combined Statement of Budgetary Resources – budget authority, net	\$ 15,902,370	\$ 15,931,672
Less amounts made available to the FAA from AATF dedicated collections	(11,308,981)	(10,955,325)
Less dedicated sources from other sources	(688)	(2,319)
Consolidated Statement of Changes in Net Position – appropriations received	<u>\$ 4,592,701</u>	<u>\$ 4,974,028</u>

The FAA had no rescissions of budgetary resources in FY 2012 and \$10 million to Operations in FY 2011.

As of September 30, 2012 and 2011, the amount of budgetary resources obligated for undelivered orders was \$8.0 billion and \$8.2 billion, respectively.

Budget authority on the FY 2011 Combined Statement of Budgetary Resources includes contract authority of \$3.5 billion, a net permanent rescission of \$8 million, a temporary appropriation reduction of \$5 million, and aviation user fee collections of \$50 million that are not presented in the Budget of the United States Government. Also, obligations incurred on the FY 2011 Combined Statement of Budgetary Resources includes \$119 million of expired funds and \$679 million of certain reimbursable and revolving fund obligations incurred that are not presented in the Budget of the United States Government. As a result, the FAA's FY 2011 Combined Statement of Budgetary Resources differs from FY 2011 "actuals" reported in the appendix of the *FY 2012 Budget of the United States Government*. (The Budget of the United States Government is available on the Internet at [www.whitehouse.gov/omb](http://www.whitehouse.gov/omb).) As of the date of issuance of the FAA's FY 2012 Combined Statement of Budgetary Resources, the Budget of the United States Government for FY 2014, which will contain "actual" FY 2012 amounts, was not yet published. The Office of Management and Budget is expected to publish this information early in calendar year 2013.

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

	Budgetary Authority	Obligations Incurred	Net Outlays
FAA Combined Statement of Budgetary Resources	\$ 15,995,000	\$ 20,747,000	\$ 15,609,000
Reconciliation to Budget of the United States Government:			
Transfer in to operations	2,000	—	—
Rescissions	(10,000)	—	—
Aviation User Fees	(50,000)	—	—
Obligation from Trust Funds	(5,000)	(4,551,000)	—
Distributed Offsetting Receipts	—	—	10,000
Budget of the United States Government	<u>\$ 15,932,000</u>	<u>\$ 16,196,000</u>	<u>\$ 15,619,000</u>

OMB Circular A-136 requires the following additional Combined Statement of Budgetary Resources disclosure:

- The FAA does not have obligations classified as “exempt from apportionment.” However, during FY 2012 and FY 2011, 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:

	2012		2011	
	Direct	Reimbursable	Direct	Reimbursable
Category A	\$ 5,636,863	\$ 488,819	\$ 5,117,499	\$ 439,849
Category B	15,810,304	269,845	15,748,162	240,131
Total	<u>\$ 21,447,167</u>	<u>\$ 758,664</u>	<u>\$ 20,865,661</u>	<u>\$ 679,980</u>

Unobligated balances of budgetary resources for unexpired accounts are available in subsequent years until expiration, upon receipt of an apportionment from OMB. Unobligated balances of expired accounts are not available. At the end of FY 2011, \$67.4 million of obligated balances were in appropriations cancelled at year-end pursuant to 31 U.S.C. 1552 and thus have not been brought forward to FY 2012. Additionally, transfers in FY 2012 to the DOT for Essential Air Services also reduced balances available for obligation.

► **NOTE 15. Financing Sources Yet to Be Provided**

The following table shows the relationship between liabilities not covered by budgetary resources as reported on the balance sheets as of September 30, 2012 and 2011, and the change in components of net cost of operations that will require or generate resources in future periods.

	<b>2012</b>	<b>2011</b>	<b>Change</b>
FECA actuarial (Note 10)	\$ 946,778	\$ 909,616	\$ 37,162
Sick leave compensation benefits for eligible employees (Note 8)	126,703	118,610	8,093
Unfunded annual & other leave & assoc. benefits (Note 8)	404,714	402,932	1,782
Environmental liabilities (Note 7 & 16)	810,399	757,389	53,010
Other accrued liabilities (Note 8)	95,896	43,066	52,830
Increases – components of net cost of operations requiring or generating resources in future periods (Note 17)			152,877
FECA payable (Note 8)	206,118	208,518	(2,400)
Legal claims (Note 8)	34,300	66,200	(31,900)
Capital Leases (Notes 8 and 9)	82,304	106,312	(24,008)
Decreases – resources that fund expenses recognized in prior periods (Note 17)			(58,308)
Total liabilities not covered by budgetary resources	2,707,212	2,612,643	94,569
Total liabilities covered by budgetary resources	1,670,810	1,805,919	(135,109)
Total liabilities	<u>\$ 4,378,022</u>	<u>\$ 4,418,562</u>	<u>\$ (40,540)</u>



## ► NOTE 16. Commitments, Contingencies, and Other Disclosures

**Appropriation Status and xReauthorization.** Effective October 1, 2012, the FAA is operating under a continuing resolution (CR), Public Law 112-175, for its FY13 appropriation and many of its programmatic and financing authorities. The CR will be in effect through March 27, 2013, and allows the FAA to continue spending at a small increase over FY 2012 rates. It also provides sufficient contract authority for 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, including Airport Improvement Program contract authority and the authority to collect 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 related to enhancing airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary hub airports is 75% with the exception of noise program implementation, which is 80%. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 95%.

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. FAA records an obligation when a grant is awarded. As of September 30, 2012, FAA had letters of intent extending through FY 2028 totaling \$7.4 billion. As of September 30, 2012, the FAA had obligated \$5.8 billion of this total amount, leaving \$1.6 billion unobligated.

As of September 30, 2011, the FAA had letters of intent extending through FY 2026 totaling \$7.5 billion. As of September 30, 2011, the FAA had obligated \$5.5 billion of this total amount, leaving \$2.0 billion unobligated.

**Aviation Insurance Program.** The FAA is authorized to issue hull and liability insurance under the Aviation Insurance Program for air carrier operations for which commercial insurance is not available on reasonable terms and when continuation of U.S. flag commercial air service is necessary in the interest of air commerce,

national security, and the foreign policy of the United States. The FAA may issue non-premium insurance and premium insurance for which a risk-based premium is charged to the air carrier, to the extent practical.

During FY 2012, the FAA provided premium war-risk insurance to 53 airlines. For these airlines, combined hull and liability per occurrence coverage limits range from \$100 million to \$4 billion. The FAA also provided non-premium war-risk insurance to 37 carriers with 2,387 aircraft for U.S. Department of Defense charter operations for Central Command.

As of September 30, 2012, there are pending aviation insurance claims in the amount of \$10 million. There is approximately \$1.8 billion available in the Aviation Insurance Revolving Fund to pay claims to carriers covered by premium insurance. If premium insurance claims should exceed that amount, additional funding could be appropriated from the General Fund. The U.S. Department of Defense and U.S. Department of State have agreed to pay claims to the carriers covered by non-premium insurance.

**Legal Claims.** As of September 30, 2012 and 2011, the FAA's contingent liabilities for asserted and pending legal claims probable and reasonably possible of loss were estimated at \$93 million and \$86.6 million, respectively. There are other claims that could result in significant pay-outs; however, it is not possible at this time to determine the probability of an unfavorable outcome, or to determine an estimate of potential loss for these matters, if any.

**Environmental Liabilities.** As of September 30, 2012, the FAA has estimated contingent liabilities, categorized as reasonably possible of \$190.2 million related to environmental remediation. Contingency costs are defined for environmental liabilities as those costs that may result from incomplete design, unforeseen and unpredictable conditions or uncertainties within a defined project scope.

**Subsequent Event.** In October 2012, Hurricane Sandy caused flooding and other damage to numerous FAA-owned facilities in New Jersey, New York, and other areas of the northeastern United States. These FAA-owned facilities are still being assessed to determine the extent of damages and the cost of necessary repairs. The cost of such repairs has not been fully determined as of the date of this report.

► **NOTE 17. Reconciliation of Net Cost of Operations to Budget**

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

	<u>2012</u>	<u>2011</u>
<b>Resources used to finance activities</b>		
Budgetary resources obligated		
Obligations incurred	\$ 22,205,831	\$ 21,545,641
Less: Spending authority from offsetting collections and receipts and recoveries of prior year obligations	6,460,246	5,925,058
Obligations, net of offsetting collections	<u>15,745,585</u>	<u>15,620,583</u>
Other resources		
Donations and forfeitures of property	156,817	—
Transfers in/(out) without reimbursement	69,755	(4,234)
Imputed financing from costs absorbed by others	552,144	724,372
Other	<u>(30,199)</u>	<u>(24,980)</u>
Net other resources used to finance activities	<u>748,517</u>	<u>695,158</u>
<b>Total resources used to finance activities</b>	<b>16,494,102</b>	<b>16,315,741</b>
<b>Resources used to finance items not part of the net cost of operations</b>		
Change in budgetary resources obligated for goods, services and benefits ordered but not yet received	141,135	(428,847)
Resources that fund expenses recognized in prior periods (decreases in unfunded liabilities) (Note 15)	58,308	92,703
Resources that finance the acquisition of assets	1,464,254	1,323,520
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>195,449</u>	<u>328</u>
<b>Total resources used to finance items not part of net cost of operations</b>	<b>1,859,146</b>	<b>987,704</b>
<b>Total resources used to finance net cost of operations</b>	<b>14,634,956</b>	<b>15,328,037</b>
<b>Components of net cost of operations that will not require or generate resources in the current period</b>		
Components requiring or generating resources in future periods		
Increases in annual leave liability and other unfunded liabilities (Note 15)	152,877	36,196
Components not requiring or generating resources in future periods		
Depreciation and amortization	1,136,914	1,042,979
Other	<u>206,413</u>	<u>281,516</u>
<b>Total components of net cost of operations that will not require or generate resources</b>	<b>1,343,327</b>	<b>1,324,495</b>
<b>Total components of net cost of operations that will not require or generate resources in the current period</b>	<b>1,496,204</b>	<b>1,360,691</b>
<b>Net cost of operations</b>	<b>\$ 16,131,160</b>	<b>\$ 16,688,728</b>

## 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*

FINANCIAL RESULTS

<b>State/Territory</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>
Alabama	\$ 54,765	\$ 41,267	\$ 70,995	\$ 88,006	\$ 53,568
Alaska	234,242	185,504	217,745	258,493	228,082
Arizona	73,272	81,577	74,873	81,016	87,839
Arkansas	35,746	58,152	44,485	41,746	40,313
California	212,080	242,701	330,976	257,045	402,378
Colorado	74,102	115,029	112,610	127,959	54,327
Connecticut	16,637	20,654	29,152	36,016	13,388
Delaware	5,352	8,240	11,841	15,112	11,163
District of Columbia	44,565	7,862	20,336	19,052	5,652
Florida	160,509	143,266	198,920	209,747	157,214
Georgia	90,864	84,877	62,908	112,453	118,644
Hawaii	29,024	29,391	32,954	81,303	41,556
Idaho	18,813	21,529	19,925	26,444	21,905
Illinois	161,320	120,826	123,683	126,249	116,104
Indiana	42,460	68,204	65,839	63,444	66,825
Iowa	41,221	31,191	40,461	30,776	37,843
Kansas	31,476	24,293	55,251	43,475	22,059
Kentucky	24,432	25,941	43,532	47,411	32,981
Louisiana	55,676	63,079	94,206	66,617	58,036
Maine	18,257	26,882	29,465	21,130	26,631
Maryland	15,011	21,000	23,741	26,262	30,575
Massachusetts	66,044	55,491	77,362	77,193	42,092
Michigan	76,900	85,698	126,271	95,534	121,795
Minnesota	48,313	54,819	81,733	62,844	68,027
Mississippi	35,713	60,065	47,301	43,608	69,768
Missouri	46,445	38,719	105,807	79,620	104,980
Montana	48,128	36,530	41,271	44,214	28,997
Nebraska	34,711	50,130	28,140	46,884	17,051
Nevada	50,051	45,926	60,035	62,106	51,045
New Hampshire	21,070	14,752	15,634	21,930	24,337
New Jersey	47,444	75,939	121,679	81,388	111,692
New Mexico	26,163	26,387	30,488	25,966	23,273

(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	2012	2011	2010	2009	2008
New York	\$ 94,424	\$ 93,252	\$ 111,390	\$ 111,873	\$ 80,292
North Carolina	51,337	77,725	109,685	105,959	97,242
North Dakota	28,723	23,127	26,195	21,948	19,395
Ohio	79,962	97,423	83,681	106,927	150,547
Oklahoma	37,892	41,488	46,774	49,832	33,975
Oregon	36,671	56,134	80,910	62,678	35,154
Pennsylvania	82,029	91,215	106,319	112,739	119,807
Rhode Island	3,675	8,059	20,554	7,441	13,177
South Carolina	49,512	56,367	45,763	42,403	34,553
South Dakota	32,712	29,846	32,330	32,142	29,557
Tennessee	59,545	75,136	101,234	96,655	76,141
Texas	195,321	240,380	249,084	289,801	299,473
Utah	42,705	49,029	34,482	39,329	56,319
Vermont	9,998	26,103	21,628	8,179	6,234
Virginia	42,571	32,379	57,930	81,283	64,932
Washington	89,797	120,976	98,228	133,508	97,078
West Virginia	26,544	27,167	27,634	28,280	25,256
Wisconsin	51,167	65,061	78,599	61,043	48,781
Wyoming	20,108	22,845	34,190	25,486	19,323
American Samoa	4,952	12,315	6,650	9,273	5,195
Guam	3,238	11,952	19,574	38,245	18,683
Northern Mariana Island	5,714	10,502	14,420	8,678	12,151
Puerto Rico	11,492	6,569	12,019	20,625	16,578
Virgin Islands	2,545	16,076	7,602	3,698	6,892
Marshall Island	2,669	4,463	24,514		
Administration	133,576	127,202	124,454	115,902	96,965
<b>Totals</b>	<b>\$ 3,139,685</b>	<b>\$ 3,388,712</b>	<b>\$ 4,015,462</b>	<b>\$ 4,034,970</b>	<b>\$ 3,753,840</b>

The FAA makes project grants for airport planning and development under the Airport Improvement Program to maintain a safe and efficient nationwide system of public-use airports that meets both 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	2012	2011	2010	2009	2008
Applied Research	\$ 133,932	\$ 129,954	\$ 103,042	\$ 95,764	\$ 88,114
Development	1,311	2,238	2,008	1,102	814
Administration	37,482	35,875	36,723	35,055	33,519
R&D Plant	18,974	5,848	5,590	3,381	3,498
<b>Total</b>	<b>\$ 191,699</b>	<b>\$ 173,915</b>	<b>\$ 147,363</b>	<b>\$ 135,302</b>	<b>\$ 125,945</b>

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

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

- The FAA developed the Current and Forecast Icing Products which provide more accurate and timely diagnoses and forecasts of atmospheric conditions that lead to ice accretion on aircraft during flight. The two icing products use automated algorithms to gather real time information from satellites, radars, weather models, surface stations and pilot reports. This data helps determine the probability of encountering icing, its expected severity and the likelihood of large droplet icing conditions. This capability is especially beneficial to commuter and smaller aircraft without ice protection as well as those flying at altitudes below 24,000 feet where they are more likely to encounter atmospheric conditions conducive to icing.
- The FAA developed a National Ceiling and Visibility Analysis (CVA) that provides real time analysis of current ceiling and visibility conditions, updated every five minutes within a 5 kilometer grid, across the continental United States, excluding Alaska. Currently low ceilings and restricted visibility are the cause of 72% of general aviation (GA) weather related accidents. CVA was implemented operationally onto the web based Aviation Digital Data Service at the National Oceanic and Atmospheric Administration's weather center in Kansas City. As a safety tool to improve situational awareness, CVA targets the safety-of-operations needs of GA. Further enhancement by FY 2016 will include capability for Alaska.
- One major enabling technology of NextGen is data communications (Data Comm), which is an electronic text based message transferring system between aircraft and ground stations. Switching to Data Comm from the current voice communications as the primary communication between flight crew and air traffic control (ATC) will require development of flight deck procedures for interacting with Data Comm. Two research projects are underway: (1) to assess pilot situational awareness, decision making, and workload with Data Comm compared to voice communication; and (2) to evaluate the procedures for receiving and reading Data Comm messages and generating the appropriate response. The results of this research will be used to inform further Data Comm procedure development and eventual procedure implementation supporting NextGen operations.

- Alternative jet fuel provides great promise for the airline industry from an environmental, energy security, and economic perspective. In FY12 several demonstration flights have shown that technology is available to produce alternative jet fuel that can be used to safely fly existing aircraft. Key challenges to moving forward include formation of an effective business plan addressing production at marketable prices and quantities deliverable at the appropriate

point in the supply chain. One concept that has received significant industry interest is to locate an alternative fuel production facility on, or adjacent to, an airport to take advantage of known demand. A handbook was developed for airport operators and others associated with alternative fuels to address legal, environmental, financial, and logistical considerations and to aid in evaluating the feasibility of providing this capability.

## REQUIRED SUPPLEMENTARY INFORMATION

U.S. Department of Transportation  
FEDERAL AVIATION ADMINISTRATION  
**SUPPLEMENTARY INFORMATION**  
**DEFERRED MAINTENANCE**  
As of September 30, 2012  
*Unaudited*

Category	Method	Asset condition*	Costs to return to acceptable condition
Buildings	Condition assessment	4&5	\$ 56,166
Other structures and facilities	Condition assessment	4&5	\$ 243,295

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

Deferred maintenance is maintenance 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 only on assets with condition ratings of 4 and 5, in compliance with the Statement of Federal Financial Accounting Standards (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 is estimated using condition assessment surveys and includes the following buildings, structures, and facilities: Enroute, Terminal, FAA Technical Center, FAA Aeronautical Center and unstaffed facilities. The FAA recognizes maintenance expense as incurred.

U. S. Department of Transportation  
FEDERAL AVIATION ADMINISTRATION  
**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE**  
As of September 30, 2012  
*Unaudited*

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



U. S. Department of Transportation  
FEDERAL AVIATION ADMINISTRATION  
**SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE**  
As of September 30, 2011  
*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
<b>BUDGETARY RESOURCES</b>								
Unobligated balance brought forward, transfers and other	\$ 4,297	\$ 1,505,136	\$ 56,504	\$ 1,449,853	\$ 130,231	\$ 174,322	\$ 1,562	\$ 3,321,905
Recoveries of prior year obligations	143,610	114,379	30,498	3,144	25,838	150,285	18,668	486,422
Other changes in unobligated balance	—	(22,958)	(2,116)	—	—	(40,967)	—	(66,041)
Appropriations	—	2,730,731	169,679	—	—	4,966,380	4,549,882	12,416,672
Contract Authority	3,515,000	—	—	—	—	—	—	3,515,000
Spending authority from offsetting collections	361	53,025	2,624	222,697	411,372	4,737,482	333	5,427,894
<b>Total Budgetary Resources</b>	<b>\$ 3,663,268</b>	<b>\$ 4,380,313</b>	<b>\$ 257,189</b>	<b>\$ 1,675,694</b>	<b>\$ 567,441</b>	<b>\$ 9,987,502</b>	<b>\$ 4,570,445</b>	<b>\$ 25,101,852</b>
<b>STATUS OF BUDGETARY RESOURCES</b>								
Obligations incurred	\$ 3,650,737	\$ 2,900,695	\$ 174,482	\$ 3,758	\$ 439,849	\$ 9,825,315	\$ 4,550,805	\$ 21,545,641
Apportioned	9,095	1,364,117	51,529	48,897	121,144	75,730	1	1,670,513
Unapportioned	3,436	115,501	31,178	1,623,039	6,448	86,457	19,639	1,885,698
<b>Total Status of Budgetary Resources</b>	<b>\$ 3,663,268</b>	<b>\$ 4,380,313</b>	<b>\$ 257,189</b>	<b>\$ 1,675,694</b>	<b>\$ 567,441</b>	<b>\$ 9,987,502</b>	<b>\$ 4,570,445</b>	<b>\$ 25,101,852</b>
<b>CHANGE IN OBLIGATED BALANCES</b>								
Obligated balance, net, beginning of period	\$ 4,932,755	\$ 1,922,849	\$ 185,165	\$ 4,762	\$ 163,838	\$ 1,414,260	\$ 319,384	\$ 8,943,013
Obligations incurred	3,650,737	2,900,695	174,482	3,758	439,849	9,825,315	4,550,805	21,545,641
Gross Outlays	(3,216,771)	(2,817,755)	(181,128)	170	(468,642)	(9,624,666)	(4,803,272)	(21,102,064)
Recoveries of prior year obligations	(143,610)	(114,379)	(30,498)	(3,144)	(25,838)	(150,285)	(18,668)	(486,422)
Change in uncollected customer payments from Federal sources	—	13,732	4,461	—	10,354	26,504	(160)	54,891
<b>Obligated balance, net, end of period</b>	<b>\$ 5,223,111</b>	<b>\$ 1,905,142</b>	<b>\$ 152,482</b>	<b>\$ 5,546</b>	<b>\$ 129,561</b>	<b>\$ 1,491,128</b>	<b>\$ 48,089</b>	<b>\$ 8,955,059</b>
<b>BUDGET AUTHORITY AND OUTLAYS</b>								
Budget authority, gross	\$ 3,515,361	\$ 2,783,756	\$ 172,303	\$ 222,697	\$ 411,372	\$ 9,703,862	\$ 4,550,215	\$ 21,359,566
Actual offsetting collections	(361)	(66,757)	(7,085)	(222,697)	(421,726)	(4,763,986)	(173)	(5,482,785)
Change in uncollected customer payments from Federal sources	—	13,732	4,461	—	10,354	26,504	(160)	54,891
<b>Budget authority, net</b>	<b>\$ 5,223,111</b>	<b>\$ 2,730,731</b>	<b>\$ 169,679</b>	<b>\$ —</b>	<b>\$ —</b>	<b>\$ 4,966,380</b>	<b>\$ 4,549,882</b>	<b>\$ 15,931,672</b>
<b>NET OUTLAYS</b>								
Gross outlays	\$ 3,216,771	\$ 2,817,755	\$ 181,128	\$ (170)	\$ 458,642	\$ 9,624,666	\$ 4,803,272	\$ 21,102,064
Offsetting collections	(361)	(66,757)	(7,085)	(222,697)	(421,726)	(4,763,986)	(173)	(5,482,785)
Distributed offsetting receipts	—	—	—	—	—	—	(10,742)	(10,742)
<b>Net Outlays</b>	<b>\$ 3,216,410</b>	<b>\$ 2,750,998</b>	<b>\$ 174,043</b>	<b>\$ (222,867)</b>	<b>\$ 36,916</b>	<b>\$ 4,860,680</b>	<b>\$ 4,792,357</b>	<b>\$ 15,608,537</b>



## OTHER ACCOMPANYING INFORMATION

## SUMMARY OF INSPECTOR GENERAL'S TOP MANAGEMENT CHALLENGES

The *Reports Consolidation Act of 2000* requires the Inspector General to identify and report each year on the most serious management and performance challenges that Federal agencies face. The DOT IG's report, which is issued soon after the beginning of the fiscal year, highlights urgent issues for the Department as a whole.




### Memorandum

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

Subject: **INFORMATION:** DOT's  
Fiscal Year 2012 Top Management Challenges  
Department of Transportation  
Report Number PT-2012-006

Date: November 15, 2011

From: Calvin L. Scovel III   
Inspector General

Reply to  
Attn. of: J-1

To: The Secretary  
Deputy Secretary

As required by law, we have identified the Department of Transportation's (DOT) top management challenges for fiscal year 2012. The Nation's economy and the quality of life for all Americans rely heavily on a safe transportation system. The Department spends over \$78 billion annually on a wide range of programs and initiatives to meet this objective, and we continue to support its efforts through our audits and investigations.

Improving safety remains the Department's top priority, and it undertook several initiatives in fiscal year 2011 that reflect this commitment across various modes of transportation. These include issuing new regulations to keep unsafe drivers off highways, undertaking new bridge safety efforts, and pursuing rulemakings to address pilot professionalism and training. However, recent safety incidents demand renewed focus across several key areas for fiscal year 2012 and beyond. These include doing more to ensure controllers maintain safe separation between aircraft, addressing pilot fatigue issues, identifying and addressing vehicle safety defects, and improving pipeline safety oversight at the state and Federal levels.

The Department must address these challenges in an austere budget environment while also executing new infrastructure efforts across the Nation and handling longstanding management issues. For example, many highway and transit projects funded by the American Recovery and Reinvestment Act are still under construction and require vigilant oversight to maximize those investments. Budget constraints and problems with existing projects are also forcing the Department to rethink investments and priorities for the Next Generation Air Transportation System—which

2012 Top Management Challenges, Department of Transportation

is critical to meet future air travel demands. The Department must also better balance and prioritize resources to achieve its vision for intercity passenger rail.

Moreover, expanding and supporting our Nation's transportation infrastructure translates to billions of dollars on contracts for goods and services. Careful stewardship of every taxpayer dollar is critical given current fiscal pressures and the growing demand for improvements. The Department continues to face management challenges to strategically plan and oversee acquisitions and must adequately prepare its workforce to ensure each project achieves mission results. Finally, supporting all of the Department's programs and efforts are hundreds of information systems that will require resources to ensure security programs mitigate emerging cyber threats and vulnerabilities.

We continue to build a body of work to assist the Department with its critical mission; improve the management and execution of programs; and protect the Department's resources from fraud, waste, abuse, and violations of law.

We considered several criteria in identifying the following nine challenges, including their impact on safety, documented vulnerabilities, large dollar implications, and the ability of the Department to effect change in these areas:

- Enhancing the Department's Oversight of Highway, Bridge, and Transit Safety
- Ensuring Effective Oversight on Key Initiatives That Can Improve Aviation Safety
- Ensuring Effective Oversight of Hazardous Liquid and Natural Gas Pipeline Safety
- Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned To Improve DOT's Infrastructure Programs
- Managing the Next Generation Air Transportation System Advancement While Controlling Costs
- Managing DOT Acquisitions in a More Strategic Manner To Maximize Limited Resources and Achieve Better Mission Results
- Improving the Department's Cyber Security
- Defining Clear Goals To Guide the Federal Railroad Administration in Its Transformation
- Utilizing Department Credit Programs To Leverage Limited Federal Transportation Infrastructure Resources

We are committed to keeping decision makers informed of emerging and longstanding issues identified through our audits and investigations. We appreciate the Department's responsiveness to our findings and recommendations and the commitment to taking prompt corrective action.

This report and the Department's response will be included in the Department's Annual Financial Report, as required by law. The Department's response is included in its entirety in the appendix to this report. If you have any questions regarding the issues presented in this report, please contact me at (202) 366-1959. You may also contact Lou E. Dixon, Principal Assistant Inspector General for Auditing and Evaluation, at (202) 366-1427.

#

cc: Martin Gertel, M-1

The FAA had the lead role in addressing some challenges identified by the DOT Inspector General while we provided support to the Department in others. There were some challenges that were specifically related to other DOT modes—the FAA had no required actions. Of the nine challenges identified in the memo, the FAA was responsible for addressing the following five in FY 2012:

- Ensuring Effective Oversight of Key Initiatives That Can Improve Aviation Safety
- Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned to Improve DOT's Infrastructure Programs
- Managing the Next Generation Air Transportation System Advancement While Controlling Costs
- Managing DOT Acquisitions in a Smarter and More Strategic Manner to Maximize Limited Resources and Achieve Better Mission Results
- Improving the Department's Cyber Security

Under each DOT challenge there are separate key challenges. For each of these items, the FAA developed an Action Plan with specific steps and a timeline for addressing the challenge. At the end of the fiscal year an Actions Taken Report was submitted to the IG which provided progress made by the agency in addressing each challenge. The DOT Office of Inspector General Top Management Challenges Report, as well as detailed Action Plans and Actions Taken Reports are posted on the FAA's website at [http://www.faa.gov/about/plans\\_reports/](http://www.faa.gov/about/plans_reports/) under the DOT IG Top Management Challenges section.

## Ensuring Effective Oversight of Key Initiatives That Can Improve Aviation Safety

**KEY CHALLENGE:** Identifying and Addressing the Causes of Recent Increases in Operational Errors

**ISSUE:** It is unclear whether the increase of operational errors from FY 2009 and FY 2010 is due to more errors taking place or to the improved reporting within the agency. Through continued auditing, the OIG believes that other factors are contributing to the increase in operational errors, rather than the Air Traffic Safety Action Program.

Implementing systems and processes that capture accurate and complete data is critical for the FAA to determine the true magnitude of operational errors, assess their potential safety impacts, identify their root causes, and develop actions to effectively address and mitigate them.

### SUMMARY OF ACTIONS TAKEN IN FY 2012:

In January, the FAA implemented new orders and tools that support a proactive approach to safety management. These orders addressed the reporting of safety occurrences, quality assurance, quality control, voluntary safety reporting, and individual performance management.

Concurrent with these orders, the FAA implemented Comprehensive Electronic Data Analysis and Reporting (CEDAR), Falcon 3 and Traffic Analysis and Review Program (TARP). CEDAR provides a transparent data repository and Falcon 3 provides replay capabilities linked in CEDAR. TARP electronically collects airborne RADAR loss of separation alerts in terminal airspace. Potential safety occurrences are reported by operational personnel through a user interface into CEDAR. In addition, TARP alerts are collected automatically in CEDAR. This data is reviewed and validated by ATO Safety and Technical Training staff in FAA service area offices daily.

In September, Quality Control Checks and Validations were implemented in CEDAR to support Quality Control Programs at each service delivery point. These processes and associated CEDAR modules use available data to identify issues and ensure compliance with established quality control processes.

**KEY CHALLENGE:** Maintaining momentum in addressing pilot fatigue

**ISSUE:** The February 2009 crash of Colgan Air flight 3407 underscored the importance of addressing longstanding concerns about pilot training and fatigue. Since then, the FAA has issued a supplemental notice of proposed rulemaking (SNPRM) to revise crewmember training requirements. The agency also published a notice of proposed rulemaking (NPRM) to revise flight, duty and rest requirements for commercial carriers. However, the OIG believes the FAA still faces challenges tracking pilots with poor performance and training deficiencies, overseeing air carrier programs aimed at improving pilot skills and improving its awareness of the extent of pilot commuting and fatigue within the air carrier industry.

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

This year, the FAA continued to work on its final rule to revise crewmember training requirements. We also issued an NPRM that proposed to revise the requirements to obtain an airline transport pilot (ATP) certificate and to require all pilots operating in Part 121 to have an ATP. The FAA worked in the area of stall and stick pusher training by issuing an advisory circular on Stall and Stick Pusher Training and by revising the Practical Test Standards for the ATP. Additionally, the FAA has initiated a rulemaking project to revise qualification standards for flight simulators to support stall training in a simulator.

In January 2012, the FAA published its final rule on flight, duty and rest requirements for commercial air carriers. We drafted four advisory circulars to support the rule which address Fatigue Education and Awareness Training, On-Board Rest Facilities, Fitness for Duty and Fatigue Risk Management Systems (FRMS). The advisory circulars are in internal coordination. Additionally, as a result of the *FAA Modernization and Reform Act of 2012*, the FAA initiated rulemaking to include Part 91 operations into a flight duty period for Part 121. We approved all fatigue risk management plans for Part 121 air carriers and continue to review and approve revisions as proposed by the air carriers.

**KEY CHALLENGE:** Advancing risk-based oversight of repair stations and aircraft manufacturers

**ISSUE:** Weaknesses are present in the FAA's Organization Designation Authorization (ODA) program, which is the FAA program for authorizing organizations to issue approvals and certificates on the FAA's behalf and the Risk-Based Resource Targeting System (RBRT), which is a tool used to assess risk and direct resources in the Aircraft Certification Service. OIG believes the FAA has not adequately trained engineers on enforcement responsibilities and some offices have not effectively tracked or addressed poorly performing ODA personnel. In addition ODA significantly reduced the FAA's role in approving individuals who perform work on the FAA's behalf.

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

This year, the FAA mandated that personnel review each ODA unit (those individuals authorized within an ODA holders organization) selection decision made by an ODA holder for at least two years after an ODA holder is appointed. After two years, the ODA holder may then select unit members without FAA review if they have demonstrated satisfactory performance. Improvements to the FAA Academy Delegation Management course were incorporated to address the mandatory review of selection decisions and the appropriate role of the agency in reviewing selection decisions.

Additional focus on ODA regulatory violations, including participation by headquarters personnel, has been introduced into the FAA's Compliance and Enforcement training to ensure that field personnel responsible for overseeing ODA organizations are familiar with the compliance and enforcement process and tools. Increasing numbers of engineers from FAA field offices, who have not historically been involved in compliance and enforcement, now attend the course.

A learning module for RBRT is now in place and designed to provide more training to the engineers and inspectors that are required to use RBRT. All required users were identified and the training was added to their learning plans for completion by March 31, 2012. Additionally, the business process owner group conducted a series of on-site and computer demonstrations to show engineers and inspectors how the RBRT process works. This includes both a

presentation on the purpose of the process and a live demo of the actual IT tool. This on-site training was used to supplement the material in the learning module and was completed at all locations in the first quarter of FY 2012.

### Ensuring Effective Oversight of ARRA Projects and Applying Related Lessons Learned to Improve DOT's Infrastructure Programs

**KEY CHALLENGE:** Strengthening financial oversight of grantees through Single Audits and detecting improper payments

**ISSUE:** The Inspector General has reported that the approach to AIP grant oversight is inadequate despite corrective actions previously taken. Management's attention is continually needed to ensure that accurate decisions are made regarding Single Audit findings and that an appropriate tracking system is in place in order to effectively prevent or detect improper payments.

#### SUMMARY OF ACTIONS TAKEN IN FY 2012:

In FY 2012, ARP continued to track OIG findings and coordinate with the regional offices to assist in grant oversight. Additionally, a sample was sent out to the regional offices of those sponsors that expended \$500,000 or more a year in federal awards. We required documentation to show if a sponsor had in fact filed with the Federal Audit Clearinghouse.

The Internal Regional Audit will now include the Single Audit review. Each regional office is subject to an annual review by an analyst from a different region. Samples are pulled for the internal audit as well as the Single Audit. Each grant selected is compared against a checklist that includes all required information deemed necessary by ARP's guidance. At the end of each regional review, a status report is provided which serves as an alert for inadequate findings. ARP is tracking Single Audit findings using a Tiger Report from DOT and following up with the appropriate region for further action.

ARP coordinated with contractors and completed a system for providing a more robust method of evaluating airport sponsor risks for managing AIP

grants and funding. The system allows greater grant oversight on those sponsors that pose the highest risk for potential improper payments.

Finally, the draft AIP handbook is well underway and includes updates to the grant oversight risk model and policy. This re-write gives Airports and FAA field personnel the steps that are required to properly administer the AIP funded projects.

**KEY CHALLENGE:** Preventing and detecting transportation fraud through proactive measures

**ISSUE:** ARRA funding and significant construction activity emphasize the need for DOT and OIG to continue to aggressively pursue counter-fraud efforts so that limited Federal dollars are not wasted. The Department must ensure adequate oversight and accountability. DOT's Operating Administrations' role in outreach is critical to ensuring recipients of Federal grants and contracts have meaningful ethics programs and sound internal controls.

#### SUMMARY OF ACTIONS TAKEN IN FY 2012:

In FY 2012, ARP completed a system for providing a more robust method of evaluating airport sponsor risks for managing AIP grants and funding. The system allows greater grant oversight on those sponsors that pose the highest risk for potential improper payments. A policy has been issued and implemented for FY 2013 that will address these concerns.

ARP also updated its guidance to field offices and airport sponsors regarding the completion of a price cost analysis for AIP procurements. The guidance clarifies the elements of a price or cost analysis and becomes part of the basis for future project payments.

Finally, an AIP handbook is well underway and includes updates to the grant oversight risk model and policy. The draft has been submitted to AGC for initial review and is anticipated to be available in draft form for training purposes in FY 2013.



## Managing the Next Generation Air Transportation System Advancement While Controlling Costs

**KEY CHALLENGE:** Setting realistic plans, budgets, and expectations for NextGen in a fiscally constrained environment

**ISSUE:** The Department and the FAA have struggled with defining NextGen and setting realistic expectations for what can be accomplished in the near, mid-, and long term.

The current constrained budget and problems with existing projects are forcing the FAA to rethink the capital investments and NextGen priorities. Therefore, the FAA will face challenges in sustaining existing projects and facilities while introducing new NextGen-related capabilities.

The FAA has yet to make critical decisions regarding (1) what new capabilities will reside in aircraft or in FAA's ground-based automation systems, (2) the level of automation for controllers that can realistically and safely be achieved, and (3) the number and locations of air traffic facilities needed to support NextGen. Finally, (4) the FAA has not identified clear goals for performance capabilities or metric for NextGen initiative.

### SUMMARY OF ACTIONSTAKEN IN FY 2012:

(1) The FAA has determined that the ground-based automation system (GBAS) did not provide a strong enough benefits case to proceed with further deployment and acquisition, although FAA support and approval for prototypes of non-Federal systems will continue to be available. We continue to support the early implementers of GBAS within the U.S. in order to gain much needed operational experience with the system.

(2) The level of automation for controllers is being addressed through on-going human factors research, and through development work being supported by external research communities. We completed a strategic training needs analysis (STNA), and a preliminary analysis was published in June 2012. The final STNA is scheduled to be published later in calendar year 2012.

We continue to work closely with the safety organization by performing analyses of potential hazards associated with human performance in the NextGen mid-term. We completed a Human Performance Hazard Assessment in February 2012, and the NextGen Human Error/Safety Database for Off-Nominal NextGen Conditions in June 2012 (an analysis of errors and other human performance issues in the NAS in off-nominal conditions in the NextGen time frame).

The FAA conducted low-fidelity simulations to determine how to best integrate the envisioned level of automation and reduce risk by exploring the level of service that can be achieved given the introduction of automation. We completed these in September 2012 and the project has since been terminated due to budget constraints.

Additionally, the Human Factors Branch at the William J. Hughes Technical Center is supporting program offices in En Route and Traffic Flow Management to study automation in air traffic control and to offer guidance for implementation. This fiscal year, we conducted high fidelity Human-in-the-Loop (HITL) experiments that involved NATCA controllers, delivered technical reports, developed an initial specification, participated in the Future ERAM Computer-Human Interface (CHI) Team, and conducted cognitive walkthroughs. In support of Traffic Flow Management, we conducted analyses of where automation should be implemented, and designed and developed new automation for traffic managers.

(3) The FAA has been working with stakeholders on developing a plan for future facilities.

(4) The FAA published its NextGen Performance Snapshots (NPS) in March 2012. This website is designed to provide reports on operational performance as a result of the implementation of NextGen capabilities. The NPS shows both metrics data, developed in consultation with the aviation community through the NextGen Advisory Committee (NAC), as well as anecdotal information about changes in select locations. The NPS is expected to evolve to reflect ongoing progress on implementation as well as continuing collaboration with industry. The NPS is publicly available at [www.faa.gov/nextgen/snapshots](http://www.faa.gov/nextgen/snapshots).

**KEY CHALLENGE:** Advancing NextGen's near-term goals and realizing benefits at already congested airports

**ISSUE:** The FAA has not established detailed milestones to complete initiatives at high-activity locations or a mechanism to integrate its metroplex initiative with other important initiatives, such as improving airport surface operations. Additionally, the FAA's plans do not focus on the more advanced required navigation performance (RNP) procedures to achieve maximum capacity enhancements.

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

This year, the FAA continued to evolve the OAPM program. Experienced program management staff and contract support were added to the program office, a new schedule was developed that reflects other ongoing efforts and more effective utilization of program resources, and a detailed Operations Plan was developed. A systematic, metrics-based process reflecting input from the FAA and industry was used to initially prioritize projects and detailed project milestones were developed. These milestones are being tracked by several organizations including the White House, the Office of Management and Budget, the Government Accountability Office, the Department of Transportation, and the FAA. Internal to the FAA, OAPM management is well informed and updates are provided on a monthly basis to track progress and to ensure milestones are met.

**KEY CHALLENGE:** Resolving problems with the En Route Automation Modernization (ERAM) program that have cost and schedule implications for critical NextGen initiatives

**ISSUE:** Originally planned for completion in 2010, the En Route Automation Modernization (ERAM) program has experienced delays due to software-related problems. These problems have had a significant impact on the overall schedule and program budget. The ERAM program is working to resolve these issues as cost and schedule challenges have an impact on maintenance of legacy systems and associated resources, workforce training requirements, other Next Gen program schedules.

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

In FY 2012, the ERAM program renegotiated the

ERAM contract with the prime vendor for FY 2012 and FY 2013 waterfall. This includes new contractor incentive structure(s), relationships between software milestones and the triggering of those incentive(s), and agency controls to strengthen processes around software acceptance.

The ERAM program continues to mature the National User Team (NUT) to develop operational requirements for new software functions, thus improving the operational suitability of software before it is delivered to the field.

The ERAM program has developed a standing work group within the construct of the contract between the FAA and National Air Traffic Controller Association (NATCA), as well as Professional Aviation Safety Specialists (PASS), to collaborate on program strategy, software content, site implementation needs, and a range of other activities.

The AIMS system is used by all Air Route Traffic Control Centers (ARTCC) facilities to capture operational issues observed with ERAM. The current process for intake, analysis, and disposition of those issues has been streamlined, including system enhancements for end-user tracking and query of issue status.

The ERAM program has improved processes and standards for packaging builds using a newly formed National Packaging Team (NPT). This enables the program to provide more transparent and timely communication to facilities about build content, and enhances collaboration across program stakeholders as part of the packaging process.

The ERAM program has initiated a series of deep-dive architecture reviews of the system, some to be conducted by the prime contractor (ERAM Architecture review) and some to involve a third party review (ERAM Independent Verification and Validation (IV&V) project, led by Volpe). This work focuses on areas of system stability, reliability, and interoperability with other NextGen systems.

As a means of proactively managing cost and schedule performance, the ERAM program has expanded its existing earned value management approach to be a program-wide performance reporting tool rather than solely focusing on the prime vendor activities. This will

improve the ability of the program to comprehensively assess cost and schedule performance.

ERAM's safety risk management (SRM) process has been reviewed and improvements implemented with a view to a) strengthen upstream safety analysis by Air Traffic (AT) subject matter experts, b) increase sharing of build content early in the process to facilitate SRM planning activities, and c) standardize safety documentation signature processes for efficiency gains.

A new governance planning board has been implemented to establish a mechanism through which ERAM leadership can monitor the overall health of the program from both a long term strategic and shorter term operational perspective; and to implement practices that will increase efficiencies in managing change, coordinating schedules and reporting progress.

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**KEY CHALLENGE:** Completing and integrated master schedule for NextGen's transformational programs

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

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

The FAA made significant progress this year implementing the new Idea-to-In Service (i2i) process that provides the necessary structure and governance to better manage changes to NAS policy, procedures, programs, and systems, complimenting the FAA's Acquisition Management System. Additionally, both the NextGen and ATO organizations completed organizational changes to improve strategic direction of NextGen and improve program management in the Air Traffic Organization, both supporting development of the NextGen Integrated Master Schedule.

The next release of the NextGen Segment Implementation Plan (NSIP 5.0) was drafted and includes updates to Segment Alpha capabilities

through 2015. Portfolio Management Review Teams continued NSIP portfolio execution quarterly reviews. These reviews provide a cross agency forum to review portfolio accomplishments, identify challenges to implementation and develop mitigation strategies, and provide updates to the Integrated Master Schedule.

Finally, the 2012 NextGen Implementation Plan was published in March and included schedule and programmatic information for NSIP 4.0 Portfolios and NextGen Solution Set Pre-implementation activities.

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**KEY CHALLENGE:** Controlling operating costs that could crowd out NextGen capital investments

**ISSUE:** In 2009, the FAA entered into a three-year collective bargaining agreement with the National Air Traffic Controllers Association (NATCA). The FAA estimated that the agreement with NATCA would cost the FAA \$669 million more than it would have cost to extend the 2006 contract for three more years. The 2009 contract also allows the FAA and NATCA to negotiate local and regional memoranda of understanding (MOUs).

For the first year of the contract (FY10), FAA's pay and benefits costs were \$14 million higher than initially estimated. Also, OIG cited that the FAA has had problems managing its MOUs in the past, resulting in millions of dollars in cost overruns. Based on these factors, OIG is concerned that the NATCA contract and related MOUs may result in higher than expected costs if established controls are not managed well.

**SUMMARY OF ACTIONS TAKEN IN FY 2012:**

This year, in addition to developing and maintaining accurate pay modeling tools, the FAA kept costs in line with expectations through successful workforce planning. We utilized multiple resources to develop accurate attrition forecasts and estimates on training times for new controllers. This allowed the FAA to develop and execute new hire plans to ensure that new controllers are placed in the right place at the right time.

We also made improvements in compliance with established MOU processes. Briefings and supplemental training for the labor relations staff, outlining and emphasizing the proper procedures to be followed when negotiating an MOU and the subsequent updating of

the MOU database (LERIS), occur on a periodic basis. In addition, the standard operating procedures (SOP) for the MOU database has recently been reissued with a reinforced section on the requirement for including MOUs and supporting documentation.

Finally, our agency recently signed an extension to the 2009 NATCA contract that will run into 2016. As part of the extension, the FAA and NATCA agreed to future pay provisions that will ensure that controller pay increases will be generally the same as those granted to other Federal employees. This extension not only helps maintain the collaborative labor-management relationship, but will also ensure FAA costs are maintained at expected levels in the coming years.

### Managing DOT Acquisitions in a Smarter and More Strategic Manner to Maximize Limited Resources and Achieve Better Mission Results

**KEY CHALLENGE:** Equipping DOT to perform effective management oversight of its acquisitions

**ISSUE:** Oversight weaknesses compounded by poor acquisition data management systems hinder DOT's ability to strategically manage its contracts and contract spending; meet reporting and transparency requirements; and, ensure the billions of dollars it spends on contracting each year are used efficiently and effectively. Sustained focus on developing reliable information and data management systems will position DOT to conduct more strategic acquisitions.

#### SUMMARY OF ACTIONSTAKEN IN FY 2012:

The FAA performed several actions in FY 2012 to maximize oversight and its ability to effectively acquire mission requirements. The National Acquisition Evaluation Program (NAEP) continued its onsite reviews evaluating contract file documentation and data consistency. To improve data quality further, the Procurement Information & Services Branch continued to provide contracting office managers reports detailing errors and exceptions in the acquisition data system requiring action.

To improve the administration and oversight conducted by contracting officer's representatives (COR), the FAA worked with the Federal Acquisition Institute (FAI) to establish new COR training; revised COR policy in the

Acquisition Management System (AMS); established three COR certification levels; and performed training of its contracting officer and COR workforce. We worked with FAI to establish entry level training for new Federal CORs and revise competency levels for all levels of CORs in the Government. The FAA also formed a team consisting of various stakeholder organizations to analyze and revise AMS COR policy and guidance. The result was the establishment of three COR levels in FAA, which is based on the complexity, scope and value of acquisitions and reflect those established by the Office of Federal Procurement Policy for other Federal agencies. Finally training was provided to the CO and COR workforce detailing the certification changes and how the new FAA polices are to be implemented and administered.

**KEY CHALLENGE:** Strengthening the acquisitions workforce to manage DOT's contracts for goods and services

**ISSUE:** Modernizing the complex, highly sophisticated National Airspace System depends on the FAA's acquisition workforce professionals and requires that they be of the highest caliber. The FAA's 2011 acquisition workforce plan, which was not considered in the development of this management challenge, provides the blueprint for developing a high-performing acquisition workforce capable of successfully managing the FAA's major systems acquisitions. The 2011 plan emphasizes the need for and the specific steps being taken to develop the existing workforce, reflecting the realities of a Federal budget climate that constrains the agency's ability to hire additional resources. Looming retirements, competition for acquisition talent inside and outside of government, and the growing complexity of technology and related system requirements all contribute to the challenge of maintaining an adequately staffed, highly capable acquisition workforce.

#### SUMMARY OF ACTIONSTAKEN IN FY 2012:

The FAA took several actions in FY 2012 to ensure its acquisition workforce was provided the training and tools necessary to effectively and efficiently deliver mission requirements. To ensure management and acquisition training personnel can properly assess the composition and competency of the

acquisition workforce, the FAA collects and reports acquisition workforce gains and losses and measures the development and certification of program managers, contract specialists and contracting officer's representatives (COR) monthly. The FAA also revalidated the composition and applicability of the Program/Project Management profession competency model and certification program, and developed a pilot of a certification program for the Test and Evaluation profession.

### Improving the Department's Cyber Security

**KEY CHALLENGE:** Strengthening air traffic control system protections

**ISSUE:** The FAA's planned Next Generation Air Transportation System (NextGen) relies on a number of new technologies to achieve its goals. NextGen relies on the use of Internet Protocol-based commercial products and web applications, which are inherently more vulnerable to security risks than proprietary software. The FAA is also outsourcing more of its operations to contractors. Because the FAA only owns the data, not the system, it may have little control over security challenges that could arise.

#### **SUMMARY OF ACTIONS TAKEN IN FY 2012:**

This year, ATO established a formal security policy for NextGen outsourced NAS systems/services. The new policy defines security control requirements for both FAA owned NAS data/systems and contractor owned NAS systems/services. Additionally, ATO implemented a layered NAS security architecture to provide protection, detection, and response for NAS, Internet Protocol (IP)-based services and systems.

### MANAGEMENT RESPONSE

We agree that the FAA faces significant management and performance challenges as we continue to enhance aviation safety in an environmentally responsible way while simultaneously increasing efficiency in a fiscally restrained system. These Management Challenges are not issues that can be easily solved. In many cases they require investments or upgrades to technology or substantial changes in long-standing procedures or program activities. To completely mitigate a Management Challenge may take more than one fiscal year. However, the challenges above will be met through the focused efforts of our leadership and the commitment of our workforce.

#### Looking Ahead to FY 2013

The IG has identified the following Top Management Challenges for FY 2013. We will report on our progress in addressing these in our FY 2013 PAR.

- Ensuring the Next Generation Air Transportation System Advances Safety and Air Travel
- Enhancing the FAA's Oversight and Use of Data to Identify and Mitigate Safety Risks
- Strengthening Financial Management Over Grants to Better Use Funds, Create Jobs and Improve Infrastructure
- Assuring Effective Management of DOT's Acquisitions to Maximize Value and Program Performance
- Managing and Securing Information Systems to Efficiently Modernize Technology Infrastructure and Protect Sensitive Data from Compromise

## SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

### Financial Audit Summary

Table 1 is a summary of the results of the independent audit of the FAA's consolidated financial statements by the FAA's auditors in connection with the FY 2012 audit.

TABLE 1: SUMMARY OF FINANCIAL STATEMENT AUDIT					
<b>Audit Opinion</b>	FY 2012-unqualified				
	FY 2011-unqualified				
<b>Restatement</b>	No				
<b>Material Weakness</b>	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Ending Balance</b>
	0	0	0	0	0
<b>Total Material Weaknesses</b>	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, if the *Federal Managers' Financial Integrity Act of 1982* (FMFIA). The last portion of Table 2 is a summary of the FAA's compliance with the *Federal Financial Management Improvement Act* (FFMIA).

TABLE 2: SUMMARY OF MANAGEMENT ASSURANCES						
<b>EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)</b>						
<b>Statement of Assurance</b>	<b>Unqualified statement of assurance</b>					
	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	0	0	0	0	0	0
<b>EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)</b>						
<b>Statement of Assurance</b>	<b>Unqualified statement of assurance</b>					
	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
	0	0	0	0	0	0
<b>Total Material Weaknesses</b>	0	0	0	0	0	0
<b>CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)</b>						
<b>Statement of Assurance</b>	<b>Systems conform to financial management system requirements</b>					
	<b>Beginning Balance</b>	<b>New</b>	<b>Resolved</b>	<b>Consolidated</b>	<b>Reassessed</b>	<b>Ending Balance</b>
Conformance of FAA's core financial management system, Delphi, is assessed and reported by the U.S. Department of Transportation.	0	0	0	0	0	0
<b>COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)</b>						
	<b>Agency</b>		<b>Auditor</b>			
<b>Overall Substantial Compliance</b>	Yes		Yes			
1. System Requirements			Yes			
2. Accounting Standards			Yes			
3. USSS at Transaction Level			Yes			

## SUMMARY OF IMPROPER PAYMENTS

**I. Risk Assessment.** As part of the FY 2012 Improper Payments Review, conducted in compliance with the *Improper Payments Elimination and Recovery Act* (IPERA) and OMB Circular A-123, Appendix C, the DOT and the FAA performed a Programmatic Improper Payment Risk Assessment to determine which FAA programs require a statistically valid extrapolated improper payment estimate.

The FAA's Programmatic Improper Payment Risk Assessment leverages the Assessable Unit (AU) Risk Profiles compiled as part of ongoing compliance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA).

The AU Risk Profiles rate the internal control risk of various areas as either "high," "medium," or "low." After assigning numerical values to these three risk ratings, the FAA determined that programs with AU Risk Profiles that reported average internal control risk ratings of "low" or "medium" did not warrant additional review, except for the Airport Improvement Program (AIP).

In the case of the FAA's AIP, none of the AU risk averages identified a "high" level of internal control risk. However, the FAA determined that the volume of payments made annually, approximately \$4 billion for the FAA AIP, coupled with the fact that Federal funds within these programs are further administered outside the agency by local governments or airport sponsors, warranted an improper payment analysis.

**II. Statistical Sampling.** To adhere to IPERA requirements, the DOT and the FAA engaged a contractor to develop nationwide sampling plans, test sampled invoice line items for improprieties, and extrapolate nationwide improper payments estimates for the AIP grant program. The FY 2012 sample of tested line items originated from Federal disbursements to grantees for the twelve-month period of April 1, 2011, through March 31, 2012.

The IPERA sampling methodology involved a multi-staged statistical approach that included the selection of 73 Federal disbursements totaling approximately \$113 million and 142 line items from supporting invoices totaling \$11.3 million. A statistician designed the sample to extrapolate a nationwide estimate of improper payments. While this sample provides an improper payment estimate for the AIP as a whole, this sample does not support an estimate for individual states or airport sponsors.

Improper payments totaling \$839.74 were found in the sample. The projection of known improper payments to the population of program payments for the 12-month period results in an improper payment estimate of \$2.2 million. This estimated improper payment rate is less than 0.065 percent; therefore, it does not meet the definition of significant improper payments (\$10 million and 2.5 percent of total program payments) used by OMB.

### III. Corrective Actions.

**a. Fund Stewardship.** In order to maintain these low rates of improper payments, the FAA stresses the importance of proper fund stewardship with its grant recipients via various grantee review programs. FAA promotes proper fund stewardship through a continuous grant and sponsor oversight process throughout the duration of the grant life cycle. The FAA receives quarterly reports on each grant to assess sponsor performance under every grant agreement. On a broader level, the FAA uses a risk-based approach that increases the level of review of sponsor documentation depending on the risk level of the grantee and their prior performance.

**b. System Capabilities.** To further reduce and minimize the currently low rate of improper payments, the FAA stresses the need to review system capabilities to ensure their (the grantee's) grant management system complies with Federal grants standards.

**c. Document Retention.** The FAA continues to place emphasis on grantees implementing proper document retention policies. The FAA encourages grantees to maintain supporting documentation for all payments using Federal funds or to have access to the documentation, especially when performed by a third party. The AIP Handbook provides the requirements for record retention, which include maintaining the documents related to a grant for at least seven years after the last grant payment is received.

**d. Contract Amendments.** To minimize the potential of an improper payment, contracts should be properly amended and documented. The FAA recommends that grantees amend contracts when key or essential components are changed. Examples of these changes are changes in rates, job classes, budgeted hours, pricing schedule, vendor, subcontractor, scope and duration. FAA continues to place increasing emphasis on maintaining supporting documentation for all payments using Federal funds.

#### IV. Improper Payment Reporting.

IMPROPER PAYMENT REDUCTION OUTLOOK															
Program	PY Outlays (\$M)	PY IP%	PY IPS (\$M)	CY Outlays (\$M)	CY IP%	CY IPS (\$M)	CY+1 Est. Outlays (\$M)	CY+1 IP%	CY+1 IPS (\$M)	CY+2 Est. Outlays (\$M)	CY+2 IP%	CY+2 IPS (\$M)	CY+3 Est. Outlays (\$M)	CY+3 IP%	CY+3 IPS (\$M)
FAA Airport Improvement Program	\$3,906	0.89%	\$34.6	\$3,459	0.065%	\$2.2	\$3,619	0.50%	\$18.1	\$3,446	0.50%	\$17.2	\$3,412	0.50%	\$17.1

**V. Recapture of Improper Payments Reporting.** The DOT's contract recovery auditors worked to recover any FAA overpayments and identify payment process weaknesses. The recovery auditors did not identify any systemic payment process weaknesses. The overpayments were of such immaterial amounts that it was not considered cost-effective to break them down by agency and therefore they were reported at the departmental level (in the DOT's Performance and Accountability Report).

**VI. Accountability.** The DOT and the FAA have implemented various grantee review programs, as highlighted in PART III of this Summary of Improper Payments section, to hold states and local agencies

accountable for improper payments. The FAA uses a vast network of regional offices to ensure that it maintains regular communication with grantees, as well as with state and local officials. This constant communication, along with the assistance of grantee staff, has allowed us not only to maintain a low rate of improper payments, but also to achieve success in recapturing payments identified as both improper and recoverable.

#### VII. 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.



## ADMINISTRATIVE SERVICES FRANCHISE FUND

### Background

Public Law 104-205, "Department of Transportation and Related Agencies Appropriation Act, 1997," authorized the FAA to establish an Administrative Services Franchise Fund (Franchise Fund). The Franchise Fund is designed to create competition within the public sector in the performance of a wide variety of support services. It allows for the establishment of an environment to maximize the use of internal resources through the consolidation and joint-use of like functions and the recognition of economies of scale and efficiencies associated with the competitive offering of services to other government agencies.

The FAA's Franchise Fund is composed of several programs, within which it offers a wide variety of services. These services include accounting, travel, duplicating, multi-media, information technology, logistics and material management, aircraft maintenance, international training and management training. The Franchise Fund's major customers are FAA Lines of Business programs. Other customers include U.S. Department of Transportation (DOT) entities, non-DOT government agencies, and international government entities.

### Description of Programs and Services

Several programs within the Franchise Fund are organized around an *Enterprise Services Center* (ESC) concept, designed to integrate the key components necessary to be a full service financial management provider. The efficiencies and economies of scale created by this integration offer the opportunity to compete for customers seeking a provider of financial management services. As new customers come on board, this further reduces the cost of providing the services by spreading the fixed cost of operations over a larger customer base. There are three components of the ESC, all falling within the single Franchise Fund:

- Enterprise System-configuration and support of application software and databases
- Financial Operations-transaction processing, financial reporting, and analysis services
- Information Technology-hosting, telecommunications, information system security, and end user support services

During FY 2005, OMB selected ESC as a Financial Management Center of Excellence (COE). As a COE, the ESC now 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, the National Endowment for the Arts, Commodity Futures Trading Commission, Institute of Museum and Library Services, and the United States Government Accountability Office and also has several proposals out to other agencies.

In addition to being selected as a COE, the ESC was chosen by the FAA Administrator to serve as the consolidated provider of all financial management services for all FAA organizations. The ESC committed to providing an improved level of service, meeting all Joint Financial Management Improvement Program (JFMIP) requirements.

The Franchise Fund also includes the following program areas:

The **Aircraft Maintenance and Engineering Group** in the office of Aviation System Standards is located at the Mike Monroney Aeronautical Center (Aeronautical Center) in Oklahoma City. It provides total aircraft support including maintenance, quality assurance, and overall program management. This service includes preventative as well as repair/overhaul and/or modification requirements and reliability and maintainability studies. The Aircraft Maintenance and Engineering Group can provide full or partial support depending on customer requirements, from short-term preventative maintenance or one time engineering tasks to more involved activities such as a full complement of maintenance services with quality assurance and engineering support.

The **Center for Management and Executive Leadership** (CMEL), located at Palm Coast, FL, provides non-technical training in support of the FAA mission. The center designs and delivers face-to-face centralized training both onsite and at field locations. Students also complete more than 5,000 distance learning programs each year. CMEL is

fully accredited with commendations by the Commission on Occupational Education, and the American Council on Education has determined that CMEL courses are worthy of upper division college credit. The Federal, professional, and local communities also recognize CMEL as a premier resource for leadership and teambuilding training.

The **International Training Division (ITD)** in the FAA Academy at the Aeronautical Center in Oklahoma City delivers technical assistance and training to enhance international aviation safety and security while promoting U.S. aviation system technologies, products, and services overseas. The products and services of the ITD include training program management, instructional services, training design/development/revision, technical training evaluations, and consulting services tailored to meet specifically defined needs of the FAA and its international customers.

The **FAA Logistics Center** also located at the Aeronautical Center provides comprehensive logistics support and a highly sophisticated level of maintenance and repair services to ensure the safety of the flying public and to satisfy the critical needs of the national airspace system and related requirements. Services include materiel management (e.g., provisioning, cataloging, acquisition, inventory management, inventory supply), reliable and cost-effective depot-level repair of line replaceable units, life cycle and performance cost analysis, logistics automation, distribution services, disposal of items no longer required, and technical support in the repair and maintenance of national airspace and related equipment.

U. S. Department of Transportation  
 FEDERAL AVIATION ADMINISTRATION  
**FRANCHISE FUND**  
 Condensed Information  
**ASSETS, LIABILITIES, AND NET POSITION**  
 (Dollars in Thousands)  
*Unaudited*

	<b>As of September 30</b>	
	<b>2012</b>	<b>2011</b>
<b>Assets</b>		
Fund balance with Treasury	\$ 271,519	\$ 257,152
Accounts receivable, net	316	573
Inventory and related property, net	568,077	543,867
General property, plant, and equipment, net	22,950	24,705
Other	1,477	939
<b>Total assets</b>	<b>\$ 864,339</b>	<b>\$ 827,236</b>
<b>Liabilities</b>		
Accounts payable	\$ 30,478	\$ 30,990
Advances from others	155,770	153,416
Employee related	20,785	19,955
Other	1,294	1,929
<b>Total liabilities</b>	<b>208,327</b>	<b>206,290</b>
<b>Net position</b>		
Cumulative results of operations	656,012	620,946
<b>Total net position</b>	<b>656,012</b>	<b>620,946</b>
<b>Total liabilities and net position</b>	<b>\$ 864,339</b>	<b>\$ 827,236</b>

OTHER ACCOMPANYING INFORMATION

U. S. Department of Transportation  
FEDERAL AVIATION ADMINISTRATION  
**FRANCHISE FUND**

Condensed Information  
**REVENUES AND EXPENSES**

(Dollars in Thousands)  
*Unaudited*

		<b>For the years ended September 30</b>	
		<b>2012</b>	<b>2011</b>
<b>Enterprise Services Center</b>	Revenues	\$ 148,957	\$ 145,781
	Expenses	170,843	172,708
	Profit (loss)	(21,886)	(26,927)
<b>Aircraft Maintenance and Engineering Group</b>	Revenues	53,288	54,396
	Expenses	57,939	60,482
	Profit (loss)	(4,651)	(6,086)
<b>FAA Academy</b>	Revenues	13,314	14,886
	Expenses	15,466	17,358
	Profit (loss)	(2,152)	(2,472)
<b>FAA Logistics Center</b>	Revenues	289,570	343,783
	Expenses	273,458	334,480
	Profit (loss)	16,112	9,303
<b>Acquisitions</b>	Revenues	8,063	8,706
	Expenses	11,704	11,254
	Profit (loss)	(3,641)	(2,548)
<b>Total Consolidated</b>	Revenues	513,192	567,552
	Expenses	529,410	596,282
	Profit (loss)	\$ (16,218)	\$ (28,730)

U.S. Department of Transportation  
 FEDERAL AVIATION ADMINISTRATION  
**FRANCHISE FUND**  
 Condensed Information  
**FINANCING SOURCES AND NET POSITION**  
 (Dollars in Thousands)  
*Unaudited*

	<b>Cumulative results of operations</b>	
	<b>2012</b>	<b>2011</b>
<b>Beginning balance, net position</b>	\$ 620,946	\$ 598,660
<b>Financing sources</b>		
Transfers-in/out without reimbursement	(11,850)	(16,760)
Imputed financing from costs absorbed by others	63,134	67,776
Total financing sources	51,284	51,016
<b>Profit (loss)</b>	(16,218)	(28,730)
<b>Ending balance, net position</b>	\$ 656,012	\$ 620,946

OTHER ACCOMPANYING INFORMATION

## SCHEDULE OF SPENDING

The Schedule of Spending presents an overview of the major spending categories for FAA during FY 2012. The data used to populate this schedule is the same underlying data reported on the Statement of Budgetary Resources. This accompanying schedule is new for FY 2012.

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

As of September 30, 2012

*Unaudited*

<b>Total resources available to spend</b>	\$ 25,725,509
Less amount available but not agreed to be spent	1,430,914
Less amount not available to be spent	2,088,764
<b>Total amounts agreed to be spent</b>	<u>\$ 22,205,831</u>
<b>Major spending categories</b>	
Personnel compensation and benefits	\$ 7,534,257
Contractual services and supplies	5,639,734
Acquisition of assets	479,138
Grants and fixed charges	3,053,590
Other	5,059,582
<b>Total spending</b>	<u>21,766,301</u>
Amounts remaining to be spent	439,530
<b>Total amounts agreed to be spent</b>	<u>\$ 22,205,831</u>

# GLOSSARY OF ACRONYMS

ACRONYM	NAME
<b>AATF</b>	Airport and Airway Trust Fund
<b>ADS-B</b>	Automatic Dependent Surveillance-Broadcast
<b>AFN</b>	Finance and Management Staff Office
<b>AIP</b>	Airport Improvement Program
<b>AIO</b>	Office of Information Services
<b>AMS</b>	Acquisition Management System
<b>ANG</b>	NextGen Staff Office
<b>APB</b>	Acquisition Program Baseline
<b>ARP</b>	Airports (FAA Line of Business)
<b>ARRA</b>	American Recovery and Reinvestment Act
<b>ARTCC</b>	Air Route Traffic Control Center
<b>AST</b>	Commercial Space Transportation (FAA Line of Business)
<b>ATC</b>	Air Traffic Control
<b>ATO</b>	Air Traffic Organization (FAA Line of Business)
<b>ATP</b>	Airline Transport Pilot
<b>AU</b>	Assessable Unit
<b>AVS</b>	Aviation Safety (FAA Line of Business)
<b>BPTW</b>	Best Places to Work
<b>CAA</b>	Civil Aeronautics Authority
<b>CAAFI</b>	Commercial Aviation Alternative Fuels Initiative
<b>CAS</b>	Cost Accounting System
<b>CAST</b>	Commercial Aviation Safety Team
<b>CEAR</b>	Certificate of Excellence in Accountability Reporting
<b>CEDAR</b>	Comprehensive Electronic Data Analysis and Reporting
<b>CMEL</b>	Center for Management and Executive Leadership
<b>CFO</b>	Chief Financial Officer
<b>CFO Act</b>	Chief Financial Officers Act of 1990

ACRONYM	NAME
<b>CHI</b>	Computer-Human Interface
<b>CIO</b>	Chief Information Officer
<b>CIP</b>	Capital Investment Program
<b>CLEEN</b>	Continuous Lower Energy, Emissions and Noise
<b>COE</b>	Center of Excellence
<b>COR</b>	Contracting Officer's Representatives
<b>COTS</b>	Commercial off-the-shelf
<b>CSRS</b>	Civil Service Retirement System
<b>DOL</b>	U.S. Department of Labor
<b>DOT</b>	U.S. Department of Transportation
<b>ERAM</b>	En Route Automation Modernization
<b>ESC</b>	Enterprise Services Center
<b>EVS</b>	Employee Viewpoint Survey
<b>F&amp;E</b>	Facilities and Equipment
<b>FAA</b>	Federal Aviation Administration
<b>FAI</b>	Federal Acquisition Institute
<b>FASAB</b>	Federal Accounting Standards Advisory Board
<b>FBWT</b>	Fund Balance with Treasury
<b>FEA</b>	Federal Enterprise Architecture
<b>FECA</b>	Federal Employees' Compensation Act
<b>FEMA</b>	Federal Emergency Management Agency
<b>FERS</b>	Federal Employees Retirement System
<b>FFMIA</b>	Federal Financial Management Improvement Act
<b>FIT</b>	Financial Information Transformation
<b>FMFIA</b>	Federal Managers' Financial Integrity Act of 1982
<b>FRMS</b>	Fatigue Risk Management Systems
<b>FY</b>	Fiscal Year

ACRONYM	NAME
<b>GA</b>	General Aviation
<b>GBAS</b>	Ground-Based Automation System
<b>GAJSC</b>	General Aviation Joint Steering Committee
<b>GAO</b>	Government Accountability Office
<b>GPS</b>	Global Positioning System
<b>HITL</b>	Human-in-the-Loop
<b>HCAAF</b>	Human Capital Assessment and Accountability Framework
<b>ICAO</b>	International Civil Aviation Organization
<b>IG</b>	Inspector General
<b>ILS</b>	Instrument Landing System
<b>IOC</b>	Initial Operating Capability
<b>IPERA</b>	Improper Payments Elimination and Recovery Act
<b>IPIA</b>	Improper Payments Information Act
<b>ISS</b>	International Space Station
<b>IT</b>	Information Technology
<b>ITD</b>	International Training Division
<b>JFMIP</b>	Joint Financial Management Improvement Program
<b>LCGS</b>	Low Cost Ground Surveillance
<b>LP</b>	Localizer Performance
<b>LPV</b>	Localizer Performance with Vertical Navigation
<b>MOU</b>	Memorandum of Understanding
<b>NAEP</b>	National Acquisition Evaluation Program
<b>NAS</b>	National Airspace System
<b>NASA</b>	National Aeronautics and Space Administration
<b>NATCA</b>	National Air Traffic Controllers Association
<b>NAVAIDS</b>	Ground-based Navigational Aids

ACRONYM	NAME
<b>NextGen</b>	Next Generation Air Transportation System
<b>NPRM</b>	Notice of Proposed Rulemaking
<b>NPT</b>	National Packaging Team
<b>NTSB</b>	National Transportation Safety Board
<b>NUT</b>	National User Team
<b>ODA</b>	Organization Designation Authorization
<b>OIG</b>	Office of the Inspector General
<b>OMB</b>	Office of Management and Budget
<b>OPD</b>	Optimized Profile Descents
<b>OPM</b>	Office of Personnel Management
<b>OTA</b>	Office of Tax Analysis
<b>PAR</b>	Performance and Accountability Report
<b>PASS</b>	Professional Aviation Safety Specialists
<b>PBN</b>	Performance-Based Navigation
<b>PP&amp;E</b>	Property, Plant, and Equipment
<b>PPS</b>	The Partnership for Public Service

ACRONYM	NAME
<b>PURE</b>	Platform for Unified Reporting
<b>Q-routes</b>	En Route Cruising at High Altitudes
<b>RBRT</b>	Risk-Based Resource Targeting System
<b>R,E,&amp;D</b>	Research, Engineering, and Development
<b>RNAV</b>	Area Navigation
<b>RNP</b>	Required Navigation Performance
<b>RSA</b>	Runway Safety Area
<b>RSAT</b>	Runway Safety Action Teams
<b>RSSI</b>	Required Supplementary Stewardship Information
<b>SASO</b>	System Approach to Safety Oversight
<b>SAVES</b>	Strategic Sourcing for the Acquisition of Various Equipment and Supplies
<b>SEATAC</b>	Seattle Takoma International Airport
<b>SFFAS</b>	Statement of Federal Financial Accounting Standards
<b>SRV</b>	Sub-orbital Reusable Vehicle

ACRONYM	NAME
<b>STNT</b>	Strategic Training Needs Analysis
<b>SNPRM</b>	Supplemental Notice of Proposed Rulemaking
<b>SOP</b>	Standard Operating Procedures
<b>SpaceX</b>	Space Exploration Technologies
<b>SRER</b>	System Risk Event Rate
<b>SRM</b>	Safety Risk Management
<b>STAR</b>	Standard Terminal Arrival Routes
<b>SWAP</b>	Severe Weather Avoidance Plan
<b>SWIM</b>	System Wide Information Management
<b>T-routes</b>	En Route Cruising at Lower Altitudes Around Terminal Areas
<b>TARP</b>	Traffic Analysis and Review Program
<b>TBD</b>	To Be Determined
<b>UAS</b>	Unmanned Aircraft Systems
<b>WAAS</b>	Wide-Area Augmentation System





## WE WELCOME YOUR COMMENTS

Thank you for your interest in the *FAA's FY 2012 Performance and Accountability Report*. We welcome your comments on how we can make this report more informative for our readers.

***Please send your comments to***

*Mail:* Office of Financial Reporting and  
Accountability  
Federal Aviation Administration  
800 Independence Avenue, SW  
Room 612  
Washington, DC 20591

*Phone:* 202-267-3018

*Email:* [Allison.Ritman@faa.gov](mailto:Allison.Ritman@faa.gov)

*Fax:* 202-493-4191

This report and reports from prior years are available on the FAA Web site at [www.faa.gov/about/plans\\_reports](http://www.faa.gov/about/plans_reports).

For a printed copy, call 202-267-3018 or email [Allison.Ritman@faa.gov](mailto:Allison.Ritman@faa.gov).



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

800 Independence Avenue, SW  
Washington, DC 20591