FAA

Report QC2022013
November 12, 2021

Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020

Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020

Required by the Chief Financial Officers Act of 1990

Federal Aviation Administration | QC2022013 | November 12, 2021

What We Looked At

We contracted with the independent public accounting firm KPMG, LLP to audit the Federal Aviation Administration's (FAA) consolidated financial statements as of and for the fiscal years ended September 30, 2021, and September 30, 2020. KPMG was also required to provide an opinion on those financial statements, report on internal control over financial reporting, and report on compliance with laws and other matters. The contract required the audit to be performed in accordance with U.S. generally accepted Government auditing standards, Office of Management and Budget audit guidance, and the Governmental Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's Financial Audit Manual. We performed a quality control review of KPMG's report dated November 9, 2021, and related documentation, and inquired of its representatives.

What We Found

Our quality control review disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Our Recommendations

FAA concurred with KPMG's three recommendations. We agree with KPMG's recommendations and are not making any additional recommendations.

Contents

U.S. Department of Transportation
Office of Inspector General

Memorandum

Date: November 12, 2021

Subject: ACTION: Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Years 2021 and 2020 | Report No. QC2022013

From: Dormayne "Dory" Dillard-Christian D. Dillard-Christian
Acting Assistant Inspector General for Financial Audits

To: Federal Aviation Administrator

I respectfully submit the results of our quality control review (QCR) of the independent auditor's report on the Federal Aviation Administration's (FAA) audited consolidated financial statements for fiscal years 2021 and 2020.

We contracted with the independent public accounting firm KPMG, LLP to audit FAA's consolidated financial statements as of and for the fiscal years ended September 30, 2021, and September 30, 2020, and provide an opinion on those financial statements, report on internal control over financial reporting, and report on compliance with laws and other matters. The contract required the audit to be performed in accordance with U.S. generally accepted Government auditing standards, Office of Management and Budget audit guidance, and the Government Accountability Office's and Council of the Inspectors General on Integrity and Efficiency's *Financial Audit Manual.*[1]

We appreciate the cooperation and assistance of FAA's representatives and KPMG. If you have any questions about this report, please call me at (202) 570-6381, or Ingrid Harris, Program Director, at (202) 450-7637.

cc: The Secretary
DOT Audit Liaison, M-1
FAA Audit Liaison, AAE-001

[1] GAO, *Financial Audit Manual*, Volume 1 (GAO-18-601G), April 2020; Volume 2 (GAO-18-625G), March 2021; Volume 3, (GAO-21-105127), September 2021.

Independent Auditor's Report

In its audit of FAA's consolidated financial statements for fiscal years 2021 and 2020, KPMG reported that

- FAA's consolidated financial statements[2] were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- it found one significant deficiency[3] in internal control over financial reporting that it did not consider to be a material weakness;[4] and
- there were no instances of reportable noncompliance with provisions of laws tested, or reportable other matters.

KPMG made three recommendations to address the significant deficiency in internal control over financial reporting (see attachment 1).

Significant Deficiency

Weaknesses in general information technology controls. KPMG identified general information technology control deficiencies at the application, database, and/or operating system levels related to audit log review and access controls for FAA's general ledger, timekeeping, inventory, procurement, and environmental systems. More specifically, controls were not operating effectively over system access, including privileged account reviews, new user authorizations, and periodic review and recertification of access. Furthermore, FAA had not completed remediation related to controls identified in the prior year as not operating effectively over the review of audit logs, including documentation of appropriate and timely completion of the review.

KPMG also determined that FAA management did not develop component-specific implementation of security plan requirements for certain systems.

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[2] The consolidated financial statements are included in FAA's Performance and Accountability Report (see attachment 3). For FAA's full Performance and Accountability Report, which includes these statements, related notes, and required supplementary information, go to https://www.faa.gov/about/plans_reports/#performance.

[3] A significant deficiency is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness but important enough to merit attention by those charged with governance. 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.

[4] A material weakness is a deficiency, or a combination of deficiencies, 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.

Recommendations

To help strengthen FAA's general information technology controls, KPMG recommended that FAA management design and implement:

1. Procedures to consistently and timely perform and document audit log reviews as required by standards for effective internal control systems and/or internal policy;
2. Procedures to consistently and timely perform and document user account access reviews as required by standards for effective internal control systems and/or internal policy; and
3. Component-specific system security plan requirements in instances where plans for those areas not addressed in the Departmental system security plan.

Quality Control Review

We performed a QCR of KPMG's report, dated November 9, 2021, and related documentation, and inquired of its representatives. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted Government auditing standards, was not intended to enable us to express, and we do not express, an opinion on FAA's financial statements or conclusions about the effectiveness of internal control over financial reporting, or compliance with laws and other matters. KPMG is responsible for its report and the conclusions expressed therein.

Our QCR disclosed no instances in which KPMG did not comply, in all material respects, with U.S. generally accepted Government auditing standards.

Agency Comments and OIG Response

KPMG provided FAA with its draft report on November 4, 2021, and received FAA's response, dated November 9, 2021 (see attachment 2). FAA agreed with the deficiency KPMG found.

FAA concurred with KPMG's three recommendations and committed to developing a corrective action plan to address the deficiencies by December 31, 2021. We agree with KPMG's recommendations and are not making any additional recommendations.

Actions Required

We consider all three of KPMG's recommendations open and unresolved pending receipt of the corrective action plan.

Exhibit. List of Acronyms

DOT	Department of Transportation
FAA	Federal Aviation Administration
OIG	Office of Inspector General
QCR	quality control review

Attachment 1. Independent Auditor’s Report

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

Independent Auditors' Report

Administrator, Federal Aviation Administration and Inspector General
United States Department of Transportation, Federal Aviation Administration:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the United States Department of Transportation, Federal Aviation Administration (FAA), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, and the related consolidated statements of net cost and changes in net position, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the United States Department of Transportation, Federal Aviation Administration as of September 30, 2021 and 2020, and its net costs, changes in net position, and budgetary resources for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2021, we considered the FAA's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the FAA's internal control. Accordingly, we do not express an opinion on the effectiveness of the FAA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying exhibit as item 2021-01 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FAA's consolidated financial statements as of and for the year ended September 30, 2021 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 21-04.

FAA's Response to Findings

The FAA's response to the findings identified in our audit is described and presented in the section *Management's Response to the Independent Auditor's Report*. The FAA's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 9, 2021

2021 - 01: Weaknesses in General Information Technology Controls

Background

The Federal Aviation Administration (FAA) utilizes various information technology systems to carry out its mission and to compile amounts recorded in its financial statements. In addition to its general ledger system, FAA utilizes various information technology systems including; a timekeeping system to record employee time and attendance, an inventory system related to asset management and inventory control, a procurement system to record and track requisitions, purchase orders, and contracts, and a site management system that tracks the environmental investigation, remediation, and regulatory closure status of the FAA's environmental sites.

The general ledger system and the timekeeping systems are owned by the Department of Transportation (the Department). All other systems are owned by the FAA.

For systems owned by FAA, FAA is required to implement controls defined in the component-specific system security plans for those areas not addressed in the Departmental system security plan. For systems owned by the Department, the Department is required to implement controls defined in the component-specific system security plans for those areas not addressed in the Departmental system security plan.

Criteria

The U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book), sets the standards for an effective internal control system and provides an overall framework for designing, implementing, and operating effective internal control systems. The standards require entities to design appropriate types of control activities to include limiting access to resources and records to authorized individuals, and to periodically compare resources with the recorded accountability to help reduce the risk of errors, fraud, misuse, or unauthorized alteration. In addition, management should communicate quality information down and across reporting lines to enable personnel to perform key roles in achieving objectives, addressing risks, and supporting the internal control system. In these communications, management assigns the internal control responsibilities for key roles.

Condition

Control deficiencies exist at the application, database, and/or operating system levels related to audit log review and access controls for the systems mentioned above and as listed below:

- Remediation is not complete related to controls identified in the prior year as not operating effectively over the review of audit logs, including documentation to evidence appropriate and timely completion of the review.

- Controls were not operating effectively over system access, including privileged account reviews, new user authorizations, and periodic review and recertification of access.

In addition, operating administration management did not develop component-specific implementation of security plan requirements for certain systems.

Cause

Management has not established, or consistently implemented procedures to ensure compliance with standards for effective internal control systems and/or internal policy.

Effect

The absence of timely reviews of audit logs leaves the FAA exposed to the risk of delays in identifying and responding to incidents which could result in the exposure, modification, or loss of system data. Further, user accounts with inappropriate access may result in unauthorized use, disclosure, or modification of system data. Lastly, weaknesses in security management controls increase the risk that systems are not properly controlled and secured.

Recommendations

We recommend that FAA management design and implement:

1. Procedures to consistently and timely perform and document audit log reviews as required by standards for effective internal control systems and/or internal policy.

2. Procedures to consistently and timely perform and document user account access reviews as required by standards for effective internal control systems and/or internal policy.

3. Component-specific system security plan requirements in instances where plans for those areas are not addressed in the Departmental system security plan.

Attachment 2. Agency Response

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

Office of Financial Services

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

November 9, 2021

Mr. James Gould
KPMG LLP
1801 K Street, NW, Suite 1200
Washington, DC 20006

Dear Mr. Gould,

We have received your Independent Auditors' Report related to the Federal Aviation Administration's fiscal years 2021 and 2020 consolidated financial statements and offer the following response.

We appreciate working with you in support of an efficient and effective audit and are pleased to receive an unmodified audit result. The audit is an essential part of our fiscal responsibilities to our citizens and we take it very seriously.

We concur with the finding and recommendations in your report that additional remediation work is required to mitigate the noted significant deficiency. We will refine the adopted corrective action plan to further address this weakness and provide it to the Office of Inspector General by December 31, 2021. The corrective actions will include updating procedures and governing policies to consistently and timely perform and document audit log and user account access reviews, and further implement component-specific system security plan requirements. I will monitor implementation of the plan throughout the corrective action process.

Thank you for your candor and the professional manner in which you and your team conducted your audit.

Sincerely,

David Rickard
Chief Financial Officer

Attachment 3. FAA’s Financial Statements and Notes

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED BALANCE SHEETS

As of September 30, 2021 and 2020
(Dollars in Thousands)

	2021	2020
ASSETS		
Intragovernmental		
Fund balance with Treasury (Note 2)	$ 13,196,463	$ 10,995,645
Investments, net (Note 3)	18,189,656	10,259,928
Accounts receivable, net (Note 4)	12,372	16,745
Advances and prepayments	94,101	88,948
Total intragovernmental	31,492,592	21,361,266
Other than intragovernmental/with the public		
Accounts receivable, net (Note 4)	30,308	30,039
Inventory and related property, net (Note 5)	810,664	811,168
General property, plant, and equipment, net (Note 6)	11,670,008	11,917,696
Advances and prepayments	690	954
Other assets (Note 7)	–	27
Total other than intragovernmental/with the public	12,511,670	12,759,884
Total assets	$ 44,004,262	$ 34,121,150
LIABILITIES		
Intragovernmental		
Accounts payable	$ 9,833	$ 29,475
Advances from others and deferred revenue	206,838	207,148
Other liabilities (Note 10)	313,200	306,745
Total intragovernmental	529,871	543,368
Other than intragovernmental/with the public		
Accounts payable	441,797	410,601
Federal employee benefits payable	1,328,131	1,343,644
Environmental and disposal liabilities (Note 9)	752,148	745,540
Advances from others and deferred revenue	152,613	189,319
Other liabilities		
Accrued grant liabilities	7,230,44	5,161,060
Other (Note 10)	447,854	417,475
Total other than intragovernmental/with the public	10,352,987	8,267,639
Total liabilities	$ 10,882,858	$ 8,811,007
Commitments and contingencies (Note 12)		
NET POSITION		
Unexpended appropriations - funds from dedicated collections (combined) (Note 13)	$ 716,250	$ 432,928
Unexpended appropriations - funds from other than dedicated collections (combined)	4,838,873	–
Total unexpended appropriations (consolidated)	5,555,123	432,928
Cumulative results of operations – funds from dedicated collections (combined) (Note 13)	17,645,310	14,194,593
Cumulative results of operations – funds from other than dedicated collections (combined)	9,920,971	10,682,622
Total cumulative results of operations (consolidated)	27,566,281	24,877,215
Total net position	33,121,404	25,310,143
Total liabilities and net position	$ 44,004,262	$ 34,121,150

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

U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF NET COST

For the Years Ended September 30, 2021 and 2020

(Dollars in Thousands)

LINE OF BUSINESS PROGRAMS (NOTE 14)	2021	2020
Air Traffic Organization		
Gross program costs	$ 12,816,633	$ 12,436,808
Less earned revenues	(357,425)	(358,167)
Net cost	12,459,208	12,078,641
Airports		
Gross program costs	11,225,978	11,300,066
Net cost	11,225,978	11,300,066
Aviation Safety		
Gross program costs	1,737,993	1,622,514
Less earned revenues	(7,022)	(12,174)
Net cost	1,730,971	1,610,340
Security and Hazardous Materials Safety		
Gross program costs	149,892	139,621
Less earned revenues	(15,743)	(46,095)
Net cost	134,149	93,526
Commercial Space Transportation		
Gross program costs	34,186	28,322
Net cost	34,186	28,322
NON-LINE OF BUSINESS PROGRAMS		
Gross program costs	277,631	268,557
Less earned revenues	(139,992)	(190,235)
Net cost	137,639	78,322
NET COST OF OPERATIONS		
Total gross program costs	26,242,313	25,795,888
Less earned revenues	(520,182)	(606,671)
Total net cost	$ 25,722,131	$ 25,189,217

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

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET POSITION

For the Years Ended September 30, 2021 and 2020

(Dollars in Thousands)

	2021			2020		
UNEXPENDED APPROPRIATIONS	Funds from dedicated collections (combined) (Note 13)	Funds from other than dedicated collections (combined)	Consolidated total	Funds from dedicated collections (combined) (Note 13)	Funds from other than dedicated collections (combined)	Consolidated total
Beginning balances	$ 432,928	$ –	$ 432,928	$ 730,649	$ –	$ 730,649
Appropriations received (Note 16)	482,500	24,409,000	24,891,500	111,000	10,400,000	10,511,000
Other adjustments	(50,235)	–	(50,235)	(73,203)	–	(73,203)
Appropriations used	(148,943)	(19,570,127)	(19,719,070)	(335,518)	(10,400,000)	(10,735,518)
Net change in unexpended appropriations	283,322	4,838,873	5,122,195	(297,721)	–	(297,721)
Total unexpended appropriations - ending	$ 716,250	$ 4,838,873	$ 5,555,123	$ 432,928	$ –	$ 432,928
CUMULATIVE RESULTS OF OPERATIONS						
Beginning balances	$ 14,194,593	$ 10,682,622	$ 24,877,215	$ 18,842,731	$ 11,027,855	$ 29,870,586
Appropriations used	148,943	19,570,127	19,719,070	335,518	10,400,000	10,735,518
Non-exchange revenue – excise taxes and other	8,466,804	–	8,466,804	9,348,111	–	9,348,111
Transfers-in/out without reimbursement	12,939,495	(13,134,060)	(194,565)	8,881,011	(9,148,415)	(267,404)
Donations and forfeitures of property	–	25,703	25,703	–	35,860	35,860
Imputed financing (Note 15)	383,923	10,262	394,185	334,103	9,575	343,678
Other	–	–	–	–	83	83
Net cost of operations	18,488,448	7,233,683	25,722,131	23,546,881	1,642,336	25,189,217
Net change in cumulative results of operations	3,450,717	(761,651)	2,689,066	(4,648,138)	(345,233)	(4,993,371)
Cumulative results of operations - ending	$ 17,645,310	$ 9,920,971	$ 27,566,281	$ 14,194,593	$ 10,682,622	$ 24,877,215
Net position	$ 18,361,560	$ 14,759,844	$ 33,121,404	$ 14,627,521	$ 10,682,622	$ 25,310,143

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

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

COMBINED STATEMENTS OF BUDGETARY RESOURCES

For the Years Ended September 30, 2021 and 2020

(Dollars in Thousands)

	2021	2020
BUDGETARY RESOURCES (NOTE 16)		
Unobligated balance from prior year budget authority, net	$ 6,775,933	$ 6,493,683
Appropriations	41,032,106	34,669,210
Contract authority	3,350,000	3,350,000
Spending authority from offsetting collections	11,222,619	11,280,715
Total budgetary resources	$ 62,380,658	$ 55,793,608
STATUS OF BUDGETARY RESOURCES		
New obligations and upward adjustments	$ 52,810,501	$ 49,437,939
Unobligated balance, end of year		
Apportioned, unexpired accounts	7,114,408	3,882,345
Unapportioned, unexpired accounts	2,329,956	2,303,292
Unexpired unobligated balance, end of year	9,44 ,364	6,185,637
Expired unobligated balance, end of year	125,793	170,032
Unobligated balance, end of year (total)	9,570,157	6,355,669
Total budgetary resources	$ 62,380,658	$ 55,793,608
OUTLAYS, NET		
Outlays, net (total)	$ 39,421,662	$ 30,761,594
Distributed offsetting receipts	(16,418,603)	(10,409,856)
Agency outlays, net	$ 23,003,059	$ 20,351,738

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

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The reporting entity is a component of the U.S. Government. For this reason, some of the assets and liabilities reported by the entity may be eliminated for government-wide reporting because they are offset by assets and liabilities of another U.S. Government entity. These financial statements should be read with the realization that they are for a component of the U.S. Government.

Created in 1958, the FAA is a component of the Department of Transportation (DOT), a cabinet-level agency of the executive branch of the federal government. The FAA's mission is to provide a safe, secure, and efficient global aerospace system that contributes to national security and safety. As the leading authority in the international aviation community, the FAA is responsive to the dynamic nature of customer needs, economic conditions, and environmental concerns.

The U.S. Congress annually enacts appropriations to permit the FAA to incur obligations for specified purposes. The FAA is accountable for amounts made available per appropriations laws, from the Airport and Airway Trust Fund (AATF), revolving funds, a special fund, and the general fund. The FAA recognizes budgetary resources as assets when authorized by congressional action and apportioned by the Office of Management and Budget (OMB).

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

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

The consolidated and combined financial statements present the accounts of all funds that have been established and maintained to account for the resources under the FAA's control. The FAA has rights and ownership of all assets reported in these financial statements. The FAA does not possess any non-entity assets.

The reporting entity is comprised of the FAA's lines of business and staff offices. For additional information, see FAA Organization on pages 10–11.

The FAA is the sponsor of the Center for Advanced Aviation System Development (CAASD), a Federally Funded Research and Development Center (FFR C). CAAS is a disclosure entity, which is not a consolidated entity. While the FAA's financial statements include its spending for studies it contracts with CAAS , the financial statements of the FAA do not include the financial results or position of CAAS . Additional information on FAA's relationship with CAAS is presented in Note 19.

B. 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 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 OMB Circular A-136, as revised, *Financial Reporting Requirements*, and the DOT and the FAA significant accounting policies, the latter of which are summarized in this note. The statements are subjected to audit, as required by OMB Bulletin 21-04, *Audit Requirements for Federal Financial Statements*.

All material intra-agency activity has been eliminated for presentation on a consolidated basis, with a few exceptions. The Statement of Budgetary Resources is presented on a combined basis in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*. Intra-agency activity reported in funds from dedicated collections is often offset with activity in other funds. Accordingly, funds from dedicated collections and funds from other than dedicated collections, presented separately in the Balance Sheets and Statements of Changes in Net Position, are presented on a combined basis.

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

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

C. Basis of Accounting

The financial statements are prepared in accordance with all applicable accounting principles and standards developed and issued by the Federal Accounting Standards Advisory Board, which is recognized by the American Institute of Certified Public Accountants as the entity to establish generally accepted accounting principles for the federal government. The Federal Financial Management Improvement Act of 1996 requires the FAA to comply substantially with (1) federal financial management systems requirements, (2) applicable federal accounting standards, and (3) the United States Standard General Ledger requirements at the transaction level.

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.

. Revenues and Other Financing Sources

As a component of the U.S. Government-wide reporting entity, the FAA is subject to the federal budget process, which involves appropriations that are provided annually and appropriations that are provided on a permanent basis. The financial transactions that are supported by budgetary resources, which include appropriations, are generally the same transactions reflected in entity and the U.S. Government-wide financial reports.

The FAA's budgetary resources reflect past congressional action and enable the entity to incur budgetary obligations, but they do not reflect assets to the U.S. Government as a whole. Budgetary obligations are legal obligations for goods, services, or amounts to be paid based on statutory provisions. After budgetary obligations are incurred, the U.S. Treasury will make disbursements to liquidate the budgetary obligations and finance those disbursements in the same way it finances all disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

The U.S. Congress enacts annual, multi-year, and no-year appropriations to be used, within statutory limits, for operating, capital, and grant expenditures. Additional amounts are obtained from service fees (e.g., landing, registry, and aviation user fees), and through reimbursements for products and services provided to domestic and foreign governmental entities, and the public.

The AATF is sustained by excise taxes that the Internal Revenue Service (IRS) collects from airway system users. Excise taxes collected are initially deposited to the General Fund of the U.S. Government. The IRS does not receive sufficient information at the time the excise taxes are collected to determine how they should be distributed to specific funds from dedicated collections. Therefore, the U.S. Treasury makes initial semi-monthly distributions to the AATF based on allocations prepared by its Office of Tax Analysis. These allocations are based on historical excise tax data applied to current excise tax receipts and later adjusted to agree to actual collections when certified by the IRS.

The CARES Act suspended the collection of almost all aviation excise taxes from March 28, 2020 through ecember 31, 2020.

The FAA's September 30, 2021 financial statements reflect excise taxes certified by the IRS though June 30, 2021, and excise taxes allocated by the Office of Tax Analysis for the period July 1, 2021 through September 30, 2021, in compliance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources*. Actual excise tax collections for the quarter ended September 30, 2021 will not be available from the IRS until February 2022. When actual amounts are certified by the IRS, generally four to five months after the end of each quarter, adjustments are made to the AATF to account for the difference. Additional information on this subject is disclosed in Note 13.

Interest on investments is recognized as revenue on an accrual basis, and classified as exchange or nonexchange depending on the predominant source of funds upon which the interest payment is based.

Appropriations are recognized as a financing source when expended. Revenues from services provided by the FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services. Aviation overflight user fees are recognized as revenue in the period in which the flights take place.

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the FAA are recognized as imputed cost (in the Statement of Net Cost), and are offset by imputed financing (in the Statement of Changes in Net Position). Such imputed costs and revenues relate to business-type activities, employee benefits, and claims to be settled by the Treasury Judgment Fund. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

E. Taxes

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

F. Fund Balance with the U.S. Treasury

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

Fund balance with Treasury is an asset of the FAA and a liability of the General Fund of the U.S. Government. Similarly, investments in U.S. Government securities that are held by dedicated collections accounts are assets of the FAA and liabilities of the General Fund of the U.S. Government. In both cases, the amounts represent commitments by the government to provide resources for particular programs, but they do not represent net assets to the government as a whole.

When the FAA seeks to use fund balance with Treasury or investments in U.S. Government securities to liquidate budgetary obligations, Treasury will finance the disbursements in the same way it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit).

G. Investment in U.S. Government Securities

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

H. Accounts Receivable

Accounts receivable consists of amounts owed to the FAA by other federal agencies and the public. Amounts due from federal agencies are generally the result of the provision of goods and services to other federal agencies. Accounts receivable from the public include, for example, aviation user fees, fines and penalties, reimbursements from employees, and services performed for foreign governments. Accounts receivable are presented net of an allowance for loss on uncollectible amounts, which is based on historical collection experience or an analysis of the individual receivables.

I. Inventory

Within the FAA's Administrative Services Franchise Fund (Franchise Fund), inventory is held for sale to the FAA field locations and other domestic entities and foreign governments. Inventory consists of materials and supplies that the FAA uses to support our nation's airspace system and is predominantly located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma. Inventory costs include material, labor, and applicable manufacturing overhead.

Inventory held for sale includes both purchased inventory and refurbished inventory. Inventory held for sale is valued using historical cost, applying the moving average cost flow method. The moving average cost flow method is an inventory costing method used in conjunction with a perpetual inventory system. A weighted average cost per unit is recomputed after every purchase. Goods sold are costed at the most recent moving average cost.

The FAA has an exchange and repair program where the FAA field locations exchange non-operational components with the Franchise Fund for operational components. The nonoperational repairable components are classified as "held for repair" and valued using the direct method. Under the direct method, inventory held for repair is valued at the same value as a serviceable item less the estimated repair costs.

Raw materials and work in progress is comprised of repairable inventory components, the materials used to bring the components to a re-useable or serviceable condition along with the labor and overhead incurred during the refurbishing process. Raw materials are valued using historical cost, applying the moving average cost flow method. The repairable components, reported as work in progress, are valued at the same value as a serviceable item less the estimated repair costs at the time of transfer from the "held for repair" account to the work in progress account. When the refurbishing process is complete, the inventory components are reclassified to "held for sale."

Inventory may be deemed to be "excess, obsolete, and unserviceable" if, for example, the quantity exceeds projected demand for the foreseeable future or if the item has been technologically surpassed. The "excess, obsolete, and unserviceable" inventory is determined to have no residual net realizable value, therefore, a loss is recognized to write off the inventory in the current period.

J. Operating Materials and Supplies

Operating materials and supplies primarily consist of unissued materials and supplies that will be used in the repair and maintenance of FAA-owned aircraft. They are valued based on the latest acquisition cost. Operating materials and supplies are expensed using the consumption method of accounting. Under the consumption method, goods are recognized as assets upon acquisition and are expensed as they are consumed.

Operating materials and supplies "held for use" are those items that are consumed on a regular and ongoing basis. Operating materials and supplies "held for repair" are awaiting service to restore their condition to "held for use." An allowance of 50 percent has been established for operating materials and supplies "held for repair" based on historical experience.

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

K. Property, Plant, and Equipment

The FAA capitalizes acquisitions of Property, Plant, and Equipment (PP&E) when the cost equals or exceeds $100 thousand (except for internal use software, for which the threshold is $200 thousand) and the useful life equals or exceeds two years. The FAA records PP&E at original acquisition cost. However, where applicable, the FAA allocates an average cost of like assets within a program, commonly referred to as "unit costing." The FAA purchases some capital assets in large quantities, which are known as "bulk purchases." If the cost per unit is below the capitalization threshold of the FAA, then these items are expensed.

epreciation 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; vehicles and office equipment, are depreciated over a useful life of up to 20 years.

Internal use software, such as software used to operate programmatic and administrative information systems, is generally amortized over a useful life of five years. However, it may be adjusted if a determination is made by specific program office and/or subject matter experts to have a longer or shorter useful life (not less than two years).

Construction in progress and internal use software in development are valued at actual direct costs plus applied overhead and other indirect costs.

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

L. Leases

The FAA occupies certain real property that is leased by the OT from the General Services Administration (GSA). The FAA also has non-GSA leases. Payments made by the FAA are based on contractual agreements. Future payments are disclosed for both cancellable and non-cancellable operating leases, but not disclosed separately since most lease agreements are either cancellable or contain termination rights.

Capital leases for buildings and equipment 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 buildings are depreciated over a 40-year service life and the equipment is depreciated over its estimated useful life.

M. Prepaid Charges

The FAA generally does not pay for goods and services in advance, except for certain reimbursable agreements, subscriptions, and payments to contractors and employees. Payments made in advance of the receipt of goods and services are recorded as prepaid charges at the time of prepayment and recognized as expenses when the related goods and services are received.

N. Liabilities

Liabilities covered by budgetary or other resources are those liabilities for which the U.S. Congress has appropriated funds, and which are otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts owed in excess of available, congressionally-appropriated funds or other amounts. The liquidation of liabilities not covered by budgetary or other resources is dependent on future congressional appropriations or other funding, including the AATF. Liabilities not requiring budgetary resources include custodial liabilities which are collections on behalf of other federal entities or funds, such as the General Fund of the U.S. Government. Custodial liabilities are liquidated when the collections are transferred to the owner. Intragovernmental liabilities are claims against the FAA by other federal agencies.

O. Accounts Payable

Accounts payable are amounts that the FAA owes to other federal agencies and the public. Accounts payable to federal agencies generally consist of amounts due under interagency reimbursable agreements. Accounts payable to the public primarily consist of unpaid goods and services received by the FAA in support of our nation's airspace system.

P. Annual, Sick, and Other Leave

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

. Federal Employees' Compensation Act

The Federal Employees' Compensation Act (FECA) (Public Law 103-3) provides income and medical cost protection to covered federal civilian employees injured on the job, to employees who have incurred work-related occupational diseases, and to beneficiaries of employees whose deaths are attributable to job-related injuries or occupational diseases.

The FECA program is administered by the Department of Labor (DOL), which pays valid claims and subsequently seeks reimbursement from the FAA for these paid claims. The FECA liability consists of two elements. The first element, accrued FECA liability, is based on workers' compensation claims paid by OL but not yet reimbursed by the FAA. The FAA reimburses OL for claims as funds are appropriated for this purpose. In general, there is a two-year period between payment by DOL and reimbursement to DOL by the FAA. As a result, the FAA recognizes an intragovernmental liability for the claims paid by OL and not yet reimbursed by the FAA.

The second element, actuarial FECA liability, is the estimated liability for future benefit payments. The actuarial FECA liability includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. OL determines the actuarial FECA liability annually, as of September 30, using an actuarial method that considers historical benefit payment patterns, wage inflation factors, medical inflation factors, and other variables. The projected annual benefit payments are discounted to present value using the OMB economic assumptions for 10-year Treasury notes and bonds. 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. The actuarial FECA liability is not covered by budgetary resources and will require future funding.

R. Retirement Plan

FAA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS). The employees who participate in the CSRS contribute seven percent of their pay and are beneficiaries of the FAA's matching contribution program, equal to seven percent of pay, distributed to their annuity account in the Civil Service Retirement and Disability Fund.

FERS went into effect on January 1, 1987. FERS and Social Security automatically cover most employees hired after ecember 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 one percent of pay and matches any employee contribution up to an additional four percent of pay. For FERS participants, the FAA also contributes the employer's matching share for Social Security. The FAA's matching contributions are recognized as operating expenses.

The FAA recognizes the full cost of pensions and other retirement benefits during an employee's active years of service. The costs are covered through a combination of FAA appropriations and imputed costs. The imputed amount is calculated using the Office of Personnel Management's (OPM) cost factors and is the difference between the FAA's and the employee's contributions during the year and the total cost of the benefit. 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 OPM also provides information regarding the full cost of health and life insurance benefits. The imputed costs are completely offset with other financing sources, which are reported as an imputed financing source on the Consolidated Statements of Changes in Net Position to the extent that these costs will be paid by the OPM. Reporting of the assets and liabilities associated with the retirement plans is the responsibility of the administering agency, OPM. Therefore, the FAA does not report CSRS or FERS assets, accumulated plan benefits, or unfunded liabilities, if any, applicable to employees.

S. Grants

The FAA records an obligation at the time a grant is awarded. As grant recipients conduct eligible activities under the terms of their grant agreement, they request payment by the FAA, typically made via an electronic payment process. Expenses are recorded at the time of payment approval during the year. The FAA also recognizes an accrued liability and expense for estimated eligible grant payments not yet requested by grant recipients. Grant expenses, including associated administrative costs, are classified on the Consolidated Statements of Net Cost under the Airports line of business.

T. Use of Estimates

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

U. Environmental and Disposal Liabilities

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

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

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

V. Contingencies

A contingent liability represents a potential cost to the FAA depending on the outcome of future events. Three categories of contingent liabilities – probable, reasonably possible, and remote – determine the appropriate accounting treatment. The FAA recognizes contingent liabilities, in the accompanying balance sheet and statement of net cost, when they are both probable and can be reasonably estimated. The FAA discloses contingent liabilities in the notes to the financial statements (see Note 12) when the conditions for liability recognition are not met but are reasonably possible. Contingent liabilities that are considered remote are not disclosed.

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

W. Funds from Dedicated Collections

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

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

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

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

In addition, while the Operations-General Fund is primarily funded through transfers from Operations-AATF, it is also supplemented by funding from the General Fund of the U.S. Government through annual appropriations. Because the Operations-General Fund is primarily funded from the AATF, and because it is not reasonably possible to differentiate cash balances between those originally flowing from the AATF versus those that come from general fund appropriations, the Operations-General Fund is presented as funds from dedicated collections.

Similarly, while the Grants-in-Aid for Airports account is typically funded through transfers from the AATF, it was also supplemented by funding from the General Fund of the U.S. Government as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136. Because the funding from general fund appropriations is expected to be temporary and the predominant source of funding historically comes from the AATF, Grants-in-Aid for Airports is presented as funds from dedicated collections.

The funds from dedicated collections in the Facilities and Equipment fund are used to purchase or construct PP&E. When PP&E has been placed in service, the funds from dedicated collections are no longer available for future expenditure, have been used for their intended purpose, and are therefore classified as "funds from other than dedicated collections" on the balance sheet and the statement of changes in net position. Construction in progress is classified as "funds from dedicated collections" because although the funds have been expended, they have not yet fully achieved their intended purpose. The intended result of this presentation is to differentiate between funds from dedicated collections that remain available for future expenditure, or have not yet fully achieved their designated purpose, and funds from dedicated collections previously expended that have achieved their intended purpose.

Additional disclosures concerning funds from dedicated collections can be found in Note 13.

X. Reclassifications

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

The format of the Balance Sheet has changed to reflect more detail for certain line items, as required for all significant reporting entities by OMB Circular A-136. This change does not affect totals for assets, liabilities, or net position and is intended to allow readers of this report to see how the amounts shown on the Balance Sheet are reflected on the Government-wide Balance Sheet, thereby supporting the preparation and audit of the *Financial Report of the United States Government*. The presentation of the fiscal year 2020 Balance Sheet was modified to be consistent with the fiscal year 2021 presentation.

Note 2. Fund Balance with Treasury

Status of fund balance with Treasury balances as of September 30, 2021 and 2020 were:

(Dollars in Thousands)	2021	2020
Status of fund balance with Treasury		
Unobligated balance		
Available	$ 7,114,408	$ 3,882,345
Not available	2,455,749	2,473,324
Obligated balance not yet disbursed	18,804,450	17,154,870
Investments and contract authority supporting obligated and unobligated balances	(15,182,111)	(12,520,542)
Non-budgetary fund balance with Treasury	3,967	5,648
Total	$ 13,196,463	$ 10,995,645

Unobligated budgetary account balances are also reflected on the Statement of Budgetary Resources. Certain unobligated balances may be restricted to future use and are not available for current use. For additional information, see Legal Arrangements Affecting the Use of Unobligated Balances in Note 16.

Obligated balances not yet disbursed include unpaid obligations offset by uncollected customer payments from other U.S. federal government entities.

The FAA is funded with appropriations from the AATF and the General Fund of the U.S. Government. While amounts appropriated from the General Fund of the U.S. Government are included in fund balance with Treasury, AATF investments are not. AATF investments are redeemed, as needed, to meet FAA's cash disbursement needs, at which time the funds are transferred into fund balance with Treasury. The FAA also receives contract authority that allows obligations to be incurred in advance of an appropriation. The contract authority is subsequently funded, as authorized, from the AATF allowing for the liquidation of the related obligations.

Thus, investments and contract authority are not part of fund balance with Treasury; however, their balances will be transferred from the AATF to fund balance with Treasury over time to liquidate obligated balances and unobligated balances as they become obligated, and thus are necessarily included in the Status of fund balance with Treasury. Only the investment and contract authority balances that support the obligated and unobligated balances are presented in this note. Whereas, the investment balances presented in Note 3 also include amounts invested from receipts that are unavailable for obligation upon collection, and therefore do not support the obligated and unobligated balances.

As of September 30, 2021 and 2020, the unused funds in expired appropriations that were returned to Treasury at the end of the fiscal year were $50.2 million and $57.7 million, respectively. These balances are excluded from amounts reported as fund balance with Treasury.

Note 3. Investments, Net

As of September 30, 2021 and 2020, the FAA's investment balances were as follows:

(Dollars in Thousands)

Intragovernmental Securities	2021 Cost	Unamortized Premium/ (Amortized Discount)	Interest Receivable	Investments (Net)	Market/Fair Value
Nonmarketable par value	$ 15,901,898	$ –	$ 47,043	$ 15,948,941	$ 15,901,898
Nonmarketable market-based	2,217,198	13,213	10,304	2,240,715	2,240,042
Total intragovernmental securities	$ 18,119,096	$ 13,213	$ 57,347	$ 18,189,656	$ 18,141,940

(Dollars in Thousands)

Intragovernmental Securities	2020 Cost	Unamortized Premium/ (Amortized Discount)	Interest Receivable	Investments (Net)	Market/Fair Value
Nonmarketable par value	$ 7,900,279	$ –	$ 34,552	$ 7,934,831	$ 7,900,279
Nonmarketable market-based	2,302,424	12,082	10,591	2,325,097	2,335,706
Total intragovernmental securities	$ 10,202,703	$ 12,082	$ 45,143	$ 10,259,928	$ 10,235,985

The Secretary of the Treasury invests AATF funds on behalf of the FAA. The FAA investments are considered investment authority and are available to offset the cost of operations to the extent authorized by the U.S. Congress. As of September 30, 2021 and 2020, $15.9 billion and $7.9 billion were invested respectively in U.S. Treasury Certificates of Indebtedness. Nonmarketable par value Treasury securities are special series debt securities that the U.S. Treasury issues to federal entities at face value (par value). The securities are redeemed at face value on demand; thus investing entities recover the full amounts invested plus interest. Investments as of September 30, 2021, mature on various dates through June 30, 2022, and investments as of September 30, 2020, matured on various dates through June 30, 2021. 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 2021 and FY 2020 was 1.38 percent and 1.75 percent, respectively.

Nonmarketable, market-based Treasury securities are debt securities that the Treasury issues to federal entities without statutorily fixed interest rates. Although the securities are not marketable, their terms (prices and interest rates) mirror the terms of marketable Treasury securities. The FAA invests Aviation Insurance Fund collections in nonmarketable market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2021, these nonmarketable, market-based securities have maturity dates ranging from January 15, 2022 to January 31, 2023 and have an average rate of return of approximately 1.4 percent. As of September 30, 2020, these nonmarketable, market-based securities had maturity dates ranging from November 15, 2020 to January 31, 2023 and had an average rate of return of approximately 1.8 percent.

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

To the extent authorized by law, the FAA has the ability to redeem its Treasury securities to make expenditures. When the FAA redeems these securities, the federal government finances those expenditures from accumulated cash balances by raising tax or other receipts, borrowing from the public, repaying less debt, or curtailing other expenditures. This is the same manner in which the federal government finances all other expenditures.

The FAA does not have any investment in non-federal securities.

Note 4. Accounts Receivable, Net

Accounts receivable is shown net of an allowance for uncollectible accounts, which is based on historical collection experience or an analysis of the individual receivables. As of September 30, 2021 and 2020, accounts receivable were:

(Dollars in Thousands)	2021	2020
Intragovernmental		
Accounts receivable, gross	$ 13,523	$ 18,409
Allowance for uncollectible amounts	(1,151)	(1,664)
Total intragovernmental	12,372	16,745
Other than intragovernmental/with the public		
Accounts receivable, gross	45,252	44,141
Allowance for uncollectible amounts	(14,944)	(14,102)
Total other than intragovernmental/with the public	30,308	30,039
Total accounts receivable, net	$ 42,680	$ 46,784

Note 5. Inventory and Related Property, Net

Inventory is classified as either held for sale, held for repair, or raw materials and work in progress. Collectively, the FAA's inventory is used to support our nation's airspace system and is predominantly located at the Mike Monroney Aeronautical Center in Oklahoma City, Oklahoma. Inventory that is deemed to be excess, obsolete and unserviceable is expected to have no net realizable value and a loss is recognized for the carrying amount. The carrying amount before identification as excess, obsolete, and unserviceable inventory was $6.2 million in fiscal year 2021 and $3.1 million in fiscal year 2020.

Operating materials and supplies primarily consists of materials and supplies that will be used in the repair and maintenance of FAA-owned aircraft. As of September 30, 2021 and 2020, inventory and related property balances were:

(Dollars in Thousands)	2021		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 263,246	$ –	$ 263,246
Held for repair	433,515	–	433,515
Raw materials and work in progress	38,539	–	38,539
Inventory total	735,300	–	735,300
Operating materials and supplies			
Held for use	49,850	–	49,850
Held for repair	48,599	(24,299)	24,300
Excess, obsolete, and unserviceable	2,849	(1,635)	1,214
Operating materials and supplies total	101,298	(25,934)	75,364
Total inventory and related property	$ 836,598	$ (25,934)	$ 810,664

(Dollars in Thousands)	2020		
	Cost	Allowance	Net
Inventory			
Held for sale	$ 264,559	$ –	$ 264,559
Held for repair	431,067	–	431,067
Raw materials and work in progress	39,833	–	39,833
Inventory total	735,459	–	735,459
Operating materials and supplies			
Held for use	54,663	–	54,663
Held for repair	39,045	(19,522)	19,523
Excess, obsolete, and unserviceable	4,097	(2,574)	1,523
Operating materials and supplies total	97,805	(22,096)	75,709
Total inventory and related property	$ 833,264	$ (22,096)	$ 811,168

Note 6. General Property, Plant, and Equipment, Net

General property, plant, and equipment balances as of September 30, 2021 and 2020 were:

(Dollars in Thousands)	2021		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 6,906,994	$ (4,047,003)	$ 2,859,991
Personal property	18,642,947	(14,050,068)	4,592,879
Internal use software	3,760,750	(2,713,304)	1,047,446
Internal use software in development	1,284,383	–	1,284,383
Assets under capital lease (Note 11)	94,988	(55,605)	39,383
Construction in progress	1,845,926	–	1,845,926
Total property, plant, and equipment	$ 32,535,988	$ (20,865,980)	$ 11,670,008

(Dollars in Thousands)	2020		
Class of fixed asset	Acquisition value	Accumulated depreciation	Net book value
Real property, including land	$ 6,779,022	$ (3,895,755)	$ 2,883,267
Personal property	18,467,959	(13,376,239)	5,091,720
Internal use software	3,532,469	(2,458,540)	1,073,929
Internal use software in development	1,096,142	–	1,096,142
Assets under capital lease (Note 11)	94,988	(52,039)	42,949
Construction in progress	1,729,689	–	1,729,689
Total property, plant, and equipment	$ 31,700,269	$ (19,782,573)	$ 11,917,696

The changes to the general property, plant, and equipment balance for the fiscal years ended September 30, 2021 and September 30, 2020 were:

(Dollars in Thousands)	2021	2020
Balance beginning of the year	$ 11,917,696	$ 12,045,969
Capitalized acquisitions	1,182,409	1,304,029
Dispositions	(1,081)	(75,945)
Revaluations	(156,837)	(62,756)
Depreciation expense	(1,313,052)	(1,336,609)
Transfers-in/out without reimbursement	15,170	7,148
Donations	25,703	35,860
Balance at end of year	$ 11,670,008	$ 11,917,696

The FAA's construction in progress relates primarily to national airspace assets, which are derived from centrally funded national systems development contracts, site preparation and testing, raw materials, and internal labor charges. The accumulation of costs to be capitalized for assets in the FAA's PP&E typically flow into and remain in the construction in progress account until the asset is ready for deployment and placed in service. Once placed in service, the asset balance is transferred from the construction in progress category to its respective asset category.

Note 7. Other Assets

Other asset balances as of September 30, 2021 and 2020 were:

(Dollars in Thousands)	2021	2020
Other than intragovernmental/with the public		
General property, plant, and equipment permanently removed but not yet disposed	$ –	$ 27
Total other than intragovernmental/with the public	–	27
Total other assets	$ –	$ 27

Note 8. Liabilities not Covered by Budgetary Resources

Liabilities not covered by budgetary resources require future congressional action whereas liabilities covered by budgetary resources reflect prior congressional action. Regardless of when the congressional action occurs, when the liabilities are liquidated, Treasury will finance the liquidation in the same way that it finances all other disbursements, using some combination of receipts, other inflows, and borrowing from the public (if there is a budget deficit). Liabilities not requiring budgetary resources include custodial liabilities which are collections on behalf of other federal entities or funds, such as the General Fund of the U.S. Government. Custodial liabilities are liquidated when the collections are transferred to the owner. The following table shows liabilities not covered by budgetary resources as of September 30, 2021 and 2020.

(Dollars in Thousands)	2021	2020
Intragovernmental		
Other liabilities (Note 10)		
Federal Employees' Compensation Act payable	$ 147,477	$ 153,091
Other unfunded employment related liabilities	28,878	30,095
Deposit funds and clearing accounts	–	4,182
Total intragovernmental	176,355	187,368
Other than intragovernmental/with the public		
Federal employee benefits payable		
FECA actuarial	713,087	727,770
Unfunded leave	553,301	556,071
Other unfunded employment related liability	47,888	47,212
Environmental and disposal liabilities (Notes 9 and 12)	752,148	745,540
Other liabilities		
Capital leases (Notes 10 and 11)	45,344	51,348
Legal claims (Notes 10 and 12)	52,009	57,251
Other accrued liabilities (Note 10)	13,782	9,656
Total other than intragovernmental/with the public	2,177,559	2,194,848
Total liabilities not covered by budgetary resources	$ 2,353,914	$ 2,382,216
Total liabilities not covered by budgetary resources	$ 2,353,914	$ 2,382,216
Total liabilities covered by budgetary resources	8,510,340	6,412,870
Total liabilities not requiring budgetary resources	18,604	15,921
Total liabilities	$ 10,882,858	$ 8,811,007

Note 9. Environmental and Disposal Liabilities

The FAA's environmental and disposal liabilities as of September 30, 2021 and 2020 were:

(Dollars in Thousands)	2021	2020
Environmental remediation	$ 276,341	$ 264,193
Environmental cleanup and decommissioning	475,807	481,347
Total environmental and disposal liabilities	$ 752,148	$ 745,540

Remediation is performed at contaminated sites where the FAA has liability due to past operations or waste disposal activities. To help manage the cleanup of the contaminated sites, the FAA established an Environmental Cleanup Program that includes three service areas, which are responsible for oversight of the contaminated sites. The service area personnel use both actual costs and an automated, parametric cost-estimating tool that provides estimates for all phases of investigation and remediation to estimate the environmental remediation liability.

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

A description of the two categories of environmental liabilities can be found in Note 1U. Information on contingencies related to environmental liabilities can be found in Note 12.

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

Note 10. Other Liabilities

As of September 30, 2021, the FAA's other liabilities were:

(Dollars in Thousands)	2021		
Intragovernmental	Non-current liabilities	Current liabilities	Total
Accrued payroll & benefits payable to other agencies	$ –	$ 118,241	$ 118,241
Liabilities covered by budgetary resources	–	118,241	118,241
Federal Employees' Compensation Act payable	79,727	67,750	147,477
Other unfunded employment related liabilities	–	28,878	28,878
Deposit funds and clearing accounts	–	–	–
Liabilities not covered by budgetary resources	79,727	96,628	176,355
Custodial liabilities	–	18,604	18,604
Liabilities not requiring budgetary resources	–	18,604	18,604
Intragovernmental total	79,727	233,473	313,200
Other than intragovernmental/with the public			
Accrued funded payroll and leave	–	336,719	336,719
Liabilities covered by budgetary resources	–	336,719	336,719
Capital leases (Notes 8 and 11)	37,285	8,059	45,344
Legal claims	–	52,009	52,009
Other	–	13,782	13,782
Liabilities not covered by budgetary resources	37,285	73,850	111,135
Other than intragovernmental/with the public total	37,285	410,569	447,854
Total other liabilities	$ 117,012	$ 644,042	$ 761,054

As of September 30, 2020, the FAA's other liabilities were:

(Dollars in Thousands)	2020		
Intragovernmental	Non-current liabilities	Current liabilities	Total
Accrued payroll & benefits payable to other agencies	$ –	$ 103,456	$ 103,456
Liabilities covered by budgetary resources	–	103,456	103,456
Federal Employees' Compensation Act payable	82,854	70,237	153,091
Other unfunded employment related liabilities	–	30,095	30,095
Deposit funds and clearing accounts	–	4,182	4,182
Liabilities not covered by budgetary resources	82,854	104,514	187,368
Custodial liabilities	–	15,921	15,921
Liabilities not requiring budgetary resources	–	15,921	15,921
Intragovernmental total	82,854	223,891	306,745
Other than intragovernmental/with the public			
Accrued funded payroll and leave	–	299,220	299,220
Liabilities covered by budgetary resources	–	299,220	299,220
Capital leases (Notes 8 and 11)	43,305	8,043	51,348
Legal claims	–	57,251	57,251
Other	–	9,656	9,656
Liabilities not covered by budgetary resources	43,305	74,950	118,255
Other than intragovernmental/with the public total	43,305	374,170	417,475
Total other liabilities	$ 126,159	$ 598,061	$ 724,220

Accrued payroll and benefits payable to other agencies consists of FAA contributions payable to other federal agencies for employee benefits. These include FAA contributions payable toward life insurance, health insurance, retirement benefits, Social Security, and matching contributions to the Thrift Savings Plan. The Thrift Savings Plan is a tax-deferred retirement savings and investment plan available to federal employees. These benefits also include FAA contributions payable for the Federal Insurance Contributions Act taxes, which are composed of the old-age, survivors, and disability insurance taxes, also known as social security taxes, and the hospital insurance tax, also known as Medicare tax.

An unfunded liability is recorded for the actual cost of workers' compensation benefits to be reimbursed to the DOL, pursuant to the FECA. Reimbursement to the DOL occurs approximately two years subsequent to the actual disbursement. Budgetary resources for this intragovernmental liability are made available to the FAA as part of its annual appropriation from the U.S. Congress in the year in which the reimbursement takes place.

The FAA's accrued liability as of September 30, 2021, includes workers' compensation benefits paid by DOL during the periods July 1, 2019 through June 30, 2021, and accrued liabilities for the quarter July 1, 2021 through September 30, 2021. The FAA's accrued liability as of September 30, 2020, included workers' compensation benefits paid by the DOL during the period July 1, 2018 through June 30, 2020, and accrued liabilities for the quarter July 1, 2020 through September 30, 2020.

The FAA estimated that 100 percent of its $52.0 million and $57.3 million legal claims liabilities as of September 30, 2021 and 2020, respectively, would be paid from the permanent appropriation for judgments, awards, and compromise settlements (Judgment Fund) administered by the Department of Treasury.

Other accrued liabilities with the public are composed primarily of deposit funds and clearing accounts.

Total liabilities not covered by budgetary resources are presented in Note 8.

Note 11. Leases

Entity as Lessee

The FAA is the lessee for both capital and operating leases.

Capital Leases

Following is a summary of the FAA's assets under capital lease as of September 30, 2021 and 2020:

(Dollars in Thousands)	2021	2020
Non-Federal		
Land, buildings, and machinery	$ 94,988	$ 94,988
Accumulated depreciation	(55,605)	(52,039)
Non-Federal assets under capital lease, net	39,383	42,949
Total assets under capital lease, net	$ 39,383	$ 42,949

As of September 30, 2021, the FAA's future payments due on assets under capital lease were:

(Dollars in Thousands)

Future payments due by fiscal year
(Liabilities not covered by budgetary or other resources)

Year 1 (FY 2022)	$ 8,059
Year 2 (FY 2023)	8,038
Year 3 (FY 2024)	7,891
Year 4 (FY 2025)	7,238
Year 5 (FY 2026)	6,701
After 5 Years	14,893
Total future payments	52,820
Less: Imputed interest	(7,476)
Net capital lease liability	$ 45,344

As of September 30, 2021, all future payments due on assets under capital lease were non-federal.

The FAA's capital lease payments are authorized to be funded annually as codified in the 49 U.S.C. 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. The lease terms for capital leases expire at various dates through FY 2039.

Operating Leases

The FAA has operating leases for real property, aircraft, and telecommunications equipment. Future operating lease payments due as of September 30, 2021, were:

(Dollars in Thousands)

Fiscal year	Federal	Non-Federal	Total
Year 1 (FY 2022)	$ 102,920	$ 80,002	$ 182,922
Year 2 (FY 2023)	98,501	60,722	159,223
Year 3 (FY 2024)	91,277	32,689	123,966
Year 4 (FY 2025)	86,905	26,916	113,821
Year 5 (FY 2026)	87,509	23,347	110,856
After 5 Years	378,231	81,026	459,257
Total future operating lease payments	$ 845,343	$ 304,702	$ 1,150,045

Operating lease expense incurred during the year ended September 30, 2021 was $197.9 million, of which $107.8 million was federal and $90.1 million was non-federal. Operating lease expense incurred during the year ended September 30, 2020 was $197.4 million, of which $120.7 million was federal and $76.7 million was non-federal. Federal operating leases include General Services Administration leases that have a short termination privilege. However, the FAA intends to remain in the lease. The operating lease amounts due after five years do not include estimated payments for leases with annual renewal options. The lease terms for operating leases expire at various dates through FY 2043. Estimates of the lease termination dates are subjective, and any projection of future lease payments would be arbitrary.

Note 12. Commitments, Contingencies, and Other Disclosures

Continuing Resolution and Reauthorization. Effective October 1, 2021, the FAA is operating under a continuing resolution, Public Law 117-43, for its FY 2022 appropriation and many of its programmatic and financing authorities. The continuing resolution will be in effect through ecember 3, 2021, unless superseded by enactment of specified appropriations legislation and includes a provision that allows the FAA to continue spending at FY 2021 rates.

In addition, the passage of the FAA Reauthorization Act of 2018, Public Law 115-254, authorizes the FAA's programmatic and financing authorities, the Airport Improvement Program contract authority, and the authority to collect and deposit excise taxes into and make expenditures from the AATF. The new authority expires on September 30, 2023.

Airport Improvement Program. The Airport Improvement Program provides grants for the planning and development of public-use airports that are included in the National Plan of Integrated Airport Systems. Eligible projects generally include improvements that address airport safety, capacity, security, and environmental concerns. The FAA's share of eligible costs for large and medium primary hub airports is 75 percent, with the exception of noise program implementation, for which the FAA's share is 80 percent. For remaining airports (small primary, reliever, and general aviation), the FAA's share of eligible costs is 90 percent. However, the CARES Act provided funding for the FAA to pay a Federal share of the costs for grants awarded under Public Law 116-94, Further Consolidated Appropriations Act, 2020, to 100 percent. Similarly, the American Rescue Plan Act of 2021 provided funding for the FAA to pay a Federal share of 100 percent of the costs for any grant awarded in fiscal years 2021 or 2020, for an airport development project.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual Airport Improvement Program grant agreements. The FAA records an obligation when a grant is awarded. As of September 30, 2021, the FAA had letters of intent extending through FY 2026 totaling $7.2 billion. As of September 30, 2021, the FAA had obligated $7.0 billion of this total amount, leaving $209 million unobligated.

As of September 30, 2020, the FAA had letters of intent extending through FY 2026 totaling $7.3 billion. As of September 30, 2020, the FAA had obligated $6.9 billion of this total amount, leaving $323 million unobligated.

Aviation Insurance Program. The FAA provides non-premium war risk insurance for certain U.S. Government contracted operations as permitted by 49 U.S.C. 44305. Coverage is provided without premium to air carriers at the written request of other U.S. Government agencies. The scope of coverage under the Non-Premium War Risk Insurance program includes hull, bodily injury, personal injury, and property damage. The FAA is currently providing coverage for certain U.S. Department of efense (DOD) contracted air carrier operations.

Because insurance policies are issued only at the request of other federal departments and agencies, total coverage-in-force fluctuates throughout the fiscal year. The coverage-in-force at any given point in time does not represent a potential liability against the Aviation Insurance Revolving Fund because the Secretary of Defense has entered into an indemnity agreement with the Secretary of Transportation and will fully reimburse the Fund for all losses paid by the FAA on behalf of DO .

Contingencies. The FAA has the following contingencies as of September 30, 2021 and 2020:

- **Legal Contingencies.** The FAA's legal contingencies include asserted and pending legal claims. An accrued liability is recognized for legal claims where the loss is probable and the amount can be reasonably estimated. For pending legal claims where the loss is reasonably possible, a liability is not recognized, however, the estimated range of loss is disclosed in the following table. There are other claims that could result in significant pay-outs; however, it is not possible at this time to determine the probability of an unfavorable outcome, or to estimate the amount of potential loss in the event of such an outcome.
- **Environmental Contingencies.** The FAA's environmental contingencies include environmental remediation, and environmental clean-up and decommissioning. The nature of these contingencies is described in Note 1U. An accrued liability is recognized for environmental contingencies where the loss is probable and the amount can be reasonably estimated. For environmental contingencies where the loss is reasonably possible, a liability is not recognized, however, the estimated range of loss is disclosed in the following table. FAA is a party to environmental remediation sites in Alaska, the Pacific Islands, and New Jersey, in which the extent of liability is not both probable and reasonably estimable. As a result, a liability is not recognized for these sites without further studies and negotiations with other federal agencies.

- **Warranty Contingencies.** The FAA's logistics center issues parts to customers with a 90-day warranty, that are replaced free of charge if warranty conditions are met. An accrued liability is recognized for warranty contingencies where the loss is probable and the amount can be reasonably estimated. The loss contingency is estimated based on historical averages of parts that failed and the warranty claims were approved. A loss contingency is not estimated for warranty claims that are reasonably possible of loss.

The following table shows the loss contingencies as of September 30, 2021 and 2020:

(Dollars in Thousands)	2021			2020		
	Accrued Liabilities	Estimated Range of Loss		Accrued Liabilities	Estimated Range of Loss	
		Lower End	Upper End		Lower End	Upper End
Legal Contingencies:						
Probable	$ 52,009	$ 52,009	$ 52,009	$ 57,251	$ 57,251	$ 57,251
Reasonably Possible	N/A	$ 76,583	$ 76,583	N/A	$ 222,331	$ 222,331
Environmental Contingencies:						
Probable	$ 752,148	$ 752,148	$ 752,148	$ 745,540	$ 745,540	$ 745,540
Reasonably Possible	N/A	$ 108,607	$ 108,607	N/A	$ 103,145	$ 103,145
Warranty Contingencies:						
Probable	$ 515	$ 515	$ 515	$ 515	$ 515	$ 515
Reasonably Possible	N/A	$ –	$ –	N/A	$ –	$ –

Note 13. Funds from Dedicated Collections

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

The FAA's funds from dedicated collections are reported in the Consolidated Statements of Changes in Net Position and on pages 122–123 among two classifications. The first classification is comprised of the financial statement balances in AATF as of the end of each fiscal year. The second classification of "All other funds from dedicated collections" is comprised of the financial statement balances of all the related funds that receive funding from the AATF and includes Operations-AATF, Grants-in-Aid for Airports, Facilities and Equipment, and Research, Engineering and Development. The "All other funds from dedicated collections" classification also includes the Operations-General Fund, which is primarily funded through transfers from Operations-AATF, but is additionally supplemented by the General Fund of the U.S. Government through annual appropriations. However, since the Operations account is primarily funded from the AATF, it is properly presented as a "fund from dedicated collections." The category of "All other funds from dedicated collections" also includes the Aviation Insurance Revolving Fund and aviation user fees.

Grants-in-Aid for Airports is primarily funded through transfers from the AATF, but also received funding in FY 2020 from the General Fund of the U.S. Government as a result of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136. Because the funding from general fund appropriations is expected to be temporary and the predominant source of funding historically comes from the AATF, Grants-in-Aid for Airports is presented as funds from dedicated collections.

This note presents only the funds from dedicated collections that are financing sources available for future expenses, and funds that have been expended but have not yet fully achieved their designated purpose, such as construction in progress. As such, PP&E that has been placed in service, though funded from Facilities and Equipment, are excluded from this note; these funds are no longer available for future expenditure and have been used for their intended purpose.

This note is presented on both a combined and consolidated basis. The combined presentation does not eliminate intra-entity balances or transactions between funds from dedicated collections held by the entity. Similarly, the combined presentation does not eliminate intra-entity balances or transactions with funds from other than dedicated collections, such as the FAA's Franchise Fund. The consolidated presentation eliminates intra-entity balances or transactions between the FAA's funds from dedication collections.

Airport and Airway Trust Fund

The FAA's consolidated financial statements include the results of operations and the 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 Airport and Airway Revenue Act provides a dedicated source of funding for the nation's aviation system through the collection of several aviation-related excise taxes. The IRS collects these taxes on behalf of the FAA's AATF. These taxes can be withdrawn only as appropriated by the U.S. Congress. Twice a month, Treasury allocates the amount collected and subsequently adjusts the allocation to reflect actual collections on a quarterly basis.

As discussed in Note 1 , FY 2021 excise tax revenue includes amounts certified as actual by the IRS for the first three quarters of the year and amounts allocated by the Office of Tax Analysis for the fourth quarter of the year.

All Other Funds from Dedicated Collections

- The Aviation Insurance Program had investments of $2.2 billion and revenues of $14.8 million for the period ended September 30, 2021 compared to $2.3 billion and $42.8 million, respectively, for the period ended September 30, 2020. The Aviation Insurance Program is also discussed in Notes 1G and 12.
- Aviation user fees are charged to commercial airlines that fly in U.S. controlled air space, but neither take off nor land in the U.S. The FAA reported aviation user fees of $43.9 million and $100.7 million for the periods ended September 30, 2021 and 2020, respectively.

The FAA's funds from dedicated collections as of and for the year ended September 30, 2021, consist of the following:

(Dollars in Thousands)	2021				
	AATF	All other funds from dedicated collections	Total funds from dedicated collections (combined)	Eliminations between funds from dedicated collections	Total funds from dedicated collections (consolidated)
BALANCE SHEET					
Assets					
Intragovernmental					
Fund balance with Treasury	$ (1,868,836)	$ 4,286,618	$ 2,417,782	$ –	$ 2,417,782
Investments, net	15,948,941	2,240,715	18,189,656	–	18,189,656
Accounts receivable, net	–	7,999,529	7,999,529	(7,987,058)	12,471
Advances and prepayments	–	208,005	208,005	–	208,005
Total intragovernmental	14,080,105	14,734,867	28,814,972	(7,987,058)	20,827,914
Other than intragovernmental/with the public					
Accounts receivable, net	–	11,543	11,543	–	11,543
General property, plant, and equipment, net	–	3,067,049	3,067,049	–	3,067,049
Advances and prepayments	–	679	679	–	679
Total other than intragovernmental/with the public	–	3,079,271	3,079,271	–	3,079,271
Total assets	$ 14,080,105	$ 17,814,138	$ 31,894,243	$ (7,987,058)	$ 23,907,185
Liabilities					
Intragovernmental liabilities					
Accounts payable	$ 6,965,558	$ 1,031,247	$ 7,996,805	$ (7,987,058)	$ 9,747
Advances from others and deferred revenue	–	26,046	26,046	–	26,046
Other liabilities	–	291,427	291,427	–	291,427
Total intragovernmental liabilities	6,965,558	1,348,720	8,314,278	(7,987,058)	327,220
Other than intragovernmental/with the public					
Accounts payable	–	415,008	415,008	–	415,008
Federal employee benefits payable	–	1,327,835	1,327,835	–	1,327,835
Advances from others and deferred revenue	–	149,298	149,298	–	149,298
Other liabilities					
Accrued grant liabilities	–	2,975,926	2,975,926	–	2,975,926
Other	–	350,338	350,338	–	350,338
Total other than intragovernmental/with the public	–	5,218,405	5,218,405	–	5,218,405
Total liabilities	$ 6,965,558	$ 6,567,125	$ 13,532,683	$ (7,987,058)	$ 5,545,625
Net position					
Unexpended appropriations	$ –	$ 716,250	$ 716,250	$ –	$ 716,250
Cumulative results of operations	7,114,547	10,530,763	17,645,310	–	17,645,310
Total liabilities and net position	$ 14,080,105	$ 17,814,138	$ 31,894,243	$ (7,987,058)	$ 23,907,185
Statement of net cost					
Gross program costs	$ –	$ 18,781,077	$ 18,781,077	$ –	$ 18,781,077
Less earned revenue	(1)	(292,628)	(292,629)	–	(292,629)
Net cost of operations	$ (1)	$ 18,488,449	$ 18,488,448	$ –	$ 18,488,448
Statement of changes in net position					
Unexpended appropriations					
Beginning balances	$ –	$ 432,928	$ 432,928	$ –	$ 432,928
Appropriations received	–	482,500	482,500	–	482,500
Other adjustments	–	(50,235)	(50,235)	–	(50,235)
Appropriations used	–	(148,943)	(148,943)	–	(148,943)
Net change in unexpended appropriations	–	283,322	283,322	–	283,322
Total unexpended appropriations - ending	$ –	$ 716,250	$ 716,250	$ –	$ 716,250
Cumulative results of operations					
Beginning balances	$ 1,842,196	$ 12,352,397	$ 14,194,593	$ –	$ 14,194,593
Appropriations used	–	148,943	148,943	–	148,943
Intragovernmental non-exchange revenue	8,463,962	–	8,463,962	–	8,463,962
Other than intragovernmental non-exchange revenue	–	2,842	2,842	–	2,842
Transfers-in/out without reimbursement	(3,191,612)	16,131,107	12,939,495	–	12,939,495
Imputed financing	–	383,923	383,923	–	383,923
Net cost of operations	(1)	18,488,449	18,488,448	–	18,488,448
Net change in cumulative results of operations	5,272,351	(1,821,634)	3,450,717	–	3,450,717
Cumulative results of operations - ending	$ 7,114,547	$ 10,530,763	$ 17,645,310	$ –	$ 17,645,310
Net position end of period	$ 7,114,547	$ 11,247,013	$ 18,361,560	$ –	$ 18,361,560

The FAA's funds from dedicated collections as of and for the year ended September 30, 2020, consist of the following:

(Dollars in Thousands)	2020				
	AATF	All other funds from dedicated collections	Total funds from dedicated collections (combined)	Eliminations between funds from dedicated collections	Total funds from dedicated collections (consolidated)
BALANCE SHEET					
Assets					
Intragovernmental					
Fund balance with Treasury	$ (124,690)	$ 9,201,036	$ 9,076,346	$ –	$ 9,076,346
Investments, net	7,934,830	2,325,098	10,259,928	–	10,259,928
Accounts receivable, net	–	6,759,191	6,759,191	(6,742,44)	16,747
Advances and prepayments	–	215,568	215,568	–	215,568
Total intragovernmental	7,810,140	18,500,893	26,311,033	(6,742,44)	19,568,589
Other than intragovernmental/with the public					
Accounts receivable, net	–	13,875	13,875	–	13,875
General property, plant, and equipment, net	–	2,779,169	2,779,169	–	2,779,169
Advances and prepayments	–	944	944	–	944
Total other than intragovernmental/with the public	–	2,793,988	2,793,988	–	2,793,988
Total assets	$ 7,810,140	$ 21,294,881	$ 29,105,021	$ (6,742,44)	$ 22,362,577
Liabilities					
Intragovernmental liabilities					
Accounts payable	$ 5,967,944	$ 803,580	$ 6,771,524	$ (6,742,44)	$ 29,080
Advances from others and deferred revenue	–	23,708	23,708	–	23,708
Other liabilities	–	286,485	286,485	–	286,485
Total intragovernmental liabilities	5,967,944	1,113,773	7,081,717	(6,742,44)	339,273
Other than intragovernmental/with the public					
Accounts payable	–	383,738	383,738	–	383,738
Federal employee benefits payable	–	1,343,379	1,343,379	–	1,343,379
Advances from others and deferred revenue	–	188,759	188,759	–	188,759
Other liabilities					
Accrued grant liabilities	–	5,161,060	5,161,060	–	5,161,060
Other	–	318,847	318,847	–	318,847
Total other than intragovernmental/with the public	–	7,395,783	7,395,783	–	7,395,783
Total liabilities	$ 5,967,944	$ 8,509,556	$ 14,477,500	$ (6,742,44)	$ 7,735,056
Net position					
Unexpended appropriations	$ –	$ 432,928	$ 432,928	$ –	$ 432,928
Cumulative results of operations	1,842,196	12,352,397	14,194,593	–	14,194,593
Total liabilities and net position	$ 7,810,140	$ 21,294,881	$ 29,105,021	$ (6,742,44)	$ 22,362,577
Statement of net cost					
Gross program costs	$ –	$ 23,914,854	$ 23,914,854	$ –	$ 23,914,854
Less earned revenue	(14)	(367,959)	(367,973)	–	(367,973)
Net cost of operations	$ (14)	$ 23,546,895	$ 23,546,881	$ –	$ 23,546,881
Statement of changes in net position					
Unexpended appropriations					
Beginning balances	$ –	$ 730,649	$ 730,649	$ –	$ 730,649
Appropriations received	–	111,000	111,000	–	111,000
Other adjustments	–	(73,203)	(73,203)	–	(73,203)
Appropriations used	–	(335,518)	(335,518)	–	(335,518)
Net change in unexpended appropriations	–	(297,721)	(297,721)	–	(297,721)
Total unexpended appropriations - ending	$ –	$ 432,928	$ 432,928	$ –	$ 432,928
Cumulative results of operations					
Beginning balances	$ 9,391,754	$ 9,450,977	$ 18,842,731	$ –	$ 18,842,731
Appropriations used	–	335,518	335,518	–	335,518
Intragovernmental non-exchange revenue	9,345,585	–	9,345,585	–	9,345,585
Other than intragovernmental non-exchange revenue	–	2,526	2,526	–	2,526
Transfers-in/out without reimbursement	(16,895,157)	25,776,168	8,881,011	–	8,881,011
Imputed financing	–	334,103	334,103	–	334,103
Net cost of operations	(14)	23,546,895	23,546,881	–	23,546,881
Net change in cumulative results of operations	(7,549,558)	2,901,420	(4,648,138)	–	(4,648,138)
Cumulative results of operations - ending	$ 1,842,196	$ 12,352,397	$ 14,194,593	$ –	$ 14,194,593
Net position end of period	$ 1,842,196	$ 12,785,325	$ 14,627,521	$ –	$ 14,627,521

Note 14. Net Cost by Program and Strategic Goal

The FAA's five lines of business represent the programs reported in the Consolidated Statements of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to each line of business, such as agency overhead, are allocated. The net cost for non-line of business programs includes services provided by the Mike Monroney Aeronautical Center, aviation overflight user fees, and other programs.

The following is the net cost of operations by strategic goal for the years ended September 30, 2021 and 2020:

(Dollars in Thousands)	For the Year Ended September 30, 2021				
	Strategic Goals				
	Safety	People	Global Leadership	Operational Excellence	Total
Line of business programs					
Air Traffic Organization	$ 10,496,156	$ 93,338	$ 2,432	$ 1,867,282	$ 12,459,208
Airports	4,627,245	1,703	3	6,597,027	11,225,978
Aviation Safety	1,675,746	21,432	28,590	5,203	1,730,971
Security and Hazardous Materials Safety	121,475	825	706	11,143	134,149
Commercial Space Transportation	25,545	2,745	222	5,674	34,186
Non-line of business programs	(32,738)	27,310	6,786	136,281	137,639
Net cost	$ 16,913,429	$ 147,353	$ 38,739	$ 8,622,610	$ 25,722,131

(Dollars in Thousands)	For the Year Ended September 30, 2020				
	Strategic Goals				
	Safety	People	Global Leadership	Operational Excellence	Total
Line of business programs					
Air Traffic Organization	$ 10,183,615	$ 88,153	$ 2,033	$ 1,804,840	$ 12,078,641
Airports	5,712,288	1,586	20	5,586,172	11,300,066
Aviation Safety	1,556,228	21,097	28,375	4,640	1,610,340
Security and Hazardous Materials Safety	80,182	908	671	11,765	93,526
Commercial Space Transportation	24,928	1,701	209	1,484	28,322
Non-line of business programs	(103,356)	33,956	5,726	141,996	78,322
Net cost	$ 17,453,885	$ 147,401	$ 37,034	$ 7,550,897	$ 25,189,217

Note 15. Inter-Entity Costs

The FAA receives certain goods and services from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, only certain costs of the providing entity that are not fully reimbursed by the FAA are recognized as imputed costs (in the Statement of Net Cost), and are offset by imputed financing sources (in the Statement of Changes in Net Position). Each of these costs are listed below. However, unreimbursed costs of goods and services other than those listed below are not included in our financial statements.

- The Office of Personnel Management (OPM) provides pension and post-retirement benefits to employees upon retirement from federal service. The imputed cost recognized by the FAA is based on the annual Benefits Administration Letter issued by the OPM, which provides actuarial cost factors for accrued pension and post-retirement benefit expenses for current employees. The amount recognized represents the difference between employer and employee contributions and the total cost of the benefit.
- The U.S. Treasury's Judgment Fund provides payments for settlements of lawsuits or court assessments against the FAA.

For the fiscal years ended September 30, 2021 and 2020, imputed costs were as follows:

(Dollars in Thousands)	2021	2020
Office of Personnel Management	$ 390,809	$ 337,429
Treasury Judgment Fund	3,376	6,249
Total imputed costs	$ 394,185	$ 343,678

Financial Results

Note 16. Statement of Budgetary Resources Disclosures

Unobligated Balance from Prior Year Budget Authority, Net

The unobligated balance from prior year budget authority is presented net of transfers, recoveries from prior year obligations, and balances withdrawn for cancelled authority. As a result, the amount will not equal the prior year unobligated balance, end of year total. As of September 30, 2021 and 2020, the unobligated balances from prior year budget authority, net of adjustments were:

(Dollars in Thousands)	2021	2020
Unobligated balance, brought forward from prior year	$ 6,355,669	$ 6,243,915
Adjustments to budgetary resources made during current year		
Transferred to other accounts	(13,950)	–
Adjustments to unobligated balance brought forward	174	(561)
Recoveries of prior year obligations	516,387	331,505
Balances withdrawn to Treasury	(50,235)	(57,667)
Balances withdrawn to the AATF	(32,112)	(23,509)
Unobligated balance from prior year budget authority, net	$ 6,775,933	$ 6,493,683

Appropriations

Appropriations, as reported in the Combined Statements of Budgetary Resources, includes amounts made available to the FAA from general, revolving, and special funds, as well as funds from dedicated collections. In contrast, appropriations received, as reported in the Consolidated Statements of Changes in Net Position, pertain only to amounts made available to the FAA from general funds. The following is a reconciliation of these amounts as of September 30, 2021 and 2020:

(Dollars in Thousands)	2021	2020
Combined Statement of Budgetary Resources - appropriations	$ 41,032,106	$ 34,669,210
Less amounts made available to FAA from AATF dedicated collections	(13,732,000)	(13,756,665)
Less other appropriated receipts and budgetary adjustments	(2,408,606)	(10,401,545)
Consolidated Statement of Changes in Net Position - appropriations received	$ 24,891,500	$ 10,511,000

Available Contract Authority

Contract authority, as reported on the Combined Statement of Budgetary Resources, is the amount permitted by law to enter into contracts or incur obligations. Throughout the fiscal year, the contract authority is liquidated by appropriation. As of September 30, 2021 and 2020, the remaining contract authority available was $2.9 million and $4.2 million, respectively.

Undelivered Orders

As of September 30, 2021 and 2020, the amount of budgetary resources obligated for undelivered orders were:

(Dollars in Thousands)	2021			2020		
	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Obligations, unpaid	$ 184,878	$ 10,629,304	$ 10,814,182	$ 169,702	$ 11,133,901	$ 11,303,603
Obligations, prepaid/advanced	208,677	755	209,432	211,886	1,229	213,115
Total	$ 393,555	$ 10,630,059	$ 11,023,614	$ 381,588	$ 11,135,130	$ 11,516,718

Legal Arrangements Affecting the Use of Unobligated Balances

Unobligated balances remain legally available for obligation when the funds are apportioned by the OMB and the period of availability is unexpired. Unobligated balances are not available when the funds are not yet apportioned or the period of availability is expired. Unobligated balances of expired accounts are not available to fund new obligations, but 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.

Aviation insurance investments are not available for obligation until authorized, for example, in the event of a major air carrier loss caused by a war risk occurrence.

istributed Offsetting Receipts

istributed offsetting receipts are amounts that an agency collects from the public or from other U.S. Government agencies that are used to offset or reduce an agency's budget outlays. Agency outlays are measured on both a gross and net basis, with net outlays being reduced by offsetting receipts (and other amounts).

Statement of Budgetary Resources vs. the Budget of the U.S. Government

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

(Dollars in Millions)	For the Year Ended September 30, 2020			
	Budgetary Resources	New Obligations and Upward Adjustments	Distributed Offsetting Receipts	Net Outlays
FAA Combined Statement of Budgetary Resources	$ 55,794	$ 49,438	$ (10,410)	$ 30,762
Items included in the Combined Statement of Budgetary Resources, but excluded from the President's budget:				
Expired Funds	(205)	–	–	–
Other	(2)	–	–	1
Budget of the United States Government	$ 55,587	$ 49,438	$ (10,410)	$ 30,763

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

The Budget of the U.S. Government is available on the OMB's web site. The budgetary resources, new obligations, upward adjustments, and net outlay amounts are from the " etailed Budget Estimates by Agency" found in the Appendix of the Budget. The distributed offsetting receipts amount is from the "Federal Budget by Agency and Account" found in the Analytical Perspectives of the Budget. The actual amounts for FY 2020 are presented in the FY 2022 Budget. The actual amounts for FY 2021 will be presented in the FY 2023 Budget, which occurs after the issuance of these financial statements. The OMB is expected to publish this information early in calendar year 2022.

The primary difference between the Combined Statement of Budgetary Resources and the Budget of the U.S. Government is that budgetary resources available from funds with expired authority are not included in the Budget of the U.S. Government. Other differences are due to rounding.

Note 17. Incidental Custodial Collections

Cash collections that are "custodial" are not revenue to the FAA, but are collected on behalf of other federal entities or funds. Custodial collections are considered to be incidental to the FAA's primary mission. The following table presents custodial collections and the disposition of those collections for the years ended September 30, 2021 and 2020:

(Dollars in Thousands)	2021	2020
Custodial revenue		
Sources of cash collections:		
Fines, penalties, and forfeitures	$ 30,770	$ 3,286
Unclaimed money and property	46	–
General fund proprietary interest	12	10
Miscellaneous recoveries and refunds	9,400	7,128
Total cash collections	40,228	10,424
Accrual adjustment	2,684	(3,203)
Total custodial revenue	42,912	7,221
Disposition of collections		
Transferred to others (by recipient):		
Treasury (general fund)	40,228	10,424
Amounts yet to be transferred	2,684	(3,203)
Total disposition of collections	42,912	7,221
Net custodial activity	$ –	$ –

Note 18. Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities.

The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

- The acquisition of capital assets results in outlays, but does not result in costs. Rather, the costs are recognized over the useful lives of the assets as depreciation expense. To reconcile this difference, depreciation is a component of net operating cost, but not part of net outlays; and the acquisition of capital assets is a component of net outlays, but not part of net operating cost.
- Special fund receipts, such as aviation overflight user fees, are collected from specific sources that are earmarked by law for a specific purpose, and require an appropriation to be expended. The exchange revenue from these receipts is included in the net cost of operations, but there is no corresponding net outlay.

Although some differences presented in the reconciliation relate to amounts reported in the balance sheet and statement of net position, amounts may not agree. Certain financial activities do not result in net operating cost, nor net outlays, and are therefore excluded from the reconciliation. For example, the purchase of investments results in a change in assets on the balance sheet, but does not result in net operating cost nor net outlays.

The following is a reconciliation of net cost to net outlays as of September 30, 2021:

(Dollars in Thousands)	2021 Intragovernmental	2021 Other than intragovernmental/ with the public	2021 Total
Net Operating Cost	$ 2,744,521	$ 22,977,610	$ 25,722,131
Components of Net Operating Cost Not Part of Net Outlays			
Property, plant, and equipment depreciation expense	–	(1,313,052)	(1,313,052)
Property, plant, and equipment disposals and revaluations	–	(157,918)	(157,918)
Cost of goods sold	159	(67,126)	(66,967)
Inventory and related property disposals and revaluations	–	13,216	13,216
Increase/(decrease) in assets:			
Accounts receivable, net	(4,377)	(2,132)	(6,509)
Investments, net	(4,272)	–	(4,272)
Advances and prepayments	5,153	(264)	4,889
Other assets	–	(27)	(27)
(Increase)/decrease in liabilities:			
Accounts payable	19,642	(31,195)	(11,553)
Federal employee benefits payable	–	15,513	15,513
Environmental and disposal liabilities	–	(6,608)	(6,608)
Advances from others and deferred revenue	310	39,147	39,457
Other liabilities			
Accrued grant liabilities	–	(2,069,384)	(2,069,384)
Other	(4,050)	(30,810)	(34,860)
Financing sources:			
Imputed cost	(394,185)	–	(394,185)
Total Components of Net Operating Cost Not Part of Net Outlays	(381,620)	(3,610,640)	(3,992,260)
Components of Net Outlays Not Part of Net Operating Cost			
Acquisition of capital assets	50,263	1,132,146	1,182,409
Acquisition of inventory and related property	24,307	28,940	53,247
Financing sources:			
Transfers-in/out without reimbursement	13,758	–	13,758
Total Components of Net Outlays Not Part of Net Operating Cost	88,328	1,161,086	1,249,414
Miscellaneous Items			
Special fund receipts	36,050	–	36,050
Deposit funds and miscellaneous receipts	–	(9,435)	(9,435)
Other	1,888	(4,729)	(2,841)
Total Miscellaneous Items	37,938	(14,164)	23,774
Net Outlays	$ 2,489,167	$ 20,513,892	$ 23,003,059
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total)			39,421,662
Distributed offsetting receipts			(16,418,603)
Agency outlays, net			$ 23,003,059

The following is a reconciliation of net cost to net outlays as of September 30, 2020:

(Dollars in Thousands)	2020 Intragovernmental	2020 Other than intragovernmental/ with the public	2020 Total
Net Operating Cost	$ 2,554,374	$ 22,634,843	$ 25,189,217
Components of Net Operating Cost Not Part of Net Outlays			
Property, plant, and equipment depreciation expense	–	(1,336,609)	(1,336,609)
Property, plant, and equipment disposals and revaluations	–	(138,701)	(138,701)
Cost of goods sold	(1,021)	(60,363)	(61,384)
Inventory and related property disposals and revaluations	–	39,778	39,778
Increase/(decrease) in assets:			
Accounts receivable, net	(11,703)	(16,383)	(28,086)
Investments, net	9,567	–	9,567
Advances and prepayments	(6,288)	520	(5,768)
Other assets	–	–	–
(Increase)/decrease in liabilities:			
Accounts payable	2,151	30,752	32,903
Federal employee benefits payable	–	(58,480)	(58,480)
Environmental and disposal liabilities	–	121,452	121,452
Advances from others and deferred revenue	(1,650)	(17,031)	(18,681)
Other liabilities			
Accrued grant liabilities	–	(4,417,792)	(4,417,792)
Other	(23,030)	(88,532)	(111,562)
Financing sources:			
Imputed cost	(343,678)	–	(343,678)
Total Components of Net Operating Cost Not Part of Net Outlays	(375,652)	(5,941,389)	(6,317,041)
Components of Net Outlays Not Part of Net Operating Cost			
Acquisition of capital assets	47,197	1,256,832	1,304,029
Acquisition of inventory and related property	–	67,007	67,007
Financing sources:			
Transfers-in/out without reimbursement	8,807	–	8,807
Total Components of Net Outlays Not Part of Net Operating Cost	56,004	1,323,839	1,379,843
Miscellaneous Items			
Special fund receipts	109,473	–	109,473
Deposit funds and miscellaneous receipts	–	(6)	(6)
Other	(6,826)	(2,922)	(9,748)
Total Miscellaneous Items	102,647	(2,928)	99,719
Net Outlays	$ 2,337,373	$ 18,014,365	$ 20,351,738
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total)			30,761,594
Distributed offsetting receipts			(10,409,856)
Agency outlays, net			$ 20,351,738

Note 19. Disclosure Entities

The Center for Advanced Aviation System Development (CAAS) is a Federally Funded Research and Development Center (FFR C) sponsored by the FAA. FFR Cs are nonprofit entities that are sponsored and funded by the U.S. Government to meet special long-term research or development needs. CAASD serves the public interest by providing essential research to advance the safety, security, effectiveness, and efficiency of aviation and transportation in the United States and around the world.

The administrator of CAASD is The MITRE Corporation (MITRE). MITRE is a not-for-profit organization that operates multiple FFR Cs including CAAS . MITRE is a "public interest company" having no commercial interests. The absence of commercial conflicts of interest is essential to maintaining independence and objectivity.

As the sponsor of CAAS , the FAA has a long-term relationship with MITRE. The nature of this relationship is for the FAA to provide sufficient physical and financial resources in support of CAAS 's innovative research and development that in turn supports the accomplishment of FAA's mission. The FAA's relationship with MITRE and CAAS presents no financial or non-financial risk, and there is no expectation of benefits based on this relationship, other than the results of the independent research and development.

For the periods ended September 30, 2021 and 2020, the FAA had new obligations of $173 million and $144 million, respectively, in support of its sponsorship agreement with MITRE for CAAS .

Note 20. COVID-19 Activity

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, Public Law 116-136, provided $10 billion in general fund appropriations for Grants-in-Aid for Airports to prevent, prepare for, and respond to the COVID-19 pandemic. In addition, of the amounts previously made available from the AATF for operations in the Bipartisan Budget Act of 2018 (Public Law 115–123), up to $25 million may be repurposed to prevent, prepare for, and respond to the COVID-19 pandemic. Airport grants issued with CARES Act funds can be used for airport capital expenditures and airport operating expenses such as payroll, utilities, and debt services.

The Coronavirus Response and Relief Supplemental Appropriations Act, 2021 (CRRSA), Public Law 116-260, provided an additional $2 billion in general fund appropriations for Grants-in-Aid for Airports to prevent, prepare for, and respond to coronavirus. Airport grants issued with CRRSA Act funds can be used for operational costs and debt service but not for capital expenditures.

The American Rescue Plan Act of 2021 (ARPA), Public Law 117-2, provided an additional $8 billion in general fund appropriations under Relief for Airports, a new program account, to be allocated to sponsors of airports to prevent, prepare for, and respond to coronavirus. Airport grants issued with ARPA funds can be used for operating expenses, debt service payments, the federal share of airport development projects, and airport concessions. In addition, the act established an emergency FAA employee leave fund and appropriated $9 million from the general fund for the use of paid leave by any FAA employee who is unable to work due to circumstances related to COVID-19.

Because Grants-in-Aid for Airports is a trust fund program account, budgetary concepts require that general fund appropriations (i.e., $10 billion from the CARES Act and $2 billion from the CRRSA Act) be deposited to a general fund payment account, apportioned, then transferred to an available trust fund receipt account, fully expending the appropriation. The transfer-in to the available trust fund receipt account is then recorded as an appropriated receipt, apportioned, and available for obligation.

Because Relief for Airports was established as a general fund program account, the general fund appropriation is deposited, apportioned, and expended out of the same budgetary program account.

The classification of funds from dedicated collections is made by individual fund. In situations where there is a mixed source of funding, the classification is based on the predominant source of funding.

This note is presented on a combined basis. The combined presentation does not eliminate intra-entity balances or transactions.

The FAA's COVI -19 activity as of and for the year ended September 30, 2021, consist of the following:

(Dollars in Thousands)	2021 Funds from dedicated collections	2021 Funds from other than dedicated collections	2021 Consolidated total
BALANCE SHEET			
Assets			
Fund balance with Treasury (Note 2)	$ 2,550,749	$ 9,094,602	$ 11,645,351
Accounts receivable, net (Note 4)	82	–	82
Advances and prepayments	2,030	–	2,030
Total assets	$ 2,552,861	$ 9,094,602	$ 11,647,463
Liabilities and net position			
Accounts payable	$ (59)	$ 245	$ 186
Federal employee benefits payable	52	–	52
Other liabilities			
Accrued grant liabilities	2,184,474	4,254,518	6,438,992
Other (Note 10)	31	–	31
Unexpended appropriations	–	4,838,873	4,838,873
Cumulative results of operations	368,363	966	369,329
Total liabilities and net position	$ 2,552,861	$ 9,094,602	$ 11,647,463
STATEMENT OF NET COST			
Gross program costs	$ 2,135,346	$ 5,165,161	$ 7,300,507
Total net cost	$ 2,135,346	$ 5,165,161	$ 7,300,507
STATEMENT OF CHANGES IN NET POSITION			
Unexpended appropriations			
Appropriations received (Note 16)	$ –	$ 10,009,000	$ 10,009,000
Appropriations used	–	(5,170,127)	(5,170,127)
Total unexpended appropriations	$ –	$ 4,838,873	$ 4,838,873
Cumulative results of operations			
Beginning balances	$ 2,503,690	$ –	$ 2,503,690
Appropriations used	–	5,170,127	5,170,127
Transfers-in/out without reimbursement	(1)	(4,000)	(4,001)
Imputed financing (Note 15)	20	–	20
Net cost of operations	2,135,346	5,165,161	7,300,507
Net change in cumulative results of operations	(2,135,327)	966	(2,134,361)
Cumulative results of operations	$ 368,363	$ 966	$ 369,329
Total net position	$ 368,363	$ 4,839,839	$ 5,208,202
COMBINED STATEMENTS OF BUDGETARY RESOURCES			
Budgetary resources (Note 16)			
Unobligated balance from prior year budget authority, net	$ 725,172	$ –	$ 725,172
Appropriations	–	12,009,000	12,009,000
Total budgetary resources	$ 725,172	$ 12,009,000	$ 12,734,172
Status of budgetary resources			
New obligations and upward adjustments	$ 513,099	$ 8,340,531	$ 8,853,630
Unobligated balance, end of year	212,073	3,668,469	3,880,542
Total budgetary resources	$ 725,172	$ 12,009,000	$ 12,734,172
Outlays, net			
Outlays, net (total)	$ 4,318,204	$ 2,914,398	$ 7,232,602
Distributed offsetting receipts	–	(2,000,000)	(2,000,000)
Agency outlays, net	$ 4,318,204	$ 914,398	$ 5,232,602

The FAA's COVI -19 activity as of and for the year ended September 30, 2020, consist of the following:

(Dollars in Thousands)	2020 Funds from dedicated collections	2020 Funds from other than dedicated collections	2020 Consolidated total
BALANCE SHEET			
Assets			
Fund balance with Treasury (Note 2)	$ 6,868,828	$ –	$ 6,868,828
Accounts receivable, net (Note 4)	1,500	–	1,500
Advances and prepayments	2,699	–	2,699
Total assets	$ 6,873,027	$ –	$ 6,873,027
Liabilities and net position			
Accounts payable	$ 141	$ –	$ 141
Federal employee benefits payable	7	–	7
Other liabilities			
Accrued grant liabilities	4,369,120	–	4,369,120
Other (Note 10)	29	–	29
Unexpended appropriations	–	–	–
Cumulative results of operations	2,503,690	–	2,503,690
Total liabilities and net position	$ 6,873,027	$ –	$ 6,873,027
STATEMENT OF NET COST			
Gross program costs	$ 7,520,994	$ –	$ 7,520,994
Total net cost	$ 7,520,994	$ –	$ 7,520,994
STATEMENT OF CHANGES IN NET POSITION			
Unexpended appropriations			
Appropriations received (Note 16)	$ –	$ 10,000,000	$ 10,000,000
Appropriations used	–	(10,000,000)	(10,000,000)
Total unexpended appropriations	$ –	$ –	$ –
Cumulative results of operations			
Beginning balances	$ 25,000	$ –	$ 25,000
Appropriations used	–	10,000,000	10,000,000
Transfers-in/out without reimbursement	9,999,674	(10,000,000)	(326)
Imputed financing (Note 15)	10	–	10
Net cost of operations	7,520,994	–	7,520,994
Net change in cumulative results of operations	2,478,690	–	2,478,690
Cumulative results of operations	$ 2,503,690	$ –	$ 2,503,690
Total net position	$ 2,503,690	$ –	$ 2,503,690
COMBINED STATEMENTS OF BUDGETARY RESOURCES			
Budgetary resources (Note 16)			
Unobligated balance from prior year budget authority, net	$ 25,000	$ –	$ 25,000
Appropriations	10,000,000	10,000,000	20,000,000
Total budgetary resources	$ 10,025,000	$ 10,000,000	$ 20,025,000
Status of budgetary resources			
New obligations and upward adjustments	$ 9,383,133	$ 10,000,000	$ 19,383,133
Unobligated balance, end of year	641,867	–	641,867
Total budgetary resources	$ 10,025,000	$ 10,000,000	$ 20,025,000
Outlays, net			
Outlays, net (total)	$ 3,131,172	$ 10,000,000	$ 13,131,172
Distributed offsetting receipts	(10,000,000)	–	(10,000,000)
Agency outlays, net	$ (6,868,828)	$ 10,000,000	$ 3,131,172

Required Supplementary Information

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

DEFERRED MAINTENANCE AND REPAIRS

As of September 30, 2021
(Dollars in Thousands)
Unaudited

Category	Description	Facility condition is <	Cost to return to acceptable condition: Beginning balance	Cost to return to acceptable condition: Ending balance
Staffed Facilities				
Tier 1	ARTCCs, ATCT/TRACONs at major airports	95%	$ 270,481	$ 473,526
Tier 2	WJHTC and MMAC	95%	62,645	67,250
Tier 3	ATCT/TRACONs at all non-major airports	90%	30,981	76,663
Unstaffed Facilities				
Tier 1	Long range radars	95%	70,891	81,801
Other	Unstaffed infrastructure and fuel storage tanks	N/A	1,006,970	1,025,714
	Total		$ 1,441,968	$ 1,724,954

eferred maintenance and repair is maintenance or repair that was not performed when it should have been, or was scheduled to be performed but was delayed until a future period due to a lack of resources or funding.

The FAA reports deferred maintenance for facilities critical to the operation of our nation's airspace with a Facilities Condition Index score less than 90-95 percent — meaning that they must be maintained at 90-95 percent of prescribed levels or better to be considered in fair condition or better. These facilities include Air Route Traffic Control Centers (ARTCCs), Air Traffic Control Towers (ATCTs), Terminal Radar Approach Control (TRACON) facilities, the William J. Hughes Technical Center (WJHTC), the Mike Monroney Aeronautical Center (MMAC), and long range radar facilities. Deferred maintenance for fuel storage tanks, and unstaffed infrastructure facilities are reported if they have exceeded the expected lifecycle for those assets. The Facilities Condition Index score is not considered for those assets. All of these facilities are capitalized general property, plant, and equipment, and most of these facilities are fully depreciated given that they were constructed more than 50 years ago.

The FAA prioritizes the maintenance of facilities by their operational significance within the national airspace system. Tier 1 and Tier 2 facilities are those staffed with FAA employees and contractors that support the busiest airports in the United States. Maintenance and repair activities are prioritized to elevate and sustain the greatest number of Tier 1 and Tier 2 facilities to fair to good condition within available funding appropriated to FAA. Ancillary facilities such as long range radars, unstaffed infrastructure, and fuel storage tanks that support Tier 1 and Tier 2 facilities are given higher priority than those that support Tier 3 facilities. Tier 3 facilities support airports with low operational air traffic volume.

Staffed facilities are assessed for deferred maintenance and lifecycle costs on a rotating basis by a qualified engineering firm. Deferred maintenance for unstaffed facilities is determined based on facility surveys or estimated based on the age of the structure. FAA facilities that are administrative in nature have been excluded from these estimates since the state of those facilities does not have a direct impact on the control of air traffic operations. Personal property housed within air traffic facilities, both staffed and unstaffed, has also been excluded from these estimates because it is likely to become obsolete as technology continues to advance. The FAA recognizes maintenance and repair expenses as incurred.

The increase in Tier 1 staffed facilities is due to the net addition of eighteen ATCT and TRACON facilities whose facility condition scores fell below the acceptable range. The increase in Tier 3 staffed facilities is because of an increase of seventeen facilities that fell below the acceptable condition level. The increase in deferred maintenance for Long Range Radars relates to the offsetting decreases and increases of parts of the facilities that have aged into the deferred maintenance backlog. For 2021 there were three facilities that increased by nearly $1 million over the previous year and two facilities that increased by approximately $2 million over the previous year. The increase in unstaffed infrastructure and fuel storage tanks is attributed to improved cataloguing of all assets on unstaffed infrastructure sites which identified 7,695 new assets that were added to the inventory this year.

Schedule of Budgetary Resources by Major Fund Type

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

For the year ended September 30, 2021
(Dollars in Thousands)
Unaudited

	Grants-in-Aid for Airports	Relief for Airports	Facilities & Equipment	Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Expenditure Transfers between FAA Accounts	Other Funds	Combined Total
BUDGETARY RESOURCES										
Unobligated balance from prior year budget authority, net	$ 1,347,545	$ –	$ 2,343,575	$ 179,432	$ 2,300,692	$ 264,600	$ 332,950	$ –	$ 7,139	$ 6,775,933
Appropriations	2,400,000	8,000,000	3,015,000	198,000	–	–	482,500	26,919,000	17,606	41,032,106
Contract authority	3,350,000	–	–	–	–	–	–	–	–	3,350,000
Spending authority from offsetting collections	38	–	59,872	8,165	18,943	470,389	10,665,212	–	–	11,222,619
Total budgetary resources	$ 7,097,583	$ 8,000,000	$ 5,418,447	$ 385,597	$ 2,319,635	$ 734,989	$ 11,480,662	$ 26,919,000	$ 24,745	$ 62,380,658
STATUS OF BUDGETARY RESOURCES										
New obligations and upward adjustments	$ 6,388,557	$ 4,340,869	$ 3,125,054	$ 230,330	$ 3,640	$ 520,755	$ 11,280,539	$ 26,919,000	$ 1,757	$ 52,810,501
Unobligated balance, end of year										
Apportioned, unexpired accounts	687,255	3,659,131	2,211,709	149,812	17,680	214,150	160,289	–	14,382	7,114,408
Unapportioned, unexpired accounts	19,462	–	443	–	2,298,315	84	3,046	–	8,606	2,329,956
Unexpired unobligated balance, end of year	706,717	3,659,131	2,212,152	149,812	2,315,995	214,234	163,335	–	22,988	9,44 ,364
Expired unobligated balance, end of year	2,309	–	81,241	5,455	–	–	36,788	–	–	125,793
Unobligated balance, end of year (total)	709,026	3,659,131	2,293,393	155,267	2,315,995	214,234	200,123	–	22,988	9,570,157
Total budgetary resources	$ 7,097,583	$ 8,000,000	$ 5,418,447	$ 385,597	$ 2,319,635	$ 734,989	$ 11,480,662	$ 26,919,000	$ 24,745	$ 62,380,658
OUTLAYS, NET										
Outlays, net (total)	$ 8,835,285	$ 332,979	$ 2,761,309	$ 159,041	$ (15,613)	$ 1,015	$ 673,385	$ 26,672,000	$ 2,261	$ 39,421,662
Distributed offsetting receipts	–	–	–	–	–	–	–	(16,400,000)	(18,603)	(16,418,603)
Agency outlays, net	$ 8,835,285	$ 332,979	$ 2,761,309	$ 159,041	$ (15,613)	$ 1,015	$ 673,385	$ 10,272,000	$ (16,342)	$ 23,003,059

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL AVIATION ADMINISTRATION

SCHEDULE OF BUDGETARY RESOURCES BY MAJOR FUND TYPE

For the year ended September 30, 2020

(Dollars in Thousands)
Unaudited

	Grants-in-Aid for Airports	Relief for Airports	Facilities & Equipment	Research, Eng. & Development	Aviation Insurance Revolving	Franchise Fund	Operations	Expenditure Transfers between FAA Accounts	Other Funds	Combined Total
BUDGETARY RESOURCES										
Unobligated balance from prior year budget authority, net	$ 1,179,964	$ –	$ 2,188,970	$ 173,520	$ 2,271,141	$ 273,117	$ 386,129	$ –	$ 20,842	$ 6,493,683
Appropriations	10,400,000	–	3,045,000	192,669	–	–	111,000	20,919,000	1,541	34,669,210
Contract authority	3,350,000	–	–	–	–	–	–	–	–	3,350,000
Spending authority from offsetting collections	125	–	80,766	21,006	32,129	490,271	10,656,418	–	–	11,280,715
Total budgetary resources	$ 14,930,089	$ –	$ 5,314,736	$ 387,195	$ 2,303,270	$ 763,388	$ 11,153,547	$ 20,919,000	$ 22,383	$ 55,793,608
STATUS OF BUDGETARY RESOURCES										
New obligations and upward adjustments	$ 13,804,795	$ –	$ 3,073,189	$ 209,768	$ 2,780	$ 533,307	$ 10,893,805	$ 20,919,000	$ 1,295	$ 49,437,939
Unobligated balance, end of year										
Apportioned, unexpired accounts	1,106,717	–	2,158,167	172,473	18,622	230,081	176,738	–	19,547	3,882,345
Unapportioned, unexpired accounts	18,577	–	1,095	–	2,281,868	–	211	–	1,541	2,303,292
Unexpired unobligated balance, end of year	1,125,294	–	2,159,262	172,473	2,300,490	230,081	176,949	–	21,088	6,185,637
Expired unobligated balance, end of year	–	–	82,285	4,954	–	–	82,793	–	–	170,032
Unobligated balance, end of year (total)	1,125,294	–	2,241,547	177,427	2,300,490	230,081	259,742	–	21,088	6,355,669
Total budgetary resources	$ 14,930,089	$ –	$ 5,314,736	$ 387,195	$ 2,303,270	$ 763,388	$ 11,153,547	$ 20,919,000	$ 22,383	$ 55,793,608
OUTLAYS, NET										
Outlays, net (total)	$ 6,896,534	$ –	$ 2,807,921	$ 153,018	$ (29,788)	$ 7,375	$ 161,828	$ 20,762,900	$ 1,806	$ 30,761,594
Distributed offsetting receipts	–	–	–	–	–	–	–	(10,400,000)	(9,856)	(10,409,856)
Agency outlays, net	$ 6,896,534	$ –	$ 2,807,921	$ 153,018	$ (29,788)	$ 7,375	$ 161,828	$ 10,362,900	$ (8,050)	$ 20,351,738

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