



FISCAL YEAR 2025

Federal Aviation Administration **Agency Financial Report**

Foreword

EDITORIAL NOTE

The Fiscal Year (FY) 2025 FAA Agency Financial Report (AFR) was published in January 2026 due to revised government-wide financial reporting deadlines issued by the Office of Management and Budget (OMB). These updated timelines were established to accommodate federal agencies affected by the FY 2026 funding lapse and ensure the accuracy and completeness of financial data submitted for audit and public release.

The Federal Aviation Administration (FAA) is committed to providing the safest and most efficient aerospace system in the world while managing resources responsibly and transparently.

As part of the U.S. Department of Transportation (DOT), we contribute performance and financial data to the DOT's AFR. While we are not required to produce a stand-alone report, we must prepare audited financial statements separate from those of the DOT. We use the results of our independent financial statements audit to produce this FAA AFR as a demonstration of our commitment to transparency and strong financial management. We follow the same statutory and guidance framework used by the DOT to present the FAA's operational and financial performance in a clear and accessible manner.

Our success as financial stewards is made possible by the dedication of our employees, who apply sound fiscal policies to support our mission, programs, and systems. We thank them for their commitment to accountability and providing an accurate and transparent record of the agency's work.

REPORT FORMAT

For FY 2025, the FAA published an AFR in place of a Performance and Accountability Report (PAR). This AFR focuses on audited financial statements, discussion of significant financial and performance results, and other required financial disclosures.

Key Sections

- **Management's Discussion and Analysis (MD&A)** — A high-level overview of the FAA's mission, priorities, financial condition, and performance highlights.
- **Financial Results** — Audited financial statements and notes explaining the agency's financial position and activities.
- **Other Required Information** — Compliance statements, internal control reports, and additional disclosures required by law and OMB guidance.

ANNUAL PERFORMANCE REPORT

The FAA submits detailed performance results to the Department of Transportation for inclusion in a consolidated Annual Performance Report (APR) on all the modes of transportation. The FY 2025 APR is scheduled for publication in March 2026, in accordance with the OMB Circular A-11. The APR will provide detailed performance information and descriptions of results by each key performance measure. This report will also include trend data and a discussion of the DOT's performance overall.

CELEBRATING 21 YEARS OF AWARD-WINNING ACCOUNTABILITY



We are proud to have earned our **21st Certificate of Excellence in Accountability Reporting (CEAR)** award and our **13th "Best in Class"** award for conveying performance information in a clear, understandable, and informative way in the FY 2024 Performance and Accountability Report (PAR).

The CEAR award program, established by AGA (formerly the Association of Government Accountants) in partnership with the Chief Financial Officers Council and the OMB, recognizes federal agencies that excel in accountability reporting. These honors underscore our continued commitment to clear, informative, and effective communication of our performance and financial results.

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Message from the Administrator



Bryan Bedford
Administrator

Fiscal Year (FY) 2025 was one of both challenge and transformation in aviation. The tragic midair collision near Ronald Reagan Washington National Airport (DCA) in January was a sobering reminder of our responsibility to keep safety at the forefront of everything we do. We also continued to face complex pressures – from increased traffic volumes and workforce constraints to the emergence of new technologies—all of which is reshaping the future of the national airspace system (NAS).

Yet these challenges have accelerated our momentum toward building a stronger and safer NAS. This year, the FAA started building a new, modernized air traffic control system, one built to handle current volume as well as accommodate new entrants, including advanced air mobility and drones. With safety as our North Star, we are embracing innovation to build a more reliable, agile, and scalable NAS that allows for future growth.

AT THE FAA, SAFETY IS AND WILL ALWAYS BE OUR TOP PRIORITY.

Following the midair collision of American Airlines Flight 5342 and a U.S. Army Black Hawk helicopter on January 29, 2025, the FAA took immediate action to improve safety around DCA and carried out similar actions to improve safety at other airports around the country. We continue to support the National Transportation Safety Board’s (NTSB) investigation, and we will not hesitate to act if we identify risk based on the evidence. We can never grow complacent, and we must

always hold ourselves and other aviation stakeholders to the highest standards to keep our skies safe.

Which is why we continue to monitor Boeing’s comprehensive plan to fix systemic quality-control and production issues following the January 2024 door plug incident on Alaska Airlines Flight 1282. We will continue to work closely with Boeing to ensure significant lasting improvements to the company’s safety culture.

At the FAA, we are investing in our own safety management system culture, one that prioritizes transparency, frequent communication, and radical accountability. Moving forward, we will continue to be good stewards of taxpayer resources, strategize ways to work smarter, challenge our organization to increase value, and strive for excellence in everything we do.

We hire the best people and give them the best training and tools to achieve the best results. We released our updated workforce plans for air traffic controllers and aviation safety inspectors and engineers. Growing these components of the agency’s workforce is a top priority for the FAA. Under the latest Air Traffic Controller Workforce Plan, we anticipate hiring at least 6,900 new air traffic controllers through 2028.

To meet this goal, the FAA has taken unprecedented action to speed up air traffic controller hiring and training. We initiated a year-round hiring track for experienced controllers from the military and private industry. And we’re filling every seat at the FAA Academy. This past August saw the highest monthly number of Academy students in training in FAA’s history—over 600 students.

We continue to expand the Enhanced Air Traffic-Collegiate Training Initiative, most recently adding Embry-Riddle University’s Prescott, Arizona campus as the ninth school in the program—which provides the same thorough curriculum and advanced training technology offered at our Air Traffic Controller Academy in Oklahoma City.

Because of our supercharged hiring efforts, we exceeded our FY 2025 hiring goal, bringing on board 2,028 new controllers. And we expect to hire more than 2,200 next year.

In addition, we continue to execute a robust hiring strategy for our aviation safety inspectors and engineers. We’ve implemented on-the-spot hiring authority and offered relocation incentives for hard-to-staff areas, and recruitment



With safety as our North Star, we are embracing innovation to build a more reliable, agile, and scalable NAS that allows for future growth.

incentives for hard-to-fill positions. We plan to hire roughly 4,600 safety inspectors and engineers through 2034.

Getting these controllers and other safety professionals onboard quickly couldn't come sooner, as summer 2025 was the busiest in air travel in 15 years.

This increased volume also underscores why it's so important that we have a new modern national airspace system and equipment that the flying public can rely on.

In May, Secretary Duffy and the FAA launched a plan to replace our nation's aging air traffic system—upgrading antiquated radar, hardware, and telecom networks and replacing them with up-to-date fiber, wireless, and satellite technology. Through legislation signed into law in July, the FAA was appropriated \$12.52 billion as a down-payment toward the brand new air traffic control system. This funding will help us start building a more modern NAS—helping us meet the demands of today's airspace as well as the airspace of tomorrow.

Our goal is to put this system in place by the end of 2028. To accomplish this, the FAA is implementing new strategies, technologies and procurement opportunities. We have already significantly increased the cadence of our telecommunications workflows, and we are well on our way toward converting all our 5,000 facilities from copper to high-speed fiber. We are evaluating advanced “off-the-shelf” products to leapfrog our old uncooperative systems, and we are integrating our normal budgeting and procurement work with our modernization efforts to ensure we are fully maximizing each dollar of investment into the new NAS.

We have sought industry collaboration through vendor challenges and Requests for Information to help us build a new cost-effective runway lighting system, replace the decades-old air Traffic Flow Management System, and unify the current En Route Automation Modernization (ERAM) and Standard Terminal Automation Replacement System (STARS) into a single state-of-the-art solution for air traffic control.

During the first quarter of fiscal year 2026, we awarded a contract to an Integrator to manage the entire NAS project, which we expect will help us accelerate our agency's efforts to move from analog to digital and rearchitect the national airspace system of the future.

MISSION & PERFORMANCE HIGHLIGHTS

In FY 2025, the FAA achieved a number of other key accomplishments that underscore our dedication to safety and innovation.

On July 22, we announced the landmark Modernization of Special Airworthiness Certification (MOSAIC) final rule, which aims to increase the availability of safe, modern, and affordable aircraft for recreational aviation, flight training, and certain aerial work. It enables industry to meet the growing demand for more versatile aircraft with higher performance capabilities while maintaining high standards of safety.

On August 6, we published the long-awaited proposed rule for Beyond Visual Line of Sight (BVLOS) drone operations, which will significantly expand the safe use of innovative drone technologies in areas like manufacturing, farming, energy production, filmmaking and the movement of products including lifesaving medications.



We can never grow complacent, and we must always hold ourselves and other aviation stakeholders to the **highest standards to keep our skies safe.**

And on August 14, we marked the 1,000th FAA-licensed commercial space operation. This milestone highlights more than 35 years of the FAA successfully fulfilling its mission to protect safety and advance the future of our skies. The FAA is committed to providing safe, efficient, and timely access to space, helping ensure the U.S. remains the global leader in space transportation and innovation.

FY 2025 brought significant legislative support, with Congress passing a full-year continuing resolution. The Airport and Airway Trust Fund (AATF) continues to be a major financial backbone, providing 93 percent of our budget authority, supplemented by the General Fund.

The Infrastructure Investment and Jobs Act (IIJA) continues to bolster our infrastructure initiatives, with \$25 billion in advanced appropriations earmarked for vital airport and facility enhancements. The One Big Beautiful Bill Act provides a historic \$12.52 billion down payment to support the building of a brand new air traffic system, one that delivers on President Trump's bold vision for the future of American aviation.

We continue to implement requirements Congress directed in the FAA Reauthorization Act of 2024. This legislation supports the needs of the aviation ecosystem and will help advance our national airspace system into the future.

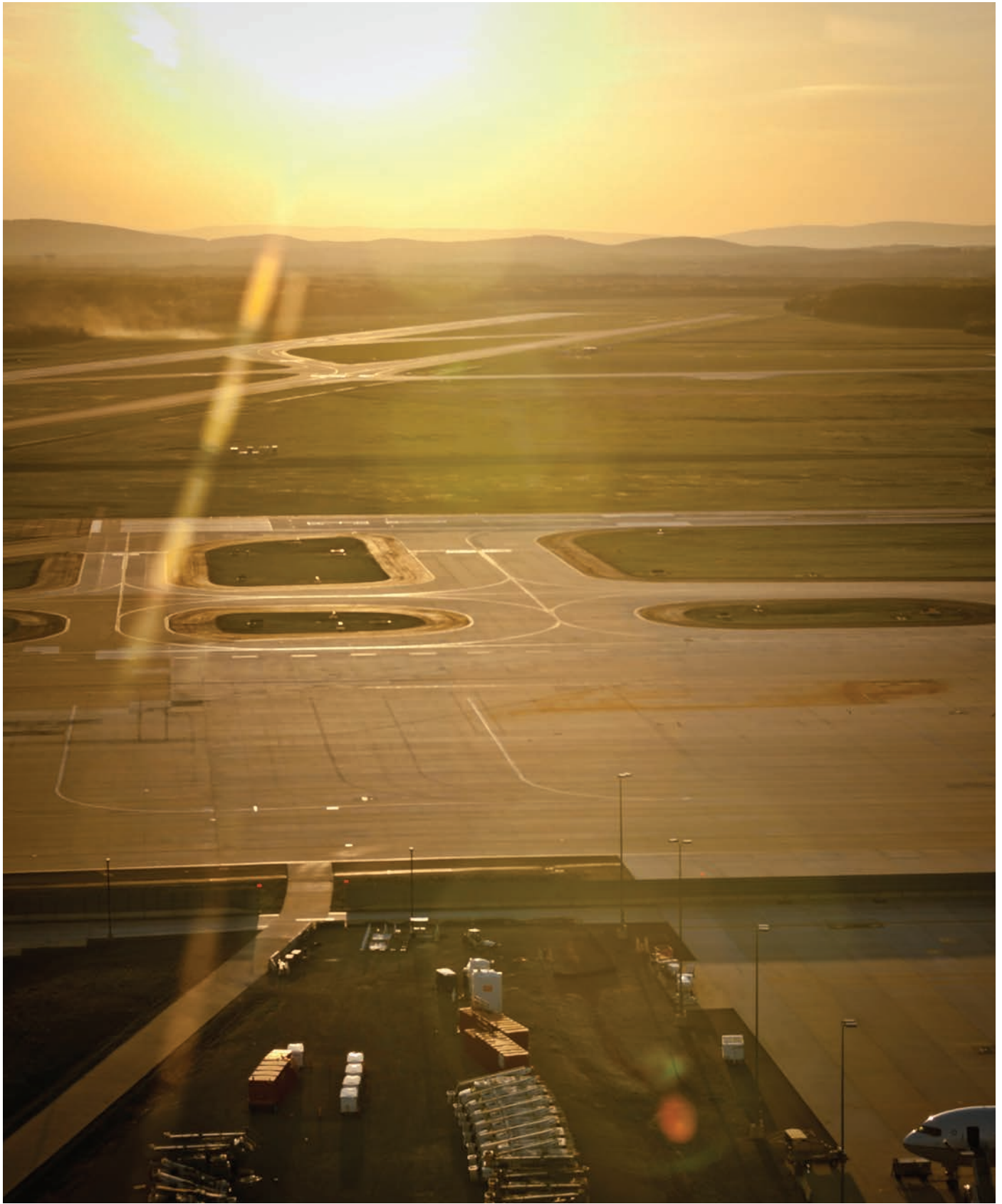
FISCAL ACCOUNTABILITY & STEWARDSHIP

I am proud to report that the FAA's financial data for FY 2025 are complete, reliable, and accurate, reflecting our commitment to fiscal accountability. For the 19th consecutive year, independent auditors have issued an unmodified audit opinion on our financial statements, reinforcing our dedication to transparency. The independent auditors' report is included on page 39.

CONCLUSION

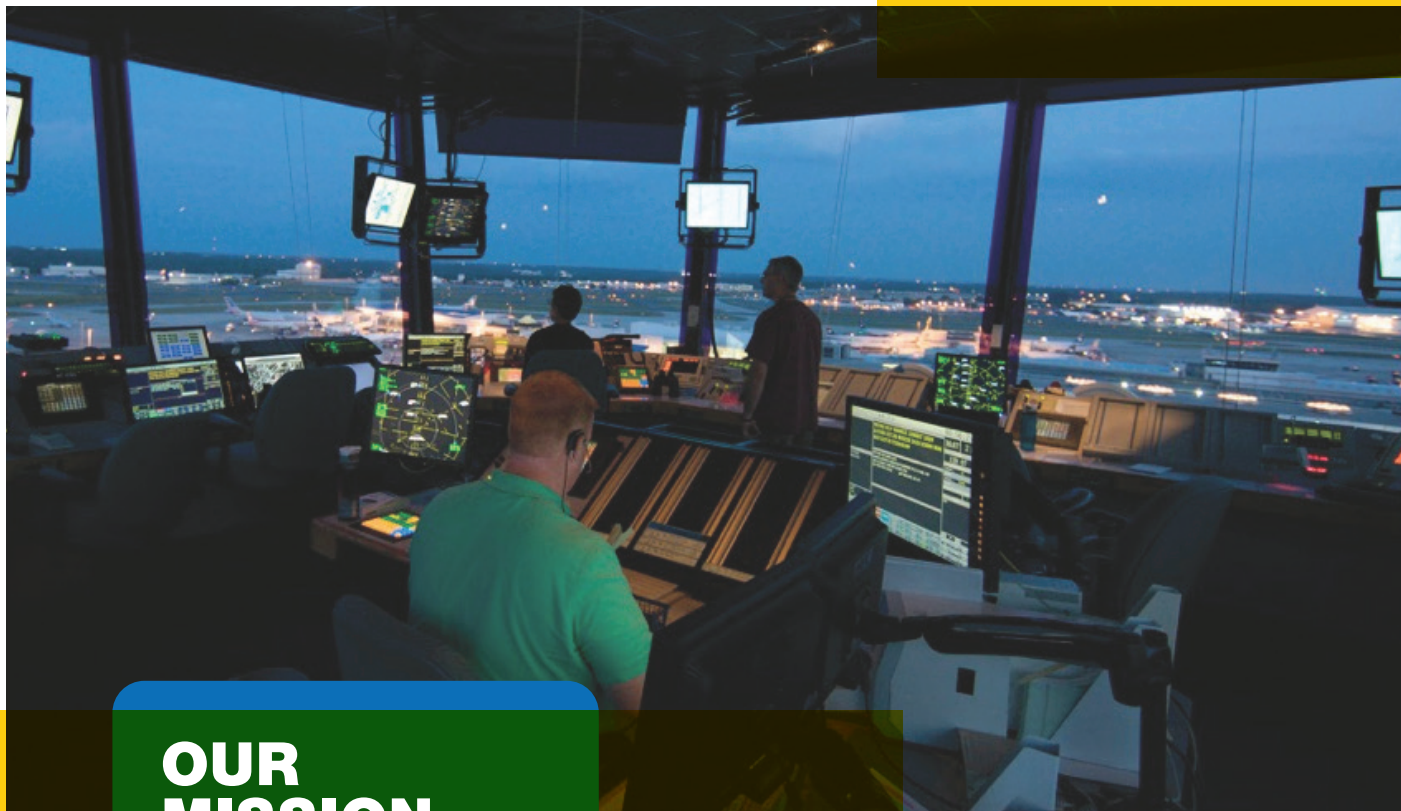
As we close out FY 2025, we do so with a clear-eyed view of the challenges we continue to face and the opportunities that lie ahead. This year tested our resilience, but it also reaffirmed our commitment to safety and transformation. The FAA is building a brand new air traffic control system—one that is agile and built to accommodate the future of flight. We are integrating emerging technologies into the NAS but also ensuring that innovation never comes at the expense of safety. Together with our partners across government, industry, and the public, we remain focused on delivering a safer and more reliable aviation system for all.

Bryan Bedford
Administrator
January 13, 2026



FAA Photo.

WHO WE ARE, WHAT WE DO, & HOW WE WORK



OUR MISSION

The FAA's continuing mission is to **provide the safest, most efficient aerospace system in the world.**

Charlotte Douglas International Airport air traffic control tower. **FAA Photo.**

KEY OFFICIALS

- **Sean Duffy**, U.S. Secretary of Transportation
- **Bryan Bedford**, FAA Administrator
- **Chris Rocheleau**, FAA Deputy Administrator

A [full list of FAA officials](#) is available on the FAA website.

How the FAA Achieves its Mission

The FAA carries out its mission through five **Lines of Business** and nine **Staff Offices**. Together, they partner with the aviation and aerospace industries, commercial space sector, and other stakeholders to operate and improve the national airspace system. The FAA also benefits from two major

centers, the **Mike Monroney Aeronautical Center (MMAC)** and the **William J. Hughes Technical Center for Advanced Aerospace (WJHTC)**, which provide critical training, research, testing, and operational support.

Lines of Business

- **AIRPORTS ORGANIZATION** – Leads the planning and development of a safe and efficient national airport system.
- **AIR TRAFFIC ORGANIZATION** – Provides safe and efficient air navigation services across 29.4 million square miles of airspace.
- **AVIATION SAFETY ORGANIZATION** – Certifies aircraft airworthiness and qualifications for pilots, mechanics, and others in safety-related roles.
- **COMMERCIAL SPACE TRANSPORTATION** – Licenses, regulates and promotes growth of the U.S. commercial space transportation industry.
- **SECURITY AND HAZARDOUS MATERIAL SAFETY** – Safeguards aviation, supports national security, and promotes safe handling of hazardous material.



Staff Offices

- | | | |
|--|---|---|
| ■ Audit & Evaluation | ■ Communications | ■ Human Resource Management |
| ■ Chief Counsel | ■ Finance & Management | ■ NextGen |
| ■ Civil Rights | ■ Government & Industry Affairs | ■ Policy & Strategic Engagement |

FAA Centers

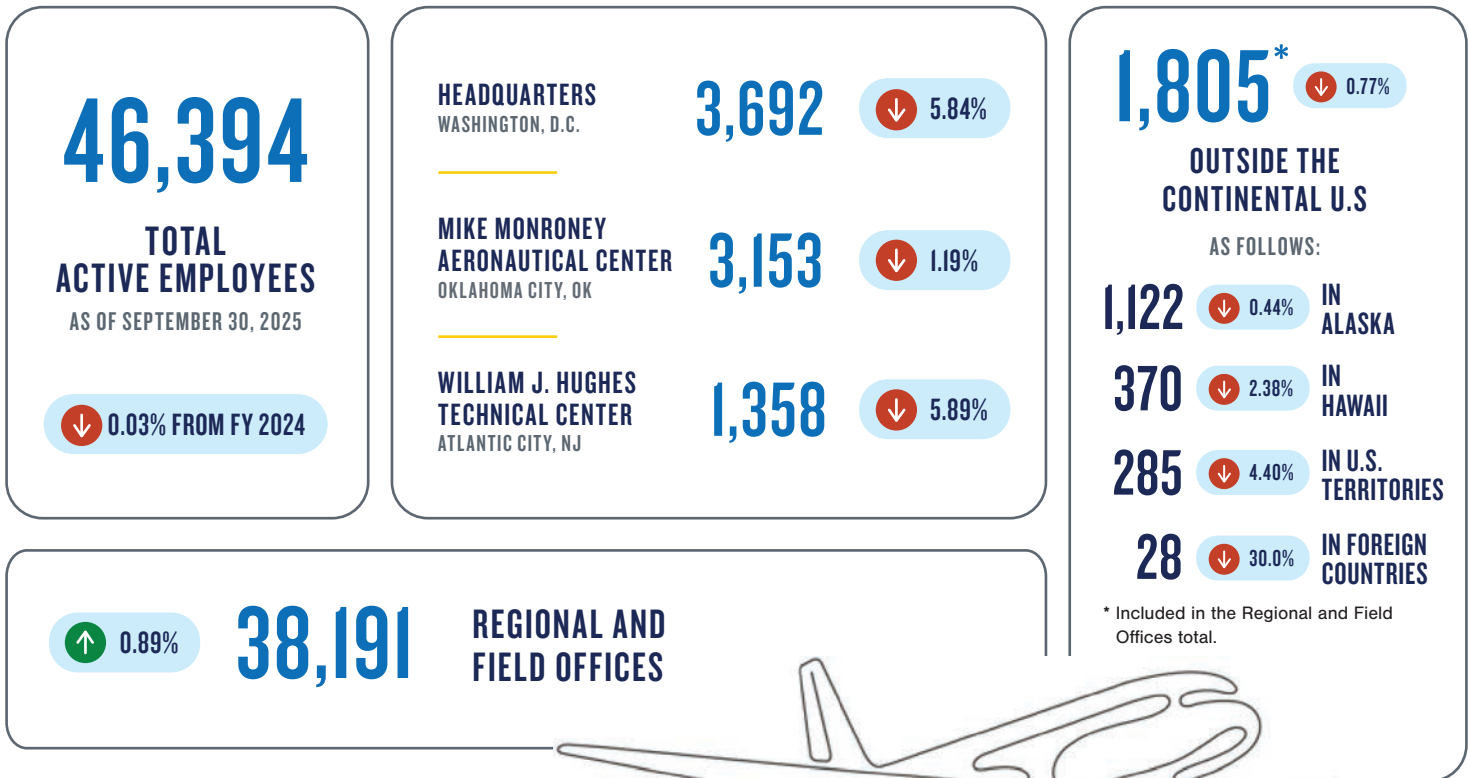
MIKE MONRONEY AERONAUTICAL CENTER – Provides training, logistics, and services that directly support safe and efficient aviation system operations worldwide.

WILLIAM J. HUGHES TECHNICAL CENTER FOR ADVANCED AEROSPACE – The nation’s premier federal aviation lab for advancing and sustaining safe operation of the U.S. national airspace system.

Timeline of FAA and Aerospace History »

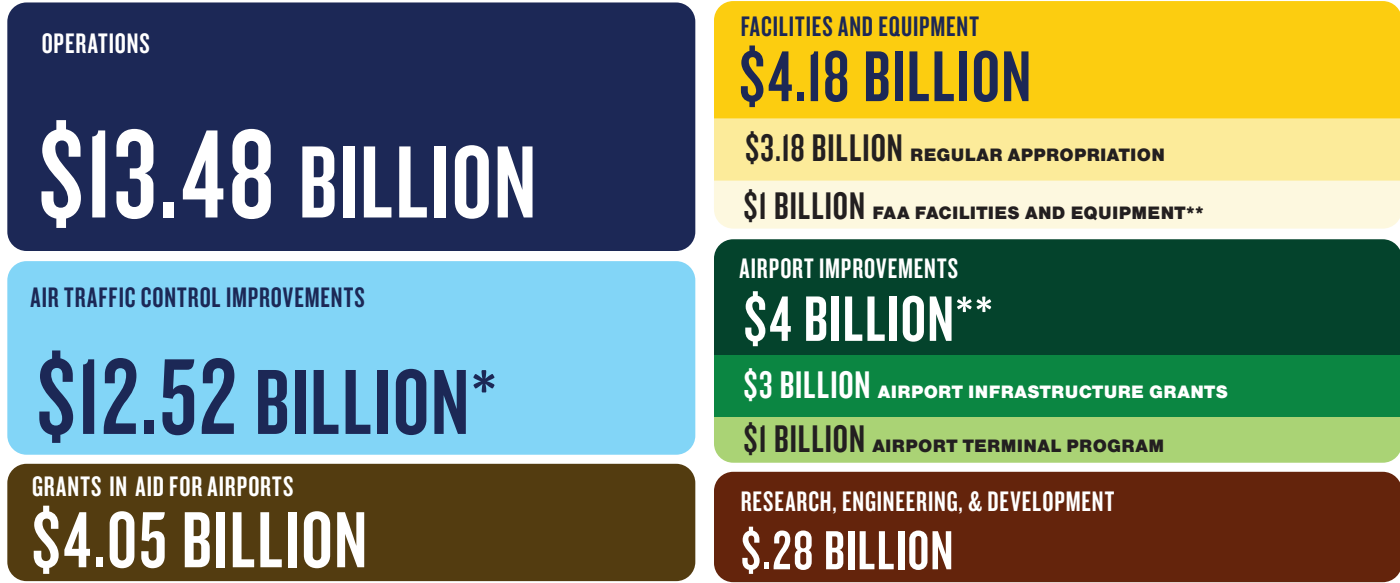


SNAPSHOT OF RESOURCES



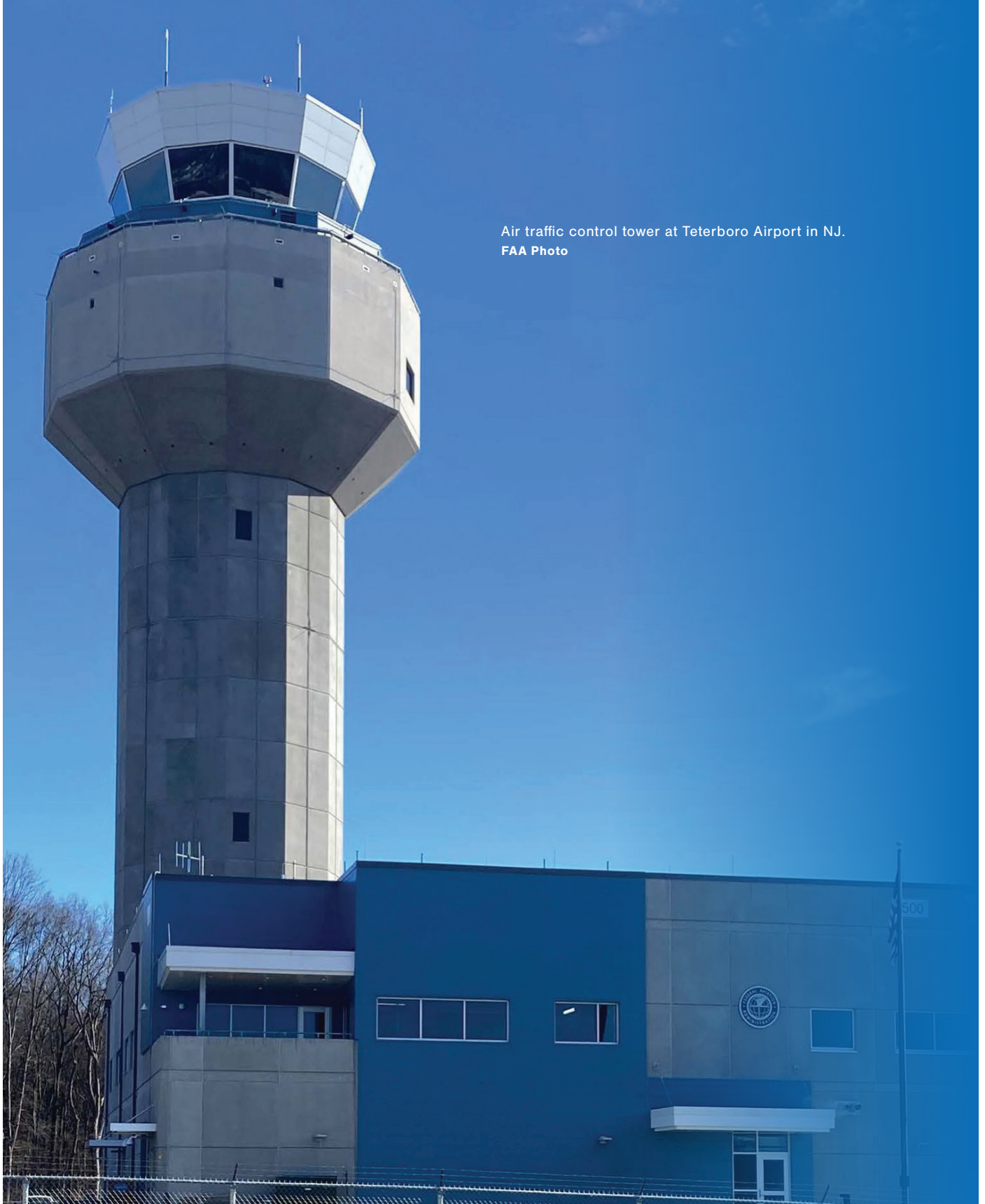
TOTAL BUDGET \$38.51 BILLION

The FAA FY 2025 Budget as enacted by Congress



* Supplemental funds received from Public Law 119-21, the One Big Beautiful Bill Act for modernizing the FAA's air traffic control system. The majority of this funding supports the FAA's major initiative to build a brand new air traffic control system.

** Supplemental funds received from Public Law 117-58, the Infrastructure Investment and Jobs Act (IIJA), which is also known as the Bipartisan Infrastructure Law (BIL).



Air traffic control tower at Teterboro Airport in NJ.
FAA Photo

MANAGEMENT'S DISCUSSION & ANALYSIS



The **Management s Discussion and Analysis** (MD&A) section provides an overview of the FAA's program and financial performance for Fiscal Year 2025. This section explains how the FAA manages its resources, delivers on its mission, and addresses key challenges and opportunities in the national airspace system.

FAA Photo.

The MD&A is organized by the following topic areas:

- **Performance Overview** – A high-level summary of how the agency performed in FY 2025, including key successes, major challenges, and plans to manage risks and opportunities.
- **Alignment of Net Costs** – A breakdown of actual costs associated with each performance goal area.
- **Financial Highlights** – An overview of the agency's overall financial condition and position.
- **Budgetary Integrity** – An explanation of where the agency's funding comes from, how it is budgeted, and how it supports key initiatives.
- **Analysis of Systems & Controls** – A summary of the financial systems and internal controls in place to ensure compliance with federal financial requirements.
- **Management Assurances** – Management's formal assurance on internal controls and financial reporting.



PERFORMANCE OVERVIEW:

Safety is our Top Priority

Throughout FY 2025, the FAA remained committed to ensuring the safety, efficiency, and sustainment of aviation in the United States. Guided by strategic priorities such as modernizing air traffic control systems, improving infrastructure, strengthening aviation safety, and addressing staffing shortages in safety-critical positions, the FAA advanced a broad range of initiatives that support today's operations while preparing for tomorrow's needs.

The following is a summary of performance for FAA safety standards across core areas of aviation, highlighting measures that are key to our success.

COMMERCIAL AVIATION SAFETY

The FAA aimed to maintain a commercial aviation fatality rate at or below 4.4 per 100 million passengers through FY 2025. However, the FY 2025 target was not met¹ due to a midair collision of a passenger jet and military helicopter near Washington, D.C., resulting in 67 fatalities.

Improving safety requires understanding the conditions and factors that contribute to such incidents. To support this analysis and help prevent future occurrences, the FAA supplements regulatory data and analysis with voluntarily data submitted by aviation industry stakeholders in the Aviation Safety Information Analysis and Sharing (ASIAS) program and collaborates with National Transportation Safety Board (NTSB) on investigations data. The United States Aviation Safety Team (USAST) is a great example of a collaborative initiative with industry stakeholders across all aviation communities created to enhance aviation safety through such efforts as:

- Development of the **Aerospace National Safety Issue Registry (ANSIR)**
- Modernization of the **Aviation Safety Information Analysis and Sharing (ASIAS) system**

¹ Final performance data will be published in the Department of Transportation's consolidated Annual Performance Report (APR) in March 2026.

What is ASIAS?



ASIAS (Aviation Safety Information Analysis and Sharing) is a collaborative government and industry initiative to share and analyze data to proactively identify and address safety issues across the NAS before accidents or incidents occur. It leverages voluntary proprietary data from more than 225 airlines, cargo carriers, corporate operators, general aviation, rotorcraft, and flight training entities to monitor known risks, evaluate the effectiveness of deployed mitigations, and identify emerging hazards.

ASIAS employs strong principles and governance protocols to ensure that all data is used strictly for safety purposes.

The core operating principles of ASIAS include:

- **Non-punitive** use of data and shared information
- **Voluntary** participation
- Data are **de-identified**
- **Consensus based** governance
- **Analyses** are **approved** by consensus
- **Transparent** data management
- Data used solely for the **advancement of safety**

These efforts aim to better identify safety concerns and use artificial intelligence to help predict and prevent incidents.

Consistent with the FAA Reauthorization Act of 2024, which prioritizes the implementation of new safety technologies, the FAA spent approximately \$14.8M this fiscal year to deploy the initial capability for ASIAs 3.0, as part of modernization efforts for system upgrades and security enhancements, and to advance analytic capabilities for safety data.

While data and analytics are an important part of our safety mission, they represent only a portion of the FAA's work. Nearly \$17 billion was spent on safety activities to support the systems and services that prevent incidents and ensure aviation safety, including aircraft, pilot, and airline certification; air traffic services; workforce training; and critical infrastructure modernization.

GENERAL AVIATION SAFETY

For general aviation (smaller, typically non-commercial aircraft), the FAA set an FY 2025 goal to reduce fatal accidents to no more than 0.92 per 100,000 flight hours. The current rate is well below that target at 0.61 fatal accidents per 100,000 flight hours, reflecting progress supported by NTSB data and targeted risk-reduction strategies developed through the General Aviation Joint Safety Committee (GAJSC).

WHAT IS THE GENERAL AVIATION JOINT SAFETY COMMITTEE (GAJSC)?

GAJSC is a partnership between the FAA and the general aviation community that focuses on improving safety through voluntary efforts such as education, training, sharing best practices, and promoting new equipment and technologies.

SURFACE SAFETY

The FAA continues to monitor and manage runway safety risks, aiming to keep the weighted risk index below 0.38 for commercial operations and below 1.39 for non-commercial aviation. These efforts are aligned with the FAA Reauthorization Act of 2024, which emphasizes improved data sharing and predictive safety analytics. The FAA met its FY 2025 goals, with an index of 0.07 for Commercial Surface Safety and an index of 0.86 for Non-commercial Surface Safety.

RUNWAY CONDITION

Runway pavement condition remains a key factor in system-wide safety and efficiency. Pavement naturally deteriorates due to weather, heavy use, or construction and material issues, requiring regular maintenance and periodic rehabilitation. While the FAA funds much of the capital development at National Plan of Integrated Airport Systems (NPIAS) airports, routine maintenance is performed by airport sponsors, and larger projects rely on Airport Improvement Program grants, Passenger Facility Charges, and other local revenue sources. To sustain national system capacity, planning efforts target having no more than 7 percent of runways out of service at any given time, helping preserve at least 93 percent of system-wide operational capability. In FY 2025, 97.3 percent of eligible runways remained in Excellent, Good, or Fair condition, exceeding the performance target. Monthly monitoring showed no negative trends or significant changes in national pavement condition. FAA Regions and Airports District Offices continued working with airport sponsors to identify emerging pavement needs and incorporate them into Capital Improvement Plans for future funding. Runway conditions remained stable throughout the fiscal year, maintaining strong performance across the NPIAS.

**CHARTING THE COURSE:
STRATEGIC
INVESTMENTS IN
AVIATION**

FY 2025 was a year of meaningful progress and deliberate investment in the future of aviation. As air traffic grows and technology rapidly evolves, modernizing infrastructure, advancing safety tools, and supporting the aviation workforce have become national priorities. The federal government recognizes the critical role aviation plays in the economy and public mobility and has committed to targeted investments that strengthen the system for the future.

The following discussion focuses on activities that received a significant investment from the American people, including results or expected outcomes to meet America's travel needs, overcome challenges, and uphold the highest standards in aviation.

What is the NAS?

The National Airspace System (NAS) is the network of U.S. airspace air navigation facilities, equipment and services; airports or landing areas; aeronautical charts, information and services; rules, regulations and procedures; technical information; staffing resources and material.

Thanks to the expertise of people and the support of technology, tens of thousands of aircraft and people are guided safely and expeditiously to their destinations every day through the NAS.



AVIATION INFRASTRUCTURE

The Infrastructure Investment and Jobs Act (IIJA), enacted as Public Law 117-58 and commonly known as the Bipartisan Infrastructure Law, represents a historic investment in the nation's aviation system. Through IIJA, the FAA is delivering long-term funding to modernize airport and air traffic infrastructure, enhance safety, expand capacity, and improve the passenger experience.

Infrastructure Investment and Jobs Act Funding Progress

The FAA continues to advance IIJA implementation, with significant funding obligated nationwide across major aviation infrastructure investment categories.

Airport Infrastructure Projects: Up to \$3 billion per year from FY 2022 through FY 2026, with funds remaining available for five years. These investments support projects eligible under

existing Airport Improvement Grant and Passenger Facility Charge criteria, including runways, taxiways, safety and sustainability initiatives, terminals, airport-transit connections, and roadway improvements. Of the \$12 billion appropriated to date, approximately \$7.6 billion (64 percent) had been obligated nationwide as of September 30, 2025.

Airport Terminal Development: Up to \$1 billion per year from FY 2022 through FY 2026, with funds available for five years. This funding targets aging terminal infrastructure and supports modern, accessible, and resilient airport facilities. Of the \$4 billion appropriated to date, approximately \$3.8 billion (96 percent) had been obligated nationwide as of September 30, 2025.

Facilities and Equipment: Up to \$1 billion per year from FY 2022 through FY 2026, available until expended. These funds support a broad range of projects, including replacing terminal and en route air traffic control facilities and improving air route traffic control centers and combined control facilities. Of the \$4 billion appropriated to date, approximately \$1.8 billion (46 percent) had been obligated nationwide as of September 30, 2025.

Through these investments, IIJA funding is strengthening the safety, reliability, and capacity of the U.S. aviation system while addressing long-standing infrastructure needs and supporting future growth.

ADDRESSING THE AIR TRAFFIC CONTROLLER SHORTAGE

The FAA continues to invest in its people, with a strong focus on stabilizing the air traffic controller workforce. In February 2025, U.S. Transportation Secretary Sean Duffy announced a supercharged hiring initiative for air traffic controllers. As a result, the FAA hired 2,028 air traffic controllers in FY 2025, exceeding its target of 2,000 hires. Over the past five years, the agency has hired 6,887 controllers.

Total workforce losses during FY 2025—including Academy attrition, developmental training failures, retirements, resignations, promotions, and other separations—totaled approximately 1,461.

Following the transition of FAA Academy governance to the FAA Air Traffic Organization (ATO), the agency experienced an increase in Academy success rates. FAA Administrator Bryan Bedford established improved Academy outcomes as a goal under his FAA Flight Plan 2026 strategy.

In FY 2025, the FAA also began offering retention incentives to controllers who reach retirement eligibility to maintain operational continuity. These incentives include financial bonuses and targeted payments for retirement-eligible controllers who remain in mission-critical positions. By encouraging experienced controllers to continue working, the FAA helps ensure that key facilities remain staffed while new hires complete training and certification.

Looking ahead, the FAA anticipates hiring at least 6,900 new air traffic controllers through 2028, including 2,200 in FY 2026, 2,300 in FY 2027, and 2,400 in FY 2028. These increases support long-term staffing resilience by placing talent ahead of expected attrition. Together, these efforts led to a historic milestone in August, when more than 600 students were in training simultaneously—the highest monthly total in the Academy's history.

Through expanded hiring, accelerated training, and a strengthened controller pipeline, the FAA is positioning itself to meet the demands of a modern and evolving national airspace system and the deployment of a new air traffic control system. By advancing hiring and training in parallel with emerging airspace trends and new entrants, the FAA will continue to ensure a safe and efficient NAS for years to come.

Safer, Smarter Skies Ahead

The FAA's management strategies and investments in FY 2025 reflect our clear focus on safety, efficiency, and innovation. By modernizing critical systems, strengthening the aviation workforce, maintaining the highest standards of operational performance, and financial management, the agency continues to deliver on its mission. Looking forward, the FAA is committed to building a national airspace system that is resilient, technologically advanced, and ready to meet the evolving needs of the flying public and the aviation industry.





A Douglas DC-3, N34, at EAA Air Venture a.k.a. Oshkosh after closing. **FAA photo by Bryan Dahlvang.**

Alignment of FAA Costs & Strategic Goals

The FAA's work is guided by four strategic goals—Safety, People, Global Leadership, and Operational Excellence—with innovation underpinning each goal. To understand how resources are used to advance these priorities, the FAA's cost accounting system tracks costs by organizational unit and project, providing transparency into how funding supports mission outcomes. At the beginning of each project, the FAA determines the degree to which the project will contribute to one or more of the strategic goals. The FAA then allocates actual project costs to the strategic goals that are supported by the project.

The FAA's total net cost of \$25.04 billion was allocated to its four strategic goals. Below is a narrative describing the activities funded with rounded and approximate allocations. These rounded costs are represented in the Net Cost by Strategic Goal chart on this page. Full actual costs are presented in Note 16 of the financial statements.

Safety. Nearly \$17 billion, or about 67 percent of total net cost, was devoted to further enhancing the outstanding safety record of the nation's airspace.

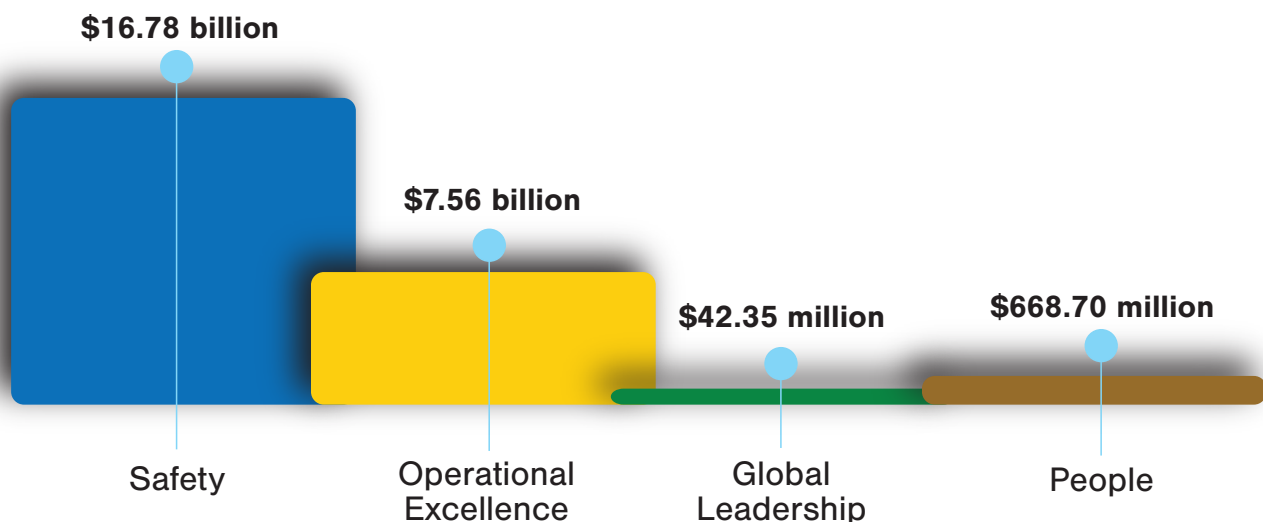
- The Air Traffic Organization (ATO) incurred the majority of safety-related costs, largely to maintain the safe separation of aircraft in the air and on the ground.

- The Office of Airports (ARP) supported safety through projects that preserve or enhance airport infrastructure.
- The Aviation Safety (AVS) line of business incurred costs associated with the regulation and certification of aircraft, pilots, and airlines, directly supporting both commercial and general aviation.
- The Security and Hazardous Materials Safety (ASH) line of business supported safety through programs related to critical infrastructure protection, emergency operations, contingency planning, and the safe transportation of hazardous materials in air commerce.
- The Office of Commercial Space Transportation (AST) incurred safety-related costs associated with oversight of commercial space launch and reentry activities.

Operational Excellence. A little more than \$7.5 billion, or about 30 percent of total net costs, was assigned to invest in better technologies that improve efficiency, while concurrently sustaining the existing infrastructure of the national airspace system.

- The ATO incurred costs associated with facilities and equipment projects that support efficient air traffic operations.

NET COSTS BY STRATEGIC GOAL



■ ARP incurred costs through core airfield infrastructure projects involving runways, taxiways, and terminals.

Global Leadership. Approximately \$42 million was used to help the United States maintain its reputation as the world's leader in aviation safety.

People. The FAA committed nearly \$669 million to strengthen the agency's ability to fulfill its safety, operational excellence, and global leadership goals through a multifaceted, engaged, and skilled workforce.

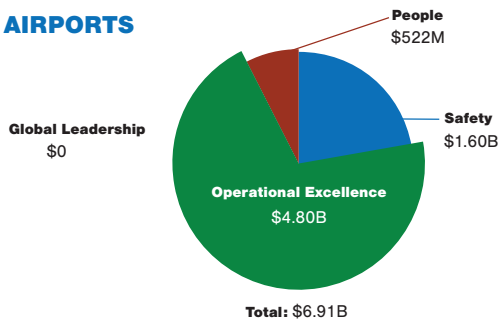
NET COSTS BY LINE OF BUSINESS & STRATEGIC GOAL

How Costs are Distributed

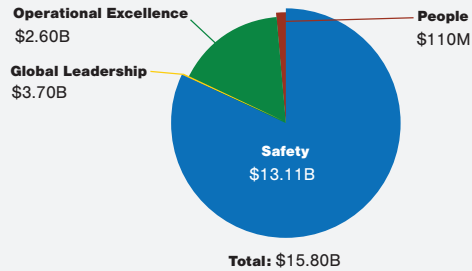
All Lines of Businesses and Staff Offices support each of the FAA's strategic goal areas, and much of the work that advances these goals is inherently collaborative and cross-organizational.

These graphics show how costs are distributed among the five Lines of Businesses, not how effort, workload, or programmatic leadership is assigned. Many initiatives involve shared responsibilities, joint execution, and integrated funding across multiple organizations. As a result, the allocation of costs in these charts should not be interpreted as a measure of relative effort, ownership, or contribution, but rather as a financial view of where expenditures are recorded in support of the FAA's strategic objectives.

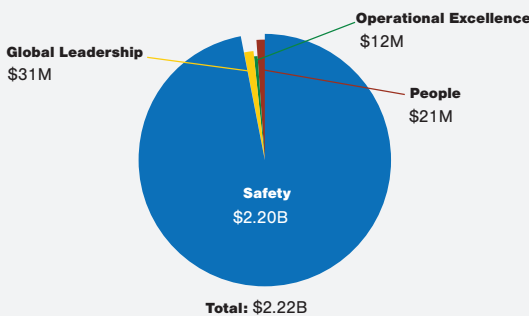
AIRPORTS



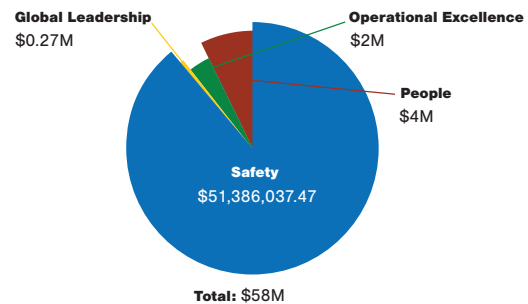
AIR TRAFFIC ORGANIZATION



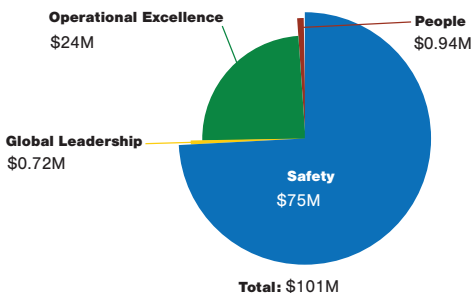
AVIATION SAFETY



COMMERCIAL SPACE TRANSPORT



SECURITY & HAZARDOUS MATERIALS



Financial Highlights

DISCUSSION AND ANALYSIS OF THE FINANCIAL STATEMENTS

The FAA prepares annual financial statements in conformity with accounting principles generally accepted in the United States. The financial statements are subject to an independent audit to review for material misstatement.

FY 2025 FINANCIAL STATEMENTS AUDIT

The Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994, requires that financial statements be prepared by certain agencies and commercial-like activities of the federal government, and that the statements be audited in accordance with Generally Accepted Government Auditing Standards. The FAA is required to prepare its own financial statements under Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. The Department of Transportation's (DOT) Office of Inspector General (OIG) is statutorily responsible for the manner in which the audit of the FAA's financial statements

is conducted. The OIG selected KPMG LLP, an independent public accounting firm, to audit the FAA's FY 2025 financial statements.

KPMG LLP has rendered an unmodified audit opinion on the FAA's FY 2025 financial statements.

UNDERSTANDING THE FINANCIAL STATEMENTS

The FAA's Consolidated Balance Sheets, Statements of Net Cost, Changes in Net Position, and Combined Statements of Budgetary Resources have been prepared to report the financial position and results of operations of the FAA, pursuant to the requirements of the Chief Financial Officers Act of 1990 and the Government Management Reform Act of 1994. The following section provides a brief description of the nature of each financial statement and its relevance to the FAA to help clarify their link to the FAA's operations.

In compliance with OMB Memorandum M-25-30 dated June 23, 2025, the FY 2025 financial statements, footnotes, and other disclosures are presented in a single-year non-comparative format.



Runway construction underway at Hartsfield-Jackson Atlanta International Airport in Atlanta, GA. **FAA Photo.**

Balance Sheet

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

ASSETS

The FAA's assets are the resources available to pay liabilities or satisfy future service needs. The following table presents the key asset measures as of September 30, 2025:

(Dollars in Thousands)

Assets

Fund Balance with Treasury

\$ 33,491,581 48

Investments, Net

21,344,879 31

General Property, Plant and Equipment, Net

12,527,888 18

Other Assets

1,730,161 3

Total Assets

\$ 69,094,509 100

Fund balance with Treasury consists of funding available through the Department of Treasury accounts from which the FAA is authorized to make expenditures to pay liabilities. Its balance is made up of undisbursed amounts from general fund appropriations and AATF drawdown transfers along with passenger ticket and other excise taxes deposited to the AATF but not yet invested.

Fund balance with Treasury at \$33.49 billion represents 48 percent of the FAA's current period assets. Significant balances as of September 30, 2025, include \$12.52 billion of current year funding for the brand new air traffic control system, \$13.86 in IIJA funds, \$1.94 billion in yet invested AATF funds and \$1.79 billion in Operations funding.

At \$21.34 billion, *Investments, net* represent 31 percent of the FAA's current period assets and consist of AATF investments and Aviation Insurance Program investments. The AATF investments as of September 30, 2025, are \$18.70 billion and are derived primarily from the collection of passenger ticket and other excise taxes deposited semi-monthly to the AATF. The deposited taxes are invested within several business days, thus transitioning the asset classification from fund balance with Treasury to investments.

The investment balances also include the Aviation Insurance Program investments. These investments are redeemed, as needed, to finance the FAA's daily operations to the extent authorized by the U.S. Congress, and to pay potential insurance claims. The Aviation Insurance Program investments as of September 30, 2025, are \$2.65 billion.

At \$12.53 billion, *General property, plant, and equipment, net* (PP&E) represents 18 percent of the FAA's assets as of September 30, 2025, and primarily consists of construction in progress related to the development of the national airspace system assets, and capitalized real and personal property.

At \$1.73 billion, Other assets represent 3 percent of the FAA's total assets. These assets primarily consist of \$323 million in Intragovernmental (Other assets for non-entity liabilities—General Fund of the U.S. Government) and \$325 million in Other than Intragovernmental (Lessor lease receivable), \$909 million in Inventory and related property, \$81 million for Accounts receivable, and \$92 million for Advances and prepayments.

LIABILITIES

Liabilities are probable and measurable future outflows of resources arising from past transactions or events. The following table presents key liability measures as of September 30, 2025.

(Dollars in Thousands)

Liabilities

	2025	Percent
Accrued Grant Liabilities	\$ 1,722,225	28
Environmental and Disposal Liabilities	891,670	14
Federal Employee Salary, Leave, and Benefits Payable	890,341	14
Accounts Payable	623,663	10
Post-Employment Benefits Payable	587,562	9
Other Liabilities	1,530,590	25
Total Liabilities	\$ 6,246,051	100

The FAA's *Accrued grant liabilities* are estimated amounts incurred, but not yet claimed, by Airport Improvement Program (AIP) grant recipients and represent 28 percent of liabilities. *Accrued grant liabilities* are \$1.72 billion as of September 30, 2025.

At \$890 million, *Federal employee salary, leave, and benefits payable* represents 14 percent of the FAA's current year liabilities and primarily consists of \$250 million for accrued funded payroll and leave, \$521 million for unfunded leave and \$108 million for other unfunded employment related payables.

At \$588 million or 9 percent of liabilities, *Post-employment benefits payable* represents the actuarial Federal Employees' Compensation Act (FECA) liability. The actuarial FECA liability is the FAA's expected liability for death, disability, and medical costs for approved workers' compensation cases, plus a component for claims incurred but not yet reported. The Department of Labor calculates the liability for the DOT, and the DOT attributes a proportionate amount to the FAA based upon actual workers' compensation payments to FAA

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

Environmental and disposal liabilities at \$892 million represent 14 percent of the FAA's total liabilities and includes a component for remediation of known contaminated sites totaling \$378 million. The other component of environmental liabilities, clean-up, at \$514 million, includes the estimated costs that will be incurred to remove, contain, and/or dispose of hazardous materials when an asset presently in service is shut down.

Accounts payable at \$624 million represents 10 percent of liabilities. Accounts payable are the amounts the FAA owes to other entities for unpaid goods and services received.

At \$1.53 billion, *Other liabilities* represent 25 percent of the FAA's total liabilities. These liabilities primarily consist of \$315 million in advances from others and deferred revenue, \$138 million in Federal Employee's Compensation Act payable, \$335 million for the liability for non-entity assets, \$255 million for unfunded lessee lease liability and \$323 million for unearned lessor revenue.

Statement of Net Cost

The Statement of Net Cost presents the cost of operating the FAA's programs. The gross expense, less any earned revenue, represents the net cost of specific program operations. The FAA has used its cost accounting system to prepare the annual Statement of Net Cost since FY 1999. In contrast to the budgetary basis of accounting applicable to the Statement of Budgetary Resources discussed in Note 1D (page 49), balances reported on the Statement of Net Cost are reported on an accrual accounting basis. Under the accrual method, revenues are recognized when earned, and expenses are recognized when a liability is incurred.

The following table presents the FAA's net costs by line of business for the year ended September 30, 2025:

<i>(Dollars in Thousands)</i>	2025	Percent
Net Costs		
Air Traffic Organization	\$ 15,781,756	63
Airports	6,913,685	28
Aviation Safety	2,222,721	9
Security and Hazardous Materials Safety	100,737	< 1
Commercial Space Transportation	58,367	< 1
Non-Line of Business Programs	(25,631)	< 1
Non-Entity Programs	(11,302)	< 1
Total Net Cost	\$ 25,040,333	100

With a net cost of \$15.78 billion, the *Air Traffic Organization* (ATO) is the FAA's largest line of business, comprising 63 percent of total net costs. The ATO's net costs are primarily comprised of \$8.84 billion for labor, \$4.00 billion for contractor services, \$1.24 billion for depreciation and other equipment related expenses, \$547 million for rent, communications and utilities, \$328 million for supplies and materials, and \$81 million for travel offset by \$431 million in earned revenue.

The *Airports* line of business net cost are \$6.91 billion for the fiscal year ended September 30, 2025, and represents 28 percent of the FAA's total net costs. Airport's net costs consist mostly of grants, referred to as Stewardship Investments, from the Airport Improvement Program. The Stewardship Investments are made to airport authorities, local and state

governments, and metropolitan planning authorities for airport facilities throughout the United States and its territories. Grants expenses of \$6.67 billion, labor costs of \$174 million, and contractual services costs of \$66 million comprise the majority of costs to the *Airports* line of business.

At \$ 2.22 billion, the net cost for *Aviation Safety* represents 9 percent of the FAA's total net costs. The primary expenses were from labor of \$1.73 billion, contractual services of \$251 million, \$71 million of equipment related expenses, and \$41 million for travel offset by \$14 million in earned revenue.

Security and Hazardous Materials Safety, *Commercial Space Transportation*, *Non-line of business programs*, and *Non-entity programs* each represent less than 1 percent of total net costs.

Statement of Changes in Net Position

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

The following table presents key measures of net position for the year ended September 30, 2025:

(Dollars in Thousands)

Net Position

	2025
Unexpended Appropriations, Ending	\$ 28,177,998
Cumulative Results of Operations, Ending	34,670,460
Total Net Position	\$ 62,848,458

Unexpended appropriations are \$28.18 billion as of September 30, 2025. The change in *Unexpended appropriations* from a beginning balance of \$14.92 billion is primarily from appropriations received of \$18.96 billion offset by appropriations used of \$5.44 billion and appropriation reductions of \$254 million.

The FAA's *Cumulative results of operations* for the fiscal year ended September 30, 2025, was \$34.67 billion. The change in *Cumulative results of operations* from a beginning balance

of \$30.04 billion are primarily from non-exchange revenue of \$23.66 billion, appropriations used of \$5.44 billion, imputed financing of \$1.23 billion offset by a net cost of \$25.04 billion. While appropriations used reduce the balance in *Unexpended appropriations*, they increase the balance in *Cumulative results of operations* as they are recognized here, as a financing source. The non-exchange revenue is almost entirely from aviation excise tax collections and interest earned on AATF investments.

Statement of Budgetary Resources

The Statement of Budgetary Resources provides information on the budgetary resources available to the FAA and the status of those budgetary resources. The following table presents key budgetary resource measures for the year ended September 30, 2025:

(Dollars in Thousands)

Budgetary Resources

	2025
Total Budgetary Resources	\$ 65,662,997
New Obligations and Upward Adjustments	\$ 40,743,948
Agency Outlays, Net	\$ 24,782,132

The FAA's *Total budgetary resources* consist of new budget authority and unobligated balances of budget authority provided in previous years. New budget authority consists of the enacted budget, as well as other funding sources made available which are not provided through the enactment of annual appropriations. This also includes expenditure transfers of resources between federal fund types, which reflect the resources in both the enacted account and the program account to which they are transferred.

Total budgetary resources for the fiscal year ended September 30, 2025, are \$65.66 billion, of which \$51.48 billion of new budget authority comes from appropriations, contract authority, and spending authority from offsetting collections. The appropriations of \$34.31 billion include the annual funding for Operations, Facilities and Equipment, Research, Engineering and Development, and Grants-in-Aid to Airports totaling \$16.71 billion. There are additional IJA supplemental appropriations of \$1.03 billion for Facilities and Equipment,

\$3 billion for Airport Infrastructure Grants, and \$1 billion for Airport Terminal Program Grants. Contract authority is \$4 billion. Spending authority from offsetting collections is \$13.17 billion. There is also new funding of \$12.52 billion for the Brand New Air Traffic Control System from the One Big Beautiful Bill Act (OBBBA).

New obligations and upward adjustments result from an order placed, contract awarded, service received, or similar transaction which will require payments during the same or a future period, and also includes expenditure transfers between FAA accounts. *New obligations and upward adjustments* were \$40.74 billion.

Outlays, net reflects the actual cash disbursed by the Treasury for the FAA's obligations net of offsetting collections. *Agency outlays, net* is the sum of *Outlays, net* less *Distributed offsetting receipts*. In FY 2025, the ending balance for *Agency outlays, net* is \$24.78 billion.

Other Matters

LIMITATIONS OF THE FINANCIAL STATEMENTS

The principal financial statements are prepared to report the financial position, financial condition, and results of operations, consistent with the requirements of 31 U.S.C. 3515(b). The statements are prepared from records of Federal entities in accordance with Federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB. Reports used to monitor and control budgetary resources are prepared from the same records. Users of the statements are advised that the statements are for a component of the U.S. Government.

Budgetary Integrity: FAA Resources & How They Are Used

The following discussion of **FAA Resources and How They Are Used** is further illustrated in a graphic on page 28.

PRIMARY FUNDING SOURCES

FAA funding comes from two main sources:

- **Airport and Airway Trust Fund (AATF):** Created in 1970, the AATF pays for investments in the airport and airway system and covers many FAA operating costs. The AATF is funded by aviation excise taxes, such as those on passenger tickets, freight waybills, aviation fuel, and international departures and arrivals. The Department of the Treasury invests these funds in government securities, and the FAA draws on them as needed.
- **General Fund of the U.S. Treasury:** The General Fund of the U.S. Treasury covers costs not funded by the AATF.

In FY 2025, Congress passed the Full-Year Continuing Appropriations and Extensions Act (Public Law 119-4) which kept most federal funding at FY 2024 levels. About 93 percent of the FAA's enacted budget authority provided by this continuing resolution came from the AATF. The remaining funds came from the General Fund of the U.S. Treasury.

The FAA's budget reflects the ways that Congress provides and oversees funding for our operations and programs. By law, the FAA must use funds only as appropriated. The FAA cannot move funds between accounts without an act of Congress.

SUPPLEMENTAL FUNDING SOURCES

The FAA has also received supplemental appropriations for major initiatives.

Through the Infrastructure Investment and Jobs Act (IIJA) (Public Law 117-58) enacted in 2021, the FAA receives \$25 billion in advanced appropriations from the General Fund over five years from FY 2022-2026 to rebuild critical infrastructure. The FAA's IIJA funding is divided into three budget accounts: \$3 billion annually for Airport Infrastructure Grants, \$1 billion annually for the Airport Terminal Program, and \$1 billion annually for Facilities and Equipment (F&E).

In FY 2025, the FAA also received \$12.52 billion from the One Big Beautiful Bill Act (Public Law 119-21) to begin modernizing the FAA's air traffic control system. Because these supplemental appropriations came from the General Fund, the AATF share of the FAA's total budget decreased to 49 percent for FY 2025.

BUDGET OVERVIEW

The chart on page 10 summarizes the FAA's FY 2025 Budget as enacted by Congress.

The FAA's FY 2025 enacted budget totaled \$38.5 billion, a 53.5 percent increase from FY 2024.

The FAA requests and receives its funding in four primary accounts:

- **Operations (\$13.5 billion):** Pays for air traffic control and air navigation system operations, safety inspections and regulatory work, policy oversight, staff salaries, and other administrative and managerial costs. Of the \$13.5 billion received by this account in FY 2025, 90 percent was derived from the AATF, and 10 percent was from the General Fund. This account received 5.9 percent more in FY 2025 than in FY 2024.
- **Facilities and Equipment (F&E) (\$3.17 billion):** Supports capital improvements such as new or updated navigation facilities, equipment, and aviation safety systems. F&E received \$3.17 billion from the AATF in FY 2025, a decrease of 0.5 percent from FY 2024. The IIJA also provides \$1 billion in annual advanced appropriations from the General Fund for FY 2022–2026. With this supplemental funding included, the total F&E account decreased by 0.2 percent.
- **Research, Engineering, and Development (RE&D) (\$280 million):** Funds research to improve aviation safety, efficiency, and environmental impact. The RE&D account received \$280 million from the AATF in FY 2025, equal to the amount received in FY 2024.
- **Grants-in-Aid for Airports (\$4.05 billion):** Funds the Airport Improvement Program (AIP) which awards grants for airport planning and development. Historically, these grants

fund about one-third of capital development at the nation's public airports. This account also supports airport-related research and the administrative costs of the FAA's Office of Airports. Since FY 2018, the Grants-in-Aid for Airports program has received funding from the AATF and the General Fund. Of the \$4.05 billion received by this account in FY 2025, the General Fund provided \$50 million and the AATF provided \$4 billion. The account received 4.3 percent more in FY 2025 than in FY 2024, which aligns with the increase from \$3.35 billion to \$4 billion of contract authority provided by the FY 2024 FAA Reauthorization Act.

ADDITIONAL ACCOUNTS FOR MAJOR INITIATIVES

The FAA has also established budget accounts for IIJA and major initiative funding:

- **Airport Infrastructure Grants (AIG):** Established in FY 2022 for \$15 billion provided by IIJA from the General Fund for airport projects that increase safety and expand capacity (\$3 billion per year over the five-year period FY 2022–2026).
- **Airport Terminal Program (ATP):** Established in FY 2022 for \$5 billion provided by IIJA from the General Fund to replace aging terminals and airport-owned towers, and to increase terminal energy efficiency and accessibility (\$1 billion per year over the five-year period FY 2022–2026).
- **Air Traffic Control Improvements:** Established in FY 2025 for \$12.52 billion provided from the General Fund. Available for five years, this account funds upgrades to FAA telecommunications systems, radars, weather systems, and air traffic control facilities.

OTHER BUDGETARY RESOURCES

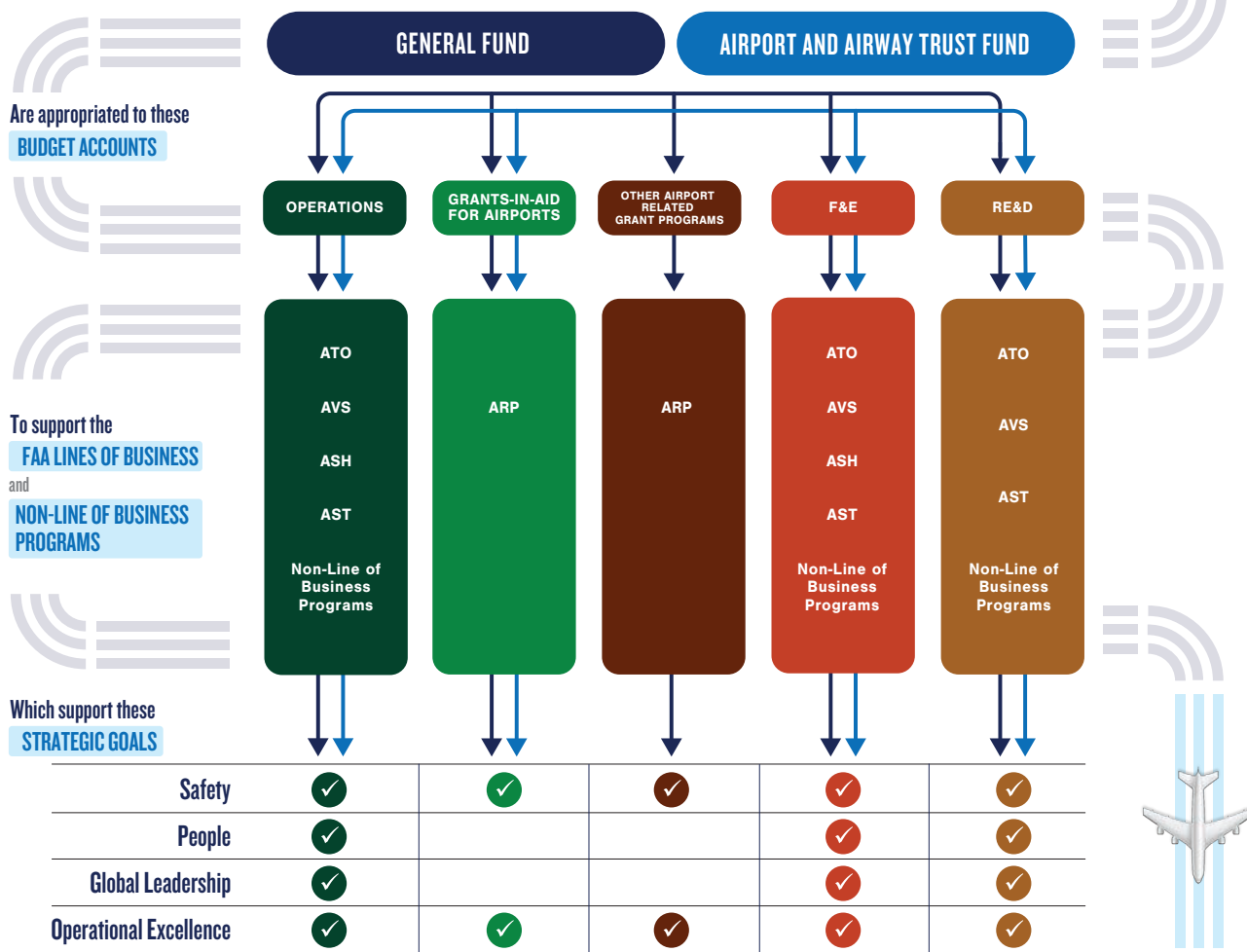
The FAA receives additional budgetary resources through revolving funds and user fees. Revolving funds finance operations with receipts derived from operations. These funds are usually fully available for their intended use without further action by Congress. User fees are charges for government goods or services. The funds described below are not part of the enacted budget, but they provide another source of budgetary resources:

- **Aviation Insurance Revolving Fund:** Provides non-premium war risk insurance, which includes hull loss and passenger, crew, and third-party liability coverage, for certain U.S. Government-contracted flights. This is authorized through September 30, 2028.
- **Administrative Services Franchise Fund (Franchise Fund):** A revolving fund designed to create competition within the public sector in the performance of support services, including accounting, information technology, logistics, maintenance, and international training.
- **Aviation Overflight User Fees:** This fund collects charges to operators of aircraft that fly in U.S. controlled airspace but do not take off or land in the United States. Under current law, these receipts are transferred to the Office of the Secretary of Transportation and used to support air service at certain locations under the Essential Air Service program.

FAA RESOURCES AND HOW THEY ARE USED



TWO PRIMARY SOURCES OF FUNDING



ATO = AIR TRAFFIC ORGANIZATION AVS = AVIATION SAFETY ASH = SECURITY & HAZARDOUS MATERIALS SAFETY
 AST = COMMERCIAL SPACE TRANSPORTATION ARP = AIRPORTS ORGANIZATION

This chart aligns with the presentation of the FAA's audited Consolidated Statements of Net Cost and Net Cost by Program and Strategic Goal in Note 16. The columns represent each of the FAA's budget accounts in FY 2025. Net costs are presented among the FAA's five lines of business and collectively for its non-line of business programs. General and administrative costs from the FAA's staff offices are allocated to the lines of business they support, on a reasonable and consistent basis.

Other Airport Related Grant Programs include the following appropriations:

- \$3 billion in annual advanced appropriations from FY 2022 through FY 2026 to Airport Infrastructure Grants from the Infrastructure Investment and Jobs Act (Public Law 117-58)
- \$1 billion in annual advanced appropriations from FY 2022 through FY 2026 to Airport Terminal Program from the Infrastructure Investment and Jobs Act (Public Law 117-58)

In addition to the primary funding types listed above, the FAA also receives budgetary resources from revolving funds and user fees that are not graphically illustrated.

Analysis of Systems, Controls, & Legal Compliance

Risk management, internal controls, and legal compliance are vital to the integrity of the FAA's finances, operations, and objectives. In the section below, we outline some of the important tools the FAA uses to mitigate risk, assure compliance across the agency, and report the results of our risk assessments.

In this section, we summarize the FAA's financial management systems strategy, including:

- FAA systems that are critical for financial reporting, and our recent and forthcoming improvements to those critical systems.
- Management's responsibilities for internal control and compliance with financial systems requirements, and
- Our actions to evaluate the effectiveness of such controls and compliance. These controls and assessments form the basis for our management assurance statement provided on page 31.
- Finally, we describe the FAA's approach to enterprise risk management, which more broadly encompasses both financial and operational controls.

Financial Management Systems Strategy and Actions

FINANCIAL MANAGEMENT SYSTEMS STRATEGY

The FAA's financial management systems strategy is based on a framework called the Federal Enterprise Architecture. This framework is recognized across the federal government as the best practice for aligning business and technology resources to achieve strategic outcomes. Our financial management systems strategy is divided into five categories: Business, Applications, Data, Information, and Services. A summary of each is provided below:

Business. The FAA has centralized management of financial information to optimize efficiency, transparency, and consistency. Efficiency is achieved by minimizing the number of systems containing financial information. This information must be accurate, readily available, and relatively

easy to review. The key to centralization and transparency is consistency.

Applications. The number of applications used for financial analysis and reporting must be minimized to retain the reliability and consistency of financial information necessary for informed business decisions.

Data. Our financial data management roadmap and stewardship council govern the use and sharing of FAA financial data as a common asset.

Information. The FAA financial data "warehouse" provides consistency of reporting while maintaining each organization's ability to meet individual core mission business reporting requirements.

Services. Financial information services deliver shared operations and the infrastructure for the FAA's multiple financial systems.

Systems Critical to Financial Management, Improvements, and actions

The FAA collaborates with the DOT to consolidate and modernize financial management systems and streamline processes and financial reports. Maintaining fewer systems enables the FAA to operate more efficiently by having fewer points of data entry, fewer systems to reconcile with the official sources of the data, and fewer systems on which to train employees. The summary below describes the systems critical to the FAA's financial management and the actions and improvements that are recently completed, underway, or planned for each:

Accounting. Delphi is our core financial accounting system. It is an Oracle web-based financial management system integrated with the Procurement Information System for Management (PRISM). Delphi, a DOT-wide system, supports the FAA's business objectives which include reducing program exposure to various sources of risk; automating, streamlining, and standardizing financial and business processes; and providing accurate financial results. Delphi undergoes continuous updates to improve functionality.

The following are some highlights of Delphi's features and benefits:

- One system and one set of books are shared by all FAA regions, centers, and headquarters.
- Ability to share and extract information and data from a common source.
- Financial statements produced directly from the system provide accurate and timely information available to management for decision-making.
- Provides flexibility for program and accounting managers to report financial information.
- Project accounting provides clear lines of responsibility and accountability that improves FAA's ability to measure program effectiveness.
- Cost and lifecycle asset valuations are accurate and consistent.
- Serves as the system of record to originate and integrate G-Invoicing orders. G-Invoicing is a U.S. Department of Treasury-mandated online platform that improves the way the FAA manages buy/sell intergovernmental transactions.

Acquisition. PRISM is an internet-based system of procurement processing for the agency. PRISM supports the entire procurement lifecycle for generating and maintaining procurement documentation and contractor award information. PRISM interfaces with Delphi using modern service-oriented architecture. A service-oriented architecture is a set of web services that efficiently passes or receives data through multiple applications. It allows individual web services to be easily discoverable and can be easily adapted to future changes and upgrades. In FY 2025, PRISM was upgraded to improve user interactions with the system and to meet the latest industry standards. An upgrade to the next release is planned for FY 2026.

Travel. E2 Solutions is the travel management system used by all DOT organizations and many other federal agencies. This system provides the FAA with end-to-end travel approval, booking, and expense management capabilities.

Management Control Highlights

FINANCIAL MANAGEMENT INTEGRITY: CONTROLS, COMPLIANCE, AND CHALLENGES

On January 13, 2026, the FAA Administrator reported an unmodified statement of assurance to the Secretary of

Transportation under the Federal Managers' Financial Integrity Act (FMFIA) of 1982 (Public Law (PL) 97-255). Every year, program managers within the FAA assess the vulnerability of their programs. Based on these assessments, the FAA conducts reviews to determine compliance with Sections 2 and 4 of FMFIA. Section 2 requires having management controls in place, while Section 4 requires financial systems to meet governmentwide standards. If these reviews find any significant internal control weakness or non-conformance with the system standards, the FAA's department heads report them in writing to the FAA Administrator. These reports are combined into a Statement of Assurance signed by the Administrator and sent to the DOT Secretary. This FAA statement becomes part of the DOT Statement of Assurance sent to the President.

The FAA also informs the DOT about compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (PL 104-208). The FFMIA requires an assessment of adherence to financial management system requirements, accounting standards, and U.S. Standard General Ledger transaction-level reporting. FAA followed FFMIA for FY 2025.

ENTERPRISE RISK MANAGEMENT AT THE FAA

OMB Circular A-123 provides detailed guidance for management regarding reporting and internal controls. The guidance focuses on internal controls over financial reporting and financial and operational controls.

The FAA collaborates with the DOT to incorporate risk management into our well-established risk-based business architecture. As a mature risk-based entity whose mission is to provide the safest and most efficient aerospace system in the world, the FAA has a longstanding performance culture that monitors the agency's strategic goals and provides quarterly progress reports to the Administrator.

The FAA, in collaboration with the DOT, incorporates risk management principles into a broad range of key policy outcomes and operational practices into its assessment and mitigation of risk. These include ensuring compliance with laws and regulations, addressing findings of assessments and audits included in quarterly and annual reports to Congress, OMB and DOT. Additionally, FAA lines of business and staff offices conduct self-assessments which are incorporated into our reviews.

Management Assurances

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT AND FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT ASSURANCE STATEMENT

Fiscal Year 2025

The FAA is responsible for managing risk and maintaining strong internal control and financial management systems that meet the objectives of Section 2 and Section 4 of the *Federal Managers' Financial Integrity Act of 1982 (FMFIA)*. These practices ensure that our operations are effective and efficient, our financial reporting is reliable, and we comply with all applicable laws and regulations.

Each year, the FAA assesses the strength of these internal controls and systems according to the requirements in OMB Circular No. A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. As part of this assessment, we review:

- The effectiveness and efficiency of operations
- The reliability of internal and external reporting
- Compliance with laws and regulations

Based on the results of our FY 2025 FMFIA assessments, the FAA can provide reasonable assurance that, as of September 30, 2025, our internal control over operations, financial reporting, and compliance were operating effectively. We found no material weaknesses in the design or operation of our internal controls.

The FAA also reviewed its financial management systems against the requirements of the *Federal Financial Management Improvement Act of 1996 (FFMIA)* using OMB Circular No. A-123 Appendix D, *Management of Financial Management Systems – Risk and Compliance*. The FAA can provide reasonable assurance that its financial management systems met all FFMIA requirements for FY 2025.



Bryan Bedford
Administrator
January 13, 2026

FINANCIAL RESULTS



FAA Photo.

Message from the Chief Financial Officer



Fiscal Year 2025

Aviation has always been about looking ahead—anticipating needs, embracing innovation, and investing today to create a safer, more efficient, and more connected tomorrow. That same forward-looking mindset guides the FAA as we

modernize the national airspace system and strengthen the workforce that keeps it running.

This year, the FAA received a historic \$12.52 billion investment to modernize our infrastructure and take bold steps toward building the next generation of air traffic control systems. We approached this responsibility with transparency, accountability, and the data-driven oversight the public expects from us. By expanding financial automations, performance dashboards, and modern internal controls, we showed that strong financial management not only supports our mission—it evolves with it. We remain committed to careful stewardship of public funds, monitoring spending and progress to ensure every dollar advances mission success.

Even through a major change in administration, our financial management teams safeguarded compliance, aligned priorities with new policy direction, and kept critical modernization efforts moving forward.

Maintaining public trust requires more than simply meeting compliance standards—it means demonstrating, every day, that the FAA is a responsible steward of the resources entrusted to us. Our focus on fiscal integrity ensures we can invest wisely in infrastructure, safety technologies, and workforce readiness so the aviation system remains resilient and world-class.

These achievements are driven by the hard work and professionalism of our employees, whose commitment to sound fiscal practices strengthens the FAA’s safety culture. This year, that dedication helped us earn another unmodified audit opinion—clear affirmation that strong financial management is foundational to everything we do.

We are also proud of the recognition we received for excellence in our performance and accountability reporting. The Certificate of Excellence in Accountability Reporting (CEAR), established by AGA in partnership with the CFO Council and OMB, highlights agencies that set the highest standards in clear, effective, and meaningful reporting. The FAA is honored to have earned this award 21 out of the last 23 years, along with 13 special “best in class” distinctions across government.

These accomplishments reflect the collaboration and dedication of the FAA’s financial professionals and the partnership of colleagues across every Line of Business and Staff Office. Together, we uphold a high standard of public accountability while enabling the FAA to deliver results that matter to the American people.

Through strong financial stewardship, we will continue supporting a safe and thriving aviation system for generations to come.

Sincerely,

Rachel Milberg
 Chief Financial Officer, *Acting*
 Federal Aviation Administration
 January 13, 2026

Office of Inspector General Quality Control Review

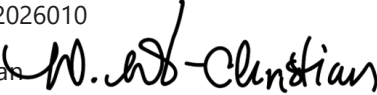


U.S. Department of Transportation
Office of Inspector General

Memorandum

Date: January 16, 2026

Subject: ACTION: Quality Control Review of the Independent Auditor's Report on the Federal Aviation Administration's Audited Consolidated Financial Statements for Fiscal Year 2025 | Report No. QC2026010

From: Dormayne "Dory" Dillard-Christian 
Assistant Inspector General for Financial, IT, and Procurement 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 year 2025.

We contracted with the independent public accounting firm KPMG, LLP to audit FAA's consolidated financial statements as of and for the fiscal year ended September 30, 2025, 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 (OMB) audit guidance, and the Government Accountability Office's (GAO) 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 contact me or Ingrid Harris, Program Director.

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

¹ GAO, *Financial Audit Manual*, Volume 1 (GAO-25-107705), June 2025; Volume 2 (GAO-24-107279), June 2024; Volume 3 (GAO-25-107707), August 2025.

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Independent Auditor’s Report

In its audit report, dated January 13, 2026, KPMG states that:

- FAA’s consolidated financial statements² (see attachment 3) were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- it found two significant deficiencies³ 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 four recommendations to address the significant deficiencies in internal control over financial reporting (see attachment 1).

Significant Deficiencies

Weakness in the Non-Letter of Intent Grant Accrual Estimate Methodology

FAA’s internal controls over the non-letter of intent grant expenses accrual methodology were not designed effectively. During its fiscal year 2025 accrual estimates process, FAA removed the cost multiplier from the methodology, which could result in a misstatement to the grants payable and related gross costs accounts. However, management did not sufficiently document or support the revision. Further, FAA did not adequately consider qualitative factors related to changes in the composition of grant programs and disbursements subject to the accrual, timely perform a robust historical analysis of fiscal year 2024 and prior periods, or consider the limitations of its retrospective review.

²The consolidated financial statements are included in FAA’s Agency Financial Report. For FAA’s full Agency Financial Report, which includes these statements, related notes, and required supplementary information, go to: https://www.faa.gov/about/plans_reports.

³ 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 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.

⁴ A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, 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.

Weakness in the Accounting for Category C Apportionments

FAA's internal controls were not operating effectively to ensure that a Category C apportionment—amount apportioned for future fiscal years—provided by OMB was recorded accurately. Specifically, during fiscal year 2025, under Public Law Number 119-21, FAA received an apportionment designated for fiscal year 2026 totaling \$7.77 billion. Management misclassified this apportionment in the "Unapportioned, Unexpired" account rather than "Apportioned, Unexpired" account. FAA management corrected this misclassification as of September 30, 2025.

Recommendations

To help strengthen FAA's internal controls, KPMG recommended that FAA management:

1. Update its annual retrospective review through a grant recipient survey, review of invoice documentation, and/or other means for a lookback period greater than 4 months to analyze the results of the prior year accrual and determine if the 4-month lookback period remains sufficient to validate the grant accrual methodology in subsequent periods.
2. Analyze the reasons for the changes in the calculated average billing cycle and grant recipient billing patterns in recent periods and document the impact on its grant accrual methodology as part of its annual retrospective review prior to year-end.
3. Design and implement procedures to document the analysis performed to support any future changes to the grant accrual methodology prior to implementing such changes.
4. Implement a procedure, as part of its process for recording SF-132 activity, to reconcile the SF-132 line number to the applicable United States Standard General Ledger account to verify that the transaction is recorded accurately and in accordance with OMB Circular No. A-11.

Quality Control Review

We performed a QCR of KPMG's report 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

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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 January 9, 2026, and received FAA's response, dated January 13, 2026 (see attachment 2). FAA agreed with the deficiencies KPMG found. FAA concurred with KPMG's four recommendations and committed to implementing corrective actions to address the deficiencies by March 31, 2026. We agree with KPMG's recommendations and are not making any additional recommendations.

Actions Required

We consider all four of KPMG's recommendations open and resolved pending completion of the corrective actions.

Exhibit. List of Acronyms

DOT	Department of Transportation
FAA	Federal Aviation Administration
GAO	Government Accountability Office
OIG	Office of Inspector General
OMB	Office of Management and Budget
QCR	quality control review

Independent Auditors' Report



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

Independent Auditors' Report

Administrator, Federal Aviation Administration, and
 Deputy Inspector General, performing the duties of the Inspector General, United States Department of
 Transportation:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Federal Aviation Administration (FAA), which comprise the consolidated balance sheet as of September 30, 2025, and the related consolidated statements of net cost and changes in net position, and combined statement of budgetary resources for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the FAA as of September 30, 2025, and its net cost, changes in net position, and budgetary resources for the year then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the FAA and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Other Matter - Interactive Data

Management has elected to reference to information on websites or other forms of interactive data outside the Agency Financial Report to provide additional information for the users of its consolidated financial statements. Such information is not a required part of the 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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.

KPMG LLP, a Delaware limited liability partnership, and its subsidiaries are part of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit 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 FAA's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the FAA's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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 GAAS, 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 audit 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

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the Foreword, A Message from the Administrator, Who We Are, What We Do, and How We Work, Snapshot of Resources, A Message from the Chief Financial Officer, and Other Information, as listed in the Contents of the Agency Financial Report but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by Government Auditing Standards

Report on 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, 2025, 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 were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We identified certain deficiencies in internal control, described in Exhibit I, as items 2025-01 and 2025-02, that we consider to be significant deficiencies.

Report on 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, 2025 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. 24-02.

FAA's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the FAA's response to the findings identified in our audit and described and presented in the section, Management's Response to FY



2025 Independent Auditors' Report. The FAA's response was not subjected to the other 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 Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the FAA's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
January 13, 2026

2025 – 01: Weakness in the Non-Letter of Intent (LOI) Grant Accrual Estimate Methodology

Background

Annually, the FAA estimates and records a grant accrual for non-letter of intent (non-LOI) grant expenses incurred but not yet reported related to its Airport Improvement Program grants and Infrastructure Investment and Jobs Act grants. In Fiscal Year (FY) 2022, management implemented a cost multiplier to address a historical pattern of under accrual observed in its retrospective review, which management observed in subsequent retrospective reviews. In FY2025, management removed the cost multiplier from its estimation methodology.

Criteria

The U.S. Government Accountability Office (GAO) *Standards for Internal Control in the Federal Government* (Green Book, GAO-14-704G), 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 analyze and respond to change affecting the entity and its environment. Further, they require management to design appropriate control activities in response to the entity's objectives and risks to achieve an effective internal control system.

Condition

Management's controls over the non-LOI grant accrual methodology were not designed effectively. During our testing of the FY2025 accrual, we determined that revisions to the accrual methodology (i.e., removal of the cost multiplier) were not sufficiently documented or supported.

Cause

Management revised its methodology because of its analysis of the FY2024 grant accrual; however, management did not adequately consider qualitative factors related to changes in the composition of grant programs and disbursements subject to the accrual; timely perform a robust historical analysis of FY2024 and prior periods; and consider the limitations of its retrospective review.

Effect

An inadequately supported grant accrual estimate methodology may result in a misstatement to the grants payable and related gross costs accounts.

Recommendations

We recommend that management:

- Update its annual retrospective review through a grant recipient survey, review of invoice documentation, and/or other means for a lookback period greater than four months to analyze the results of the prior year accrual and determine if the four-month lookback period remains sufficient to validate the grant accrual methodology in subsequent periods.
- Analyze the reasons for the changes in the calculated average billing cycle and grant recipient billing patterns in recent periods and document the impact on its grant accrual methodology as part of its annual retrospective review prior to year-end.
- Design and implement procedures to document the analysis performed to support any future changes to the grant accrual methodology prior to implementing such changes.

2025 – 02: Weakness in the Accounting for Category C Apportionments

Background

The Office of Management and Budget (OMB) provides apportionments to FAA throughout the fiscal year through Standard Form (SF) 132s as described in OMB Circular No. A-11 *Preparation, Submission, and Execution of the Budget*. FAA typically receives apportionments in Categories A and B which apportion amounts for obligation in the current year. Management records OMB approved amounts per the SF-132 within the financial system for budget execution. In FY2025, due to Public Law (PL) 119-21, One Big Beautiful Bill Act, OMB provided a Category C apportionment to FAA on Line 6170, which apportions amounts for obligation in future fiscal years.

Criteria

The GAO *Standards for Internal Control in the Federal Government* (Green Book, GAO-14-704G), 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 for the internal control system. Control activities help management fulfill responsibilities and address identified risk responses. Further, they require management to perform ongoing monitoring of the design and operating effectiveness of the internal control system as part of the normal course of operations.

Condition

Management's controls were not operating effectively to ensure that the PL 119-21 funding apportioned by OMB was recorded accurately during FY 2025. Specifically, management incorrectly recorded a Category C apportionment totaling \$7.77 billion within the "Unapportioned, Unexpired" account rather than "Apportioned, Unexpired" account. OMB apportioned the amount on Line 6170 *Designated 1st FY beyond the current year* on the SF-132 and therefore, the amount should have been classified as apportioned in accordance with OMB Circular No. A-11.

Cause

Management did not identify and apply the guidance for Category C apportionments due to the unique nature of such apportionments, infrequent receipt of Category C apportionments, and limited Treasury guidance on the recording of such activity.

Effect

Inaccurate recording of Category C apportionment activity may result in a misclassification between the Combined Statement of Budgetary Resources' "Apportioned, unexpired accounts" and "Unapportioned, unexpired accounts" financial statement line items. Management corrected the \$7.77 billion misclassification prior to the issuance of the FY 2025 consolidated financial statements.

Recommendations

We recommend that management implement a procedure, as part of its process for recording SF-132 activity, to reconcile the SF-132 line number to the applicable United States Standard General Ledger account to verify that the transaction is recorded accurately and in accordance with OMB Circular No. A-11.

Management’s Response to the FY 2025 Independent Auditors’ Report



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

800 Independence Ave, SW
Washington, DC 20591

January 13, 2026

Mr. James Gould
KPMG LLP
1801 K Street N.W., Suite 12000
Washington, DC 20006

Dear Mr. Gould,

We have received your Independent Auditors’ Report related to the Federal Aviation Administration’s fiscal year 2025 financial statements and offer the following response.

We appreciate working with you in support of the audit and are pleased to receive an unmodified audit with no material weaknesses. The FAA values the audit as an essential component of our fiscal responsibilities, and we take that responsibility very seriously – from the highest levels of leadership and throughout the entire agency.

We concur with your findings and recommendations concerning changes to the non-letter of intent grant accrual estimate methodology. Corrective actions will be in place by March 31, 2026 and will include 1) increasing the lookback period from four to five months, 2) analyzing reasons for changes in the calculated average billing cycle and billing patterns and documenting the impact on the grant accrual methodology, and 3) designing and implementing procedures to document the analysis to support future changes prior to implementing such changes.

We also concur with your findings and recommendations to ensure that funding apportioned by the OMB is recorded accurately and in accordance with OMB Circular No. A-11. Corrective actions will be in place by March 31, 2026 and will include implementing a procedure to reconcile the SF-132 line number to the applicable USSGL account.

Thank you for the professional way you and your team conducted the audit.

Sincerely,

Rachel Milberg
Chief Financial Officer, *Acting*

Financial Statements

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED BALANCE SHEET
 As of September 30, 2025
 (Dollars in Thousands)

	2025
Assets	
Intragovernmental Assets	
Fund Balance with Treasury (Note 2)	\$ 33,491,581
Investments, Net (Note 3)	21,344,879
Accounts Receivable, Net (Note 4)	24,114
Advances and Prepayments	88,961
Other Assets (Note 7)	322,822
Total Intragovernmental Assets	55,272,357
Other than Intragovernmental Assets	
Accounts Receivable, Net (Note 4)	57,134
Inventory and Related Property, Net (Note 5)	908,814
Property, Plant, and Equipment, Net (Note 6)	12,527,888
Advances and Prepayments	3,506
Other Assets (Note 7)	324,810
Total Other than Intragovernmental Assets	13,822,152
Total Assets	\$ 69,094,509
Liabilities (Note 8)	
Intragovernmental Liabilities	
Accounts Payable	\$ 39,707
Advances from Others and Deferred Revenue	152,202
Other Liabilities (Note 11)	593,548
Total Intragovernmental Liabilities	785,457
Other than Intragovernmental Liabilities	
Accounts Payable	583,956
Federal Employee Salary, Leave, and Benefits Payable (Note 9)	890,341
Post-Employment Benefits Payable (Note 9)	587,562
Environmental and Disposal Liabilities (Note 10)	891,670
Advances from Others and Deferred Revenue	163,053
Other Liabilities	
Accrued Grant Liabilities	1,722,225
Other Liabilities (Note 11)	621,787
Total Other than Intragovernmental Liabilities	5,460,594
Total Liabilities	\$ 6,246,051
Commitments and Contingencies (Note 13)	
Net Position	
Unexpended Appropriations	
Funds from Dedicated Collections (Consolidated) (Note 14)	\$ 1,098,882
Funds from Other than Dedicated Collections (Consolidated)	27,079,116
Total Unexpended Appropriations (Consolidated)	28,177,998
Cumulative Results of Operations	
Funds from Dedicated Collections (Consolidated) (Note 14)	25,390,678
Funds from Other than Dedicated Collections (Consolidated)	9,279,782
Total Cumulative Results of Operations (Consolidated)	34,670,460
Total Net Position	62,848,458
Total Liabilities and Net Position	\$ 69,094,509

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

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF NET COST
 For the Year Ended September 30, 2025
 (Dollars in Thousands)

	2025
Line of Business Programs (Note 16)	
Air Traffic Organization	
Gross Cost	\$ 16,212,401
Less Earned Revenue	(430,645)
Net Program Cost	15,781,756
Airports	
Gross Cost	6,913,685
Net Program Cost	6,913,685
Aviation Safety	
Gross Cost	2,237,149
Less Earned Revenue	(14,428)
Net Program Cost	2,222,721
Security and Hazardous Materials Safety	
Gross Cost	207,481
Less Earned Revenue	(106,744)
Net Program Cost	100,737
Commercial Space Transportation	
Gross Cost	58,367
Net Program Cost	58,367
Non-Line of Business Programs	
Gross Cost	300,812
Less Earned Revenue	(326,443)
Net Program Cost	(25,631)
Non-Entity Programs	
Less Earned Revenue	(11,302)
Net Program Cost	(11,302)
Net Cost of Operations	
Total Gross Program Costs	25,929,895
Less Earned Revenues	(889,562)
Total Net Cost of Operations	\$ 25,040,333

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

U.S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
 For the Year Ended September 30, 2025
 (Dollars in Thousands)

	2025		
	Funds from dedicated collections (consolidated) (Note 14)	Funds from other than dedicated collections (consolidated)	Consolidated total
Unexpended Appropriations			
Beginning Balance	\$ 917,725	\$ 13,998,781	\$ 14,916,506
Appropriations Received (Note 18)	1,389,633	17,570,000	18,959,633
Appropriations Transferred In / Out	-	(2,000)	(2,000)
Other Adjustments	(18,487)	(233,903)	(252,390)
Appropriations Used	(1,189,989)	(4,253,762)	(5,443,751)
Net Change in Unexpended Appropriations	181,157	13,080,335	13,261,492
Total Unexpended Appropriations	\$ 1,098,882	\$ 27,079,116	\$ 28,177,998
Cumulative Results of Operations			
Beginning Balance	\$ 20,670,569	\$ 9,365,554	\$ 30,036,123
Appropriations Used	1,189,989	4,253,762	5,443,751
Non-Exchange Revenue - Excise Taxes and Other (Note 15)	23,662,141	-	23,662,141
Transfers In / (Out) without Reimbursement	(1,971,942)	1,391,874	(580,068)
Donations and Forfeitures of Property	-	15,472	15,472
Imputed Financing (Note 17)	1,204,538	28,202	1,232,740
Other	(38,057)	(61,309)	(99,366)
Net Cost of Operations	19,326,560	5,713,773	25,040,333
Net Change in Cumulative Results of Operations	4,720,109	(85,772)	4,634,337
Cumulative Results of Operations	\$ 25,390,678	\$ 9,279,782	\$ 34,670,460
Net Position	\$ 26,489,560	\$ 36,358,898	\$ 62,848,458

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

U. S. Department of Transportation
 FEDERAL AVIATION ADMINISTRATION
COMBINED STATEMENT OF BUDGETARY RESOURCES
 For the Year Ended September 30, 2025
 (Dollars in Thousands)

	2025
Budgetary Resources (Note 18)	
Unobligated Balance from Prior Year Budget Authority, Net	\$ 14,185,111
Appropriations	34,311,355
Contract Authority	4,000,000
Spending Authority from Offsetting Collections	13,166,531
Total Budgetary Resources	\$ 65,662,997
Status of Budgetary Resources	
New Obligations and Upward Adjustments (Total)	\$ 40,743,948
Unobligated Balance, End of Year	
Apportioned, Unexpired Accounts	22,054,868
Unapportioned, Unexpired Accounts	2,672,436
Unexpired Unobligated Balance, End of Year	24,727,304
Expired Unobligated Balance, End of Year	191,745
Unobligated Balance, End of Year (Total)	24,919,049
Total Budgetary Resources	\$ 65,662,997
Outlays, Net	
Outlays, Net (Total)	\$ 24,805,773
Distributed Offsetting Receipts (-)	(23,641)
Agency Outlays, Net	\$ 24,782,132

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 entity assets reported in these financial statements. Entity assets are those assets which the FAA has authority to use in its operations and represent the vast majority of the FAA's assets. These financial statements also separately report certain non-entity assets. Non-entity assets are those assets that are held by the FAA that are not available to the FAA.

The reporting entity is comprised of the FAA's lines of business and staff offices.

The FAA is the sponsor of the Center for Advanced Aviation System Development (CAASD), a Federally Funded Research and Development Center (FFRDC). CAASD is a disclosure entity, which is not a consolidated entity. While the FAA's financial statements include its spending for studies it contracts with CAASD, the financial statements of the FAA do not include the financial results or position of CAASD. Additional information on FAA's relationship with CAASD is presented in Note 22.

B. PARENT-CHILD REPORTING

The FAA is a party to allocation transfers with other Federal agencies as a receiving (child) entity. Allocation transfers are legal delegations by one entity of its authority to obligate budget authority and outlay funds to another entity. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity. All financial activity related to these allocation transfers (e.g., budget authority, obligations, outlays) is reported in the financial statements of the parent entity from which the underlying legislative authority, appropriations and budget apportionments are derived. The FAA receives allocation transfers, as the child, from the Department of Transportation. The FAA does not have any allocation transfers where it is the parent.

C. 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 24-02, *Audit Requirements for Federal Financial Statements*.

All material intra-agency activity has been eliminated for presentation on a consolidated basis. However, the statement of budgetary resources is presented on a combined basis in accordance with OMB Circular A-136, as revised, *Financial Reporting Requirements*. 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 consolidated basis. Intra-agency activity between funds from dedicated collections and funds from other than dedicated collections are eliminated within the consolidated total.

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.

D. 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.

Due to the inherent limitations on the ability to perform accrual accounting for non-exchange revenue, the accrual standard for non-exchange revenue is best characterized as a “modified cash” basis of accounting.

E. 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 FAA's September 30, 2025, financial statements reflect excise taxes certified by the IRS through June 30, 2025, and excise taxes allocated by the Office of Tax Analysis for the period July 1, 2025 through September 30, 2025, 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, 2025 will not be available from the IRS until after the statements are released. 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 14.

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

Appropriations are recognized as a financing source when related program and administrative expenses are incurred. Revenues from services provided by the FAA associated with reimbursable agreements are recognized concurrently with the recognition of accrued expenditures for performing the services.

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 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.

F. 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.

G. 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. Department 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).

H. 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.

I. ACCOUNTS RECEIVABLE

Accounts receivable consists of amounts owed to the FAA by other federal agencies and the public. Amounts due from federal agencies are 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.

J. 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 non-operational 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.

K. 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.

L. 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.

Depreciation and amortization 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 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.

M. LEASES

A lease is defined as a contract or agreement whereby one entity (lessor) conveys the right to control the use of property, plant, or equipment (the underlying asset) to another entity (lessee) for a period of time as specified in the contract or agreement in exchange for consideration. The FAA is both a lessee and a lessor.

The FAA, as a lessee, recognizes a lease liability and a right-to-use lease asset at the commencement of the lease term when the total undiscounted payment commitments equals or exceeds \$250 thousand, unless it is a non-intragovernmental short-term lease (i.e., a lease term of 24 months or less), contract or agreement that transfers ownership, or intragovernmental lease. The lease liability and the right-to-use lease asset are initially measured at the present value of payments expected to be made during the lease term. The lease asset is then amortized over the shorter of the lease term or the useful life of the underlying asset.

Non-intragovernmental short-term lease payments are recognized as an expense based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts.

A contract or agreement that transfers ownership of the underlying asset to the FAA by the end of the contract or agreement and does not contain options to terminate is reported as a purchase of that asset by the FAA.

Intragovernmental lease payments, including lease-related operating costs (for example, maintenance, utilities, taxes, etc.) paid to the lessor, are recognized as expenses based on the payment provisions of the contract or agreement and standards regarding recognition of accounts payable and other related amounts.

The FAA, as a lessor, recognizes a lease receivable and unearned revenue at the commencement of the lease term unless it is a non-intragovernmental short-term lease (i.e., a lease term of 24 months or less), contract or agreement that transfers ownership, or intragovernmental lease. The lease receivable and unearned revenue are initially measured at the present value of lease payments to be received for the lease term, reduced by any provision for uncollectible amounts. The unearned revenue is then amortized over the lease term and recognized as earned revenue.

N. 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.

O. 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 and liabilities for non-entity assets which are collections or assets held on behalf of other federal entities or funds, such as the General Fund of the U.S. Government. Custodial liabilities and liabilities for non-entity assets are liquidated when the collections or assets are transferred to the owner. Intragovernmental liabilities are claims against the FAA by other federal agencies.

P. 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.

Q. 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.

R. 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 DOL but not yet reimbursed by the FAA. The FAA reimburses DOL 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 DOL 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. DOL 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.

S. 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 December 31, 1983. Employees hired prior to January 1, 1984 could elect either to join FERS and Social Security or to remain in CSRS. FERS offers a savings plan to which the FAA automatically contributes 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.

T. 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 Statement of Net Cost under the Airports line of business.

U. 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.

V. 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 environmental cleanup.

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 is the estimated cost that will be incurred to remove, contain, and dispose of hazardous materials when an asset presently in service is shutdown. The FAA estimates the environmental cleanup 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.

W. ADVANCES FROM OTHERS AND DEFERRED REVENUE

Advances from others and deferred revenue are amounts received for goods or services to be delivered or performed in the future and reflect amounts that have yet to be earned.

X. 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 13) 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.

Y. 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-AATF
- Facilities and Equipment-AATF
- Research, Engineering, and Development-AATF
- 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-AATF, Facilities and Equipment-AATF, and Research, Engineering and Development-AATF. These funds represent the majority of the FAA's 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.

The funds from dedicated collections in the Facilities and Equipment-AATF fund are used to purchase or construct PP&E. Construction in progress from these funds is classified as "funds from dedicated collections" because although the funds have been expended, they have not yet fully achieved their intended purpose. When PP&E has been placed in service, however, 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. 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 14.

Z. NON-ENTITY ACTIVITY

The Metropolitan Washington Airports Authority and the United States of America, acting by and through the Secretary of Transportation, entered into a lease, dated March 2, 1987, and effective June 7, 1987, whereby the Secretary leased the Metropolitan Washington Airports (Ronald Reagan Washington National Airport and Dulles International Airport) to the Airports Authority. The FAA collects the lease payments from the Airports Authority on behalf of the General Fund of the U.S. Government.

A lessor lease receivable (lease asset) and unearned revenue (lease liability) is recognized and initially measured at the present value of lease payments to be received for the lease term and amortized over the term of the lease. Because lease payments from the Metropolitan Washington Airports Authority are collected by the FAA on behalf of the General Fund, the lease receivable (lease asset) and the unearned revenue (lease liability) are reported as a non-entity asset and non-entity liability, respectively.

A liability for non-entity assets of the General Fund is recorded to offset the non-entity lease asset (lease receivable) and an asset for non-entity liabilities of the General Fund is recorded to offset the non-entity lease liability (unearned revenue).

Non-entity assets recognized on the balance sheet (lessor lease receivable and related interest receivable) are presented separately from entity assets in Notes 4 and 7. Non-entity liabilities recognized on the balance sheet (unearned lessor revenue) are presented separately from entity liabilities in Note 11. All other assets are entity assets and all other liabilities are entity liabilities.

Lessor revenues are reported on the Statement of Net Cost as non-entity program revenues and are offset by other financing sources on the Statement of Net Position.

AA. TRANSITIONAL ACCOMMODATIONS

Statement of Federal Financial Accounting Standards Number 62, *Transitional Amendment to SFFAS 54*, amends the implementation section of Statement of Federal Financial Accounting Standards Number 54, *Leases*, by providing transitional accommodations to reporting entities for embedded leases. Embedded leases are contracts or agreements that contain both lease components and non-lease components, such as service components, and serve a primary purpose attributable to the non-lease components. The FAA has elected to account for such contracts or agreements, including the lease components, as non-lease contracts or agreements in their entirety during the transition period.

Note Disclosures Related to the Balance Sheet

Note 2. Fund Balance with Treasury

Status of fund balance with Treasury balances as of September 30, 2025 were:

(Dollars in Thousands)

Status of Fund Balance with Treasury

	2025
Unobligated Balance	\$ 24,919,049
Obligated Balance not yet Disbursed	8,561,372
Non-Budgetary Fund Balance with Treasury	11,160
Total Fund Balance with Treasury	\$ 33,491,581

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 18.

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 the 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.

Note 3. Investments, Net

As of September 30, 2025, the FAA’s investment balances were as follows:

(Dollars in Thousands)

Intragovernmental Investments	2025				
	Cost / Acquisition Value	Unamortized (Premium) Amortized Discount	Interest Receivable	Investments (Net)	Market/Fair Value
Non-Marketable Par Value	\$ 18,571,445	\$ -	\$ 126,126	\$ 18,697,571	\$ 18,571,445
Non-Marketable Market-Based	2,649,754	(12,476)	10,030	2,647,308	2,643,555
Total Intragovernmental Investments	\$ 21,221,199	\$ (12,476)	\$ 136,156	\$ 21,344,879	\$ 21,215,000

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, 2025, \$18.7 billion was invested in non-marketable par value U.S. Treasury Certificates of Indebtedness. Non-marketable 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, 2025, mature on June 30, 2026. The annual rate of return on Certificates of Indebtedness is established in the month of issuance.

Non-marketable, 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 non-marketable market-based securities and amortizes premiums and discounts over the life of the security using the interest method. As of September 30, 2025, \$2.6 billion was invested in non-marketable market-based securities.

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. Non-entity interest receivable comes from the lease arrangement with the Metropolitan Washington Airports Authority. As of September 30, 2025, accounts receivable were:

(Dollars in Thousands)

Intragovernmental

Accounts Receivable, Gross	\$ 24,780
Allowance for Uncollectible Amounts	(666)
Total Intragovernmental Accounts Receivable, Net	24,114

Other than Intragovernmental

Accounts Receivable, Gross	71,033
Allowance for Uncollectible Amounts	(17,389)
Accounts Receivable, Net	53,644
Non-Entity Accounts Receivable, Net	3,490
Total Other than Intragovernmental Accounts Receivable, Net	57,134

Total Accounts Receivable, Net	\$ 81,248
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2025

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 \$20 million in FY 2025.

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, 2025, inventory and related property balances were:

<i>(Dollars in Thousands)</i>	2025		
	Cost	Allowance	Net
Inventory			
Held for Sale	\$ 296,812	\$ -	\$ 296,812
Held for Repair	494,096	-	494,096
Raw Materials and Work in Progress	40,040	-	40,040
Inventory Total	830,948	-	830,948
Operating Materials and Supplies			
Held for Use	57,082	-	57,082
Held for Repair	39,138	(19,569)	19,569
Excess, Obsolete, and Unserviceable	4,580	(3,365)	1,215
Operating Materials and Supplies Total	100,800	(22,934)	77,866
Total Inventory and Related Property	\$ 931,748	\$ (22,934)	\$ 908,814

The changes to the Inventory and related property balance for the fiscal year ended September 30, 2025, were:

<i>(Dollars in Thousands)</i>	2025
Balance Beginning of Year, Unadjusted	\$ 894,470
Acquisition of Inventory and Related Property	77,695
Cost of Goods Sold	(85,622)
Operating Materials and Supplies Used	375
Gains and (Losses) on Disposals and Revaluations	44,830
Balance at End of Year, Adjusted	931,748
Allowance	(22,934)
Balance End of Year	\$ 908,814

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

General property, plant, and equipment balances as of September 30, 2025 were:

(Dollars in Thousands)

Class of Fixed Asset	2025		
	Acquisition Value	Accumulated Depreciation/Amortization	Net Book Value
Real Property, including Land	\$ 8,164,877	\$ (4,813,302)	\$ 3,351,575
Personal Property	19,530,044	(15,499,031)	4,031,013
Internal Use Software	5,167,527	(3,986,702)	1,180,825
Internal Use Software in Development	985,439	-	985,439
Right-to-Use Lease Assets (Note 12)	330,854	(88,302)	242,552
Construction in Progress	2,736,484	-	2,736,484
Total Property, Plant, and Equipment	\$ 36,915,225	\$ (24,387,337)	\$ 12,527,888

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.

Information concerning deferred maintenance and repairs and estimated land acreage is discussed in unaudited required supplementary information.

The changes to the general property, plant, and equipment balance for the fiscal year ended September 30, 2025 were:

(Dollars in Thousands)

	2025
Balance Beginning of Year	\$ 12,320,015
Capitalized Acquisitions	1,748,287
Right-to-Use Lease Asset, Current Year Activity	53,221
Dispositions	4,125
Revaluations	(345,002)
Depreciation Expense	(1,223,223)
Current Year Amortization of Right-to-Use Lease Assets	(49,058)
Transfers-In/Out without Reimbursement	4,051
Donations	15,472
Balance End of Year	\$ 12,527,888

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 and liabilities for non-entity assets which are collections or assets held on behalf of other federal entities or funds, such as the General Fund of the U.S. Government. Custodial liabilities and liabilities for non-entity assets are liquidated when the collections or assets are transferred to the owner. Liabilities not requiring budgetary resources also includes unearned lessor revenue related to the lease arrangement with the Metropolitan Washington Airports Authority.

The following table shows liabilities not covered by budgetary resources as of September 30, 2025:

<i>(Dollars in Thousands)</i>	2025
Intragovernmental Liabilities	
Other Liabilities (Note 11)	
Federal Employees' Compensation Act Payable	\$ 137,507
Other Unfunded Employment-Related Liabilities	20,025
Reimbursable Activities	3,254
Total Intragovernmental Liabilities	160,786
Other than Intragovernmental Liabilities	
Federal Employee Salary, Leave, & Benefits Payable (Note 9)	
Unfunded Leave	520,791
Other Unfunded Employment-Related Liabilities	108,087
Post-Employment Benefits Payable (Note 9)	
FECA Actuarial	587,562
Environmental and Disposal Liabilities (Notes 10 and 13)	891,670
Other Liabilities	
Unfunded Lessee Lease Liabilities (Notes 11 and 12)	255,099
Contingent Liabilities (Notes 11 and 13)	
Legal Claims	8,720
Warranty Contingencies	515
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections (Note 11)	543
Other Liabilities without Related Budgetary Obligations (Note 11)	34,088
Total Other than Intragovernmental Liabilities	2,407,075
Total Liabilities Not Covered by Budgetary Resources	\$ 2,567,861
Total Liabilities Not Covered by Budgetary Resources	\$ 2,567,861
Total Liabilities Covered by Budgetary Resources	2,996,801
Total Liabilities Not Requiring Budgetary Resources	681,389
Total Liabilities	\$ 6,246,051

Note 9. Federal Employee Benefits Payable

Federal employee benefits payable as of September 30, 2025, were:

(Dollars in Thousands)

Federal Employee Salary, Leave, and Benefits Payable

	2025
Accrued Funded Payroll and Leave	\$ 249,954
Unfunded Leave	
Annual and Compensatory Leave and Credit Hours	520,791
Other Unfunded Employment-Related Liability	
Sick Leave Buyback Option for Eligible Employees	108,087
Employer Contributions Payable	
Thrift Savings Plan and Payroll Taxes Payable	11,509
Total Federal Employee Salary, Leave, and Benefits Payable	\$ 890,341

Post-Employment Benefits Payable

Actuarial FECA Liability	587,562
Total Post-Employment Benefits Payable	\$ 587,562

Accrued funded payroll and leave is the estimated liability for salaries, wages, and funded annual leave and sick leave that have been earned but are unpaid.

The estimated liability for accrued unfunded leave includes annual and other types of vested leave such as compensatory leave and credit hours.

Under the terms of various bargaining unit agreements, employees who are in FERS have the option to receive a lump sum payment for 40 percent of their accumulated sick leave as of their effective retirement date.

The Thrift Savings Plan is a retirement savings and investment plan available to federal employees.

The actuarial FECA liability is the estimated liability for future benefit payments and includes the expected liability for death, disability, medical, and miscellaneous costs for approved compensation cases, plus a component for incurred but unreported claims. There is also a liability for payroll taxes payable.

Note 10. Environmental and Disposal Liabilities

The FAA’s environmental and disposal liabilities as of September 30, 2025, were:

(Dollars in Thousands)

	2025
Environmental Remediation	\$ 377,440
Environmental Cleanup	514,230
Total Environmental and Disposal Liabilities	\$ 891,670

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 liability is estimated using a combination of actual costs, adjusted for inflation, and project

specific cost proposals for certain targeted facilities. The FAA uses the average cleanup costs of the targeted facilities as the cost basis for the other like facilities to arrive at the estimated environmental liability for cleanup.

A description of the two categories of environmental liabilities can be found in Note 1V. Information on contingencies related to environmental liabilities can be found in Note 13.

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

Note 11. Other Liabilities

As of September 30, 2025, the FAA's other liabilities were:

(Dollars in Thousands)

Intragovernmental Other Liabilities

Accrued Payroll & Benefits Payable to Other Agencies
Liabilities Covered by Budgetary Resources

Federal Employees' Compensation Act Payable
Other Unfunded Employment-Related Liabilities
Reimbursable Activities
Liabilities Not Covered by Budgetary Resources

Custodial Liabilities
Liability for Non-Entity Assets
Liabilities Not Requiring Budgetary Resources

Total Intragovernmental Other Liabilities

Other than Intragovernmental Other Liabilities

Unfunded Lessee Lease Liabilities (Notes 8 and 12)
Contingent Liabilities

Legal Claims
Warranty Contingencies
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections
Other Liabilities without Related Budgetary Obligations
Liabilities Not Covered by Budgetary Resources

Unearned Lessor Revenue (Notes 8 and 12)
Liabilities Not Requiring Budgetary Resources

Total Other than Intragovernmental Other Liabilities

Total Other Liabilities

	2025		
	Non-Current Liabilities	Current Liabilities	Total
Accrued Payroll & Benefits Payable to Other Agencies	\$ -	\$ 74,195	\$ 74,195
Liabilities Covered by Budgetary Resources	-	74,195	74,195
Federal Employees' Compensation Act Payable	75,773	61,734	137,507
Other Unfunded Employment-Related Liabilities	-	20,025	20,025
Reimbursable Activities	2,932	322	3,254
Liabilities Not Covered by Budgetary Resources	78,705	82,081	160,786
Custodial Liabilities	-	23,130	23,130
Liability for Non-Entity Assets	331,947	3,490	335,437
Liabilities Not Requiring Budgetary Resources	331,947	26,620	358,567
Total Intragovernmental Other Liabilities	410,652	182,896	593,548
Other than Intragovernmental Other Liabilities			
Unfunded Lessee Lease Liabilities (Notes 8 and 12)	203,297	51,802	255,099
Contingent Liabilities			
Legal Claims	-	8,720	8,720
Warranty Contingencies	-	515	515
Liability for Non-Fiduciary Deposit Funds and Undeposited Collections	-	543	543
Other Liabilities without Related Budgetary Obligations	31,129	2,959	34,088
Liabilities Not Covered by Budgetary Resources	234,426	64,539	298,965
Unearned Lessor Revenue (Notes 8 and 12)	318,509	4,313	322,822
Liabilities Not Requiring Budgetary Resources	318,509	4,313	322,822
Total Other than Intragovernmental Other Liabilities	552,935	68,852	621,787
Total Other Liabilities	\$ 963,587	\$ 251,748	\$ 1,215,335

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, and Social Security. 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.

A liability for unearned lessor revenue (lease liability) is recognized for the lease arrangement with the Metropolitan Washington Airports Authority. The liability is initially measured at the present value of lease payments to be received for the lease term and amortized over the term of the lease. Because lease payments from the Metropolitan Washington Airports Authority are collected by the FAA on behalf of the General Fund, the lease receivable (lease asset) is reported as a non-entity asset, and a liability for non-entity assets of the General Fund is therefore recorded to offset the non-entity lease asset (lease receivable).

The FAA estimated that 100 percent of its \$8.7 million legal claims liabilities as of September 30, 2025, would be paid from the permanent appropriation for judgements, awards, and compromise settlements (Judgement Fund) administered by the Department of Treasury.

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

Note 12. Leases

ENTITY AS LESSEE

The FAA is the lessee for both intragovernmental and right-to-use leases.

Intragovernmental Leases

The FAA recognizes intragovernmental lease payments, including lease-related operating costs paid to the lessor, as expenses based on the payment provisions of the contract or agreement.

Intragovernmental lease expenses incurred during the year ended September 30, 2025 were:

<i>(Dollars in Thousands)</i>	2025
Real Property, including Land	\$ 128,530
Total Annual Lease Expense	<u>\$ 128,530</u>

The FAA’s intragovernmental leases primarily include real property that is leased from the General Services Administration (GSA). GSA leases have a short termination privilege; however, the FAA intends to remain in the lease. In addition, GSA leases are inclusive of other costs such as utilities, taxes, and janitorial services.

Right-to-Use Leases

A right-to-use lease asset and a lease liability is recognized for non-intragovernmental, non-short-term contracts or agreements, when the entity has the right to obtain and control access to economic benefits or services from an underlying property, plant, or equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement.

The FAA has right-to-use leases for real property. As of September 30, 2025, right-to-use lease assets and the related accumulated amortization were:

<i>(Dollars in Thousands)</i>	2025
Right-to-Use Lease Assets (Note 6)	
Acquisition Value	\$330,854
Accumulated Amortization	(88,302)
Net Book Value	<u>\$242,552</u>

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. Interest

is funded and expensed annually. The lease terms for right-to-use lease assets expire at various dates through FY 2056.

For the fiscal year ended September 30, 2025, the annual lease expense was:

<i>(Dollars in Thousands)</i>	2025
Lease Amortization	\$ 49,058
Interest Expense	11,615
Total Annual Lease Expense	<u>\$ 60,673</u>

Certain lease payments made in exchange for the right to use the underlying asset that are variable in nature, and ultimately dependent on future calculation, may not be determinable at lease commencement. For instance, payments that are based on future performance of the lessee (percentage rents based on sales) or usage of the underlying asset (vehicle charges based on miles driven). These payments are not included in the lease liability. Instead, such payments are recognized as expenses in the reporting period in which those payments are incurred.

As of September 30, 2025, all future payments due on right-to-use lease assets were:

<i>(Dollars in Thousands)</i>	Principal	Interest	Total
Fiscal year			
2026	\$ 51,348	\$ 10,350	\$ 61,698
2027	46,767	7,971	54,738
2028	41,931	5,993	47,924
2029	23,610	4,477	28,087
2030	14,994	3,640	18,634
2031 - 2035	45,351	10,917	56,268
2036 - 2040	21,122	4,230	25,352
2041 - 2045	9,368	837	10,205
2046 - 2050	117	23	140
2051 - 2055	37	3	40
Total	<u>\$ 254,645</u>	<u>\$ 48,441</u>	<u>\$ 303,086</u>

Future lease payments are discounted using the interest rate charged by the lessor. If not stated in the lease, the interest rate is based on the interest rate on marketable Treasury securities with a similar maturity to the term of the lease. The discount rate used to calculate the lease liability as of September 30, 2025 varied between 3.44 percent and 4.91 percent.

ENTITY AS LESSOR

A lease receivable (lease asset) and unearned revenue (lease liability) is recognized for non-intragovernmental, non-short-term contracts or agreements wherein the entity conveys the right to obtain and control access to economic benefits or

services from an underlying property, plant, or equipment asset to another party for a period of time in exchange for consideration under the terms of the contract or agreement.

The Metropolitan Washington Airports Act of 1986, Title VI of PL 99-500, authorized the Secretary of Transportation to enter into a lease of the Metropolitan Washington Airports (i.e., Ronald Reagan Washington National Airport and Dulles International Airport) with the Metropolitan Washington Airports Authority. The Secretary and the Airports Authority may at any time negotiate an extension of the lease. The current lease term extends through June 6, 2100. The FAA collects the lease payments from the Airports Authority on behalf of the General Fund of the U.S. Government. Because the collections are not available to the FAA, the related lease receivable (lease asset) and unearned revenue (lease liability) are reported by the FAA as non-entity assets and liabilities.

On July 4, 2025, the passage of the One Big Beautiful Bill Act (OBBBA) resulted in a significant increase in the consideration under the lease starting in 2027. The lease receivable was remeasured as of the enactment of the Act. As of September 30, 2025, the carrying amount of assets on lease and the related accumulated depreciation were:

(Dollars in Thousands)

Class of fixed asset	2025		Net Book Value
	Acquisition Value	Accumulated Depreciation	
Land	\$ 16,246	\$ -	\$ 16,246

The lease payments collected by the FAA in exchange for the right to use the underlying asset are variable in nature and ultimately dependent upon a price index. The payment amount is determined on an annual basis by utilizing the implicit price deflator for the United States Gross National Product. This amount is equivalent to \$3 million in 1987 dollars through 2026. Beginning in 2027, the payment amount will be adjusted to \$15 million, based on 2027 dollars. The amount of the payment that exceeds the initial measurement for the lease receivable is therefore recognized as variable lease revenue. For the fiscal years ended September 30, 2025, the annual lease revenue, including variable lease revenue not previously included in the lease receivable, was:

(Dollars in Thousands)

	2025
Amortization of Unearned Lease Revenue	\$ 2,560
Interest Revenue	8,294
Variable Lease Revenue	448
Total Annual Lease Revenue	\$ 11,302

Lease payments are initially allocated to interest prior to being applied to the principal balance. The escalation in consideration is scheduled to commence in 2027, resulting in payments during the preceding years that are insufficient to fully cover the accrued interest. Consequently, application of payments to the principal will be deferred until subsequent years, at which point the accrued interest balance will have been sufficiently reduced.

Note 13. Commitments, Contingencies, and Other Disclosures

Continuing Resolution and Reauthorization. In 2025, Congress passed a Continuing Resolution (CR) to keep the FAA funded through September 30, 2025, while the FAA Reauthorization Act of 2024 (signed into law in May 2024) continues to guide long-term priorities through Fiscal Year 2028. The CR maintains FY 2024 funding levels with targeted increases for air traffic control, safety oversight, and airport infrastructure, while the Reauthorization Act sets broader policy and structural reforms for the agency.

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.

The FAA has authority under 49 U.S.C. 47110(e) to issue letters of intent to enter into a series of annual AIP grant agreements. The FAA records an obligation when a grant is awarded. As of September 30, 2025, FAA has open letters of intent extending through FY 2034 with \$432 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 Defense (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 DOD.

In addition, the FAA is permitted by 49 U.S.C 44302a to provide temporary insurance for air carriers for certain terminated coverage, not to exceed 90 days. The temporary policy may cover hull, comprehensive, and third party liability risks. The premium for coverage is calculated based on a prorated amount equivalent to the premium that was in effect under the terminated insurance carrier policy. However, no temporary policies were issued as of the reporting date.

Contingencies. The FAA has the following contingencies as of September 30, 2025:

- **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 table below. 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.

Subsequent to the balance sheet date, the FAA became aware of legal and regulatory developments arising from the January 2025 collision involving American Eagle Flight 5342 near Washington Reagan National Airport (DCA).

At this time, the financial impact cannot be reasonably estimated, as the investigations and litigation are in early stages. The FAA will continue to monitor developments and will update disclosures in future reporting periods as additional information becomes available.

- **Environmental Contingencies.** The FAA's environmental contingencies include environmental remediation and environmental cleanup. The nature of these contingencies is described in Note 1V. 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 table below. The 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, 2025:

(Dollars in Thousands)

	2025			
	Accrued Liabilities	Estimated Range of Loss		
		Lower End	Upper End	
Legal Contingencies:				
Probable	\$ 8,720	\$ 8,720	\$ 8,720	\$ 8,720
Reasonably Possible	N/A	\$ 884,169	\$ 884,169	\$ 884,169
Environmental Contingencies:				
Probable	\$ 891,670	\$ 891,670	\$ 891,670	\$ 891,670
Reasonably Possible	N/A	\$ 149,862	\$ 149,862	\$ 149,862
Warranty Contingencies:				
Probable	\$ 515	\$ 515	\$ 515	\$ 515
Reasonably Possible	N/A	\$ -	\$ -	\$ -

Note 14. 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 Statement of Changes in Net Position and among two classifications. The first classification is comprised of the financial statement balances in the 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 the Operations-AATF, Grants-in-Aid for Airports-AATF, Facilities and Equipment-AATF, and Research, Engineering and Development-AATF funds. The "All other funds from dedicated collections" classification also includes the Operations-General Fund, which is funded primarily 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-General Fund account is funded primarily 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.

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-AATF, 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 1E, FY 2025 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 \$2.65 billion and revenues of \$116 million for the period ending September 30, 2025. The Aviation Insurance Program is also discussed in Notes 1H and 13.
- 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 \$173 million for the period ended September 30, 2025.

The FAA's funds from dedicated collections as of and for the year ended September 30, 2025, consist of the following:

(Dollars in Thousands)

	2025				
	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 Assets					
Fund Balance with Treasury	\$ 1,942,623	\$ 3,105,880	\$ 5,048,503	\$ -	\$ 5,048,503
Investments, Net	18,697,571	2,647,308	21,344,879	-	21,344,879
Accounts Receivable, Net	-	6,263,644	6,263,644	(6,239,452)	24,192
Advances and Prepayments	-	201,653	201,653	-	201,653
Total Intragovernmental Assets	20,640,194	12,218,485	32,858,679	(6,239,452)	26,619,227
Other than Intragovernmental Assets					
Accounts Receivable, Net	-	23,002	23,002	-	23,002
General Property, Plant, and Equipment, Net	-	3,221,693	3,221,693	-	3,221,693
Advances and Prepayments	-	3,506	3,506	-	3,506
Total Other than Intragovernmental Assets	-	3,248,201	3,248,201	-	3,248,201
Total Assets	\$ 20,640,194	\$ 15,466,686	\$ 36,106,880	\$ (6,239,452)	\$ 29,867,428
Liabilities					
Intragovernmental Liabilities					
Accounts Payable	\$ 6,237,952	\$ 40,845	\$ 6,278,797	\$ (6,239,452)	\$ 39,345
Advances from Others and Deferred Revenue	-	15,764	15,764	-	15,764
Other Liabilities	-	232,058	232,058	-	232,058
Total Intragovernmental Liabilities	6,237,952	288,667	6,526,619	(6,239,452)	287,167
Other than Intragovernmental Liabilities					
Accounts Payable	-	506,504	506,504	-	506,504
Federal Employee Salary, Leave, and Benefits Payable	-	865,434	865,434	-	865,434
Post-Employment Benefits Payable	-	587,562	587,562	-	587,562
Advances from Others and Deferred Revenue	-	158,593	158,593	-	158,593
Other Liabilities	-	-	-	-	-
Accrued Grant Liabilities	-	963,888	963,888	-	963,888
Other	-	8,720	8,720	-	8,720
Total Other than Intragovernmental Liabilities	-	3,090,701	3,090,701	-	3,090,701
Total Liabilities	\$ 6,237,952	\$ 3,379,368	\$ 9,617,320	\$ (6,239,452)	\$ 3,377,868
Net Position					
Unexpended Appropriations	\$ -	\$ 1,098,882	\$ 1,098,882	\$ -	\$ 1,098,882
Cumulative Results of Operations	-	-	-	-	-
Total Liabilities and Net Position	\$ 6,237,952	\$ 3,379,368	\$ 9,617,320	\$ (6,239,452)	\$ 3,377,868
Statement of Net Cost					
Gross Program Costs	\$ -	\$ 19,873,884	\$ 19,873,884	\$ -	\$ 19,873,884
Less: Earned Revenues	(14)	(547,310)	(547,324)	-	(547,324)
Net Cost of Operations	\$ (14)	\$ 19,326,574	\$ 19,326,560	\$ -	\$ 19,326,560
Statement of Changes in Net Position					
Unexpended Appropriations					
Beginning Balance	\$ -	\$ 917,725	\$ 917,725	\$ -	\$ 917,725
Appropriations Received	-	1,389,633	1,389,633	-	1,389,633
Appropriations Transferred In / Out	-	-	-	-	-
Other Adjustments	-	(18,487)	(18,487)	-	(18,487)
Appropriations Used	-	(1,189,989)	(1,189,989)	-	(1,189,989)
Net Change in Unexpended Appropriations	-	181,157	181,157	-	181,157
Total Unexpended Appropriations - Ending	\$ -	\$ 1,098,882	\$ 1,098,882	\$ -	\$ 1,098,882
Cumulative Results of Operations					
Beginning Balance	\$ 10,743,723	\$ 9,926,846	\$ 20,670,569	\$ -	\$ 20,670,569
Appropriations Used	-	1,189,989	1,189,989	-	1,189,989
Intragovernmental Non-Exchange Revenue (Note 15)	23,657,905	-	23,657,905	-	23,657,905
Other than Intragovernmental Non-Exchange Revenue (Note 15)	-	4,236	4,236	-	4,236
Transfers-In/Out without Reimbursement	(19,999,400)	18,027,458	(1,971,942)	-	(1,971,942)
Imputed Financing	-	1,204,538	1,204,538	-	1,204,538
Other	-	(38,057)	(38,057)	-	(38,057)
Net Cost of Operations	(14)	19,326,574	19,326,560	-	19,326,560
Net Change in Cumulative Results of Operations	3,658,519	1,061,590	4,720,109	-	4,720,109
Cumulative Results of Operations - Ending	\$ 14,402,242	\$ 10,988,436	\$ 25,390,678	\$ -	\$ 25,390,678
Net Position End of Period	\$ 14,402,242	\$ 12,087,318	\$ 26,489,560	\$ -	\$ 26,489,560

Note 15. Excise Taxes and Other Non-Exchange Revenues

The aviation-related excise taxes collected by the IRS and deposited into the AATF are classified as non-exchange revenue and categorized as *Transportation of persons by air, Transportation of property by air, Use of international air facilities, Aviation fuel, and Refunds and credits*. The *Interest on investments*, earned on AATF investments, is also classified as non-exchange revenue. Both sources of revenue are reported on the *Statement of Changes in Net Position*.

There is a small amount of non-exchange revenue, classified as *Other*, not part of the AATF, that is also reported on the *Statement of Changes in Net Position*.

For the fiscal year ended September 30, 2025, excise taxes and other non-exchange revenues were:

<i>(Dollars in Thousands)</i>	2025
Transportation of Persons by Air	\$ 15,914,715
Transportation of Property by Air	641,705
Use of International Air Facilities	5,636,011
Aviation fuel	928,592
Refunds and Credits	(2,610)
Total Excise Taxes	23,118,413
Interest on Investments	539,492
Other	4,236
Total	<u>\$ 23,662,141</u>

Note Disclosures Related to the Statement of Net Cost

Note 16. Net Cost by Program and Strategic Goal

The FAA’s five lines of business represent the programs reported in the Consolidated Statement of Net Cost. Cost centers assigned to each line of business permit the direct accumulation of costs. Other costs that are not directly traced to a specific 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.

Lessor revenues recognized from the lease arrangement with the Metropolitan Washington Airports Authority are reported as non-entity program revenues.

The following is the net cost of operations by strategic goal for the year ended September 30, 2025:

(Dollars in Thousands)

	For the Year Ended September 30, 2025					
	Strategic Goals					Total
Line of Business Programs	Safety	People	Global Leadership	Operational Excellence	Lease Revenue	
Air Traffic Organization	\$ 13,114,076	\$ 109,452	\$ 3,670	\$ 2,554,558	\$ -	\$ 15,781,756
Airports	1,599,999	521,711	-	4,791,975	-	6,913,685
Aviation Safety	2,158,840	21,010	30,863	12,008	-	2,222,721
Security and Hazardous Materials Safety	74,698	942	729	24,368	-	100,737
Commercial Space Transportation	51,386	4,480	269	2,232	-	58,367
Non-Line of Business Programs	(214,402)	11,110	6,815	170,846	-	(25,631)
Non-Entity Programs	-	-	-	-	(11,302)	(11,302)
Net Cost	\$ 16,784,597	\$ 668,705	\$ 42,346	\$ 7,555,987	\$ (11,302)	\$ 25,040,333

Note 17. 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 is 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.
- The Department of Labor provides workers’ compensation and medical benefit payments to federal employees for COVID-19 claims under the American Rescue Plan Act of 2021, Public Law 117-2.

For the fiscal year ended September 30, 2025, imputed costs were as follows:

(Dollars in Thousands)

Office of Personnel Management
 Treasury Judgment Fund
 Department of Labor

 Total Imputed Costs

	2025
	\$ 1,192,433
	39,743
	564
	\$ 1,232,740

Note 18. Statement of Budgetary Resources Disclosures

BUDGETARY TERMS

The purpose of federal budgetary accounting is to control, monitor, and report on funds made available to federal agencies by law and help ensure compliance with the law.

The following budget terms are commonly used:

- **Appropriations** are a provision of law (not necessarily in an appropriations act) authorizing the expenditure of funds for a given purpose. Usually, but not always, an appropriation provides budget authority.
- **Budgetary resources** are amounts available to incur obligations in a given year. Budgetary resources consist of new budget authority and unobligated balances of budget authority provided in previous years.
- **Offsetting collections** are payments to the government that, by law, are credited directly to expenditure accounts and deducted from gross budget authority and outlays of the expenditure account, rather than added to receipts. Usually, offsetting collections are authorized to be spent for the purposes of the account without further action by Congress. They usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government and from intragovernmental transactions with other government accounts. The authority to spend offsetting collections is a form of budget authority.
- **Offsetting receipts** are payments to the government that are credited to offsetting receipt accounts and deducted from gross budget authority and outlays, rather than added to receipts. Usually they are deducted at the level

of the agency and sub function, but in some cases they are deducted at the level of the government as a whole. They are not authorized to be credited to expenditure accounts. The legislation that authorizes the offsetting receipts may earmark them for a specific purpose and either appropriate them for expenditure for that purpose or require them to be appropriated in annual appropriations acts before they can be spent. Like offsetting collections, they usually result from business-like transactions with the public, including payments from the public in exchange for goods and services, reimbursements for damages, and gifts or donations of money to the government, and from intragovernmental transactions with other government accounts.

- **Obligations** are binding agreements that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
- **Outlays** are payments to liquidate an obligation (other than the repayment of debt principal or other disbursements that are “means of financing” transactions). Outlays generally are equal to cash disbursements but also are recorded for cash-equivalent transactions, such as the issuance of debentures to pay insurance claims, and in a few cases are recorded on an accrual basis such as interest on public issues of the public debt. Outlays are the measure of government spending.
- **Distributed 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).

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, 2025, the unobligated balances from prior year budget authority, net of adjustments were:

<i>(Dollars in Thousands)</i>	2025
Unobligated Balance, Brought Forward from Prior Year	\$ 13,760,112
Adjustments to Budgetary Resources Made During Current Year	
Transferred from Other Accounts	2,550
Recoveries of Prior Year Obligations	529,000
Balances Withdrawn to Treasury	(106,551)
Unobligated Balance from Prior Year Budget Authority, Net	\$ 14,185,111

APPROPRIATIONS

Appropriations, as reported in the Combined Statement 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 Statement 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, 2025:

<i>(Dollars in Thousands)</i>	2025
Combined Statement of Budgetary Resources - Appropriations	\$ 34,311,355
Appropriations Transferred-In/Out	2,000
Amounts Made Available to FAA from AATF Dedicated Collections	(15,345,813)
Other Appropriated Receipts and Budgetary Adjustments	(7,909)
Consolidated Statement of Changes in Net Position - Appropriations Received	\$ 18,959,633

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, 2025, the remaining contract authority available was \$4.57 million.

UNDELIVERED ORDERS

As of September 30, 2025, the amount of budgetary resources obligated for undelivered orders were:

<i>(Dollars in Thousands)</i>	2025		
	Federal	Non-Federal	Total
Obligations, Unpaid	\$ 211,901	\$ 16,999,190	\$ 17,211,091
Obligations, Prepaid/Advanced	303,014	3,506	306,520
Total	\$ 514,915	\$ 17,002,696	\$ 17,517,611

APPORTIONMENT AVAILABLE IN SUBSEQUENT PERIODS

As of September 30, 2025, FAA has \$7.8 billion in unobligated balances that were apportioned for future years (Category C) in FY 2025. The \$7.8 billion is from the One Big Beautiful Bill Act (OBBBA) funding. OMB placed these amounts in Category C to ensure the funds would require reapportionment prior to being available for obligation (See OMB Circular A-11 Section 120.52 and 120.57). Absent such reapportionment action, funds remain unavailable for obligation in FY 2025. Consistent with A-11, Section 120, these funds are not actually available in subsequent periods until such time that OMB apportions the funds in Category A or B.

STATEMENT OF BUDGETARY RESOURCES VS. THE BUDGET OF THE U.S. GOVERNMENT

No material differences identified between the Statement of Budgetary Resources and the Budget of the U.S. Government.

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 “Detailed 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 and reconciled at the department level by the DOT. The actual amounts for FY 2025 will be presented in the FY 2027 Budget, which occurs after the issuance of these financial statements. The OMB is expected to publish this information early in calendar year 2026.

Note 20. 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, 2025:

(Dollars in Thousands)

	2025		
	Intragovernmental	Other than Intragovernmental	Total
Net Operating Cost	\$ 3,942,532	\$ 21,097,801	\$ 25,040,333
Components of Net Operating Cost Not Part of Net Outlays			
Property, Plant, and Equipment Depreciation/Amortization Expense	-	(1,272,281)	(1,272,281)
Property, Plant, and Equipment Disposals and Revaluations	-	(340,877)	(340,877)
Cost of Goods Sold	(912)	(84,710)	(85,622)
Inventory and Related Property Disposals and Revaluations	-	44,830	44,830
Increase/(Decrease) in Assets:			
Accounts Receivable, Net	6,088	1,111	7,199
Investments, Net	(41,161)	-	(41,161)
Advances and Prepayments	(18,340)	384	(17,956)
(Increase)/Decrease in Liabilities:			
Accounts Payable	2,517	16,187	18,704
Federal Employee Salary, Leave, and Benefits Payable	-	145,080	145,080
Post-Employment Benefits Payable	-	45,289	45,289
Environmental and Disposal Liabilities	-	(39,440)	(39,440)
Advances from Others and Deferred Revenue	91,574	8,800	100,374
Other Liabilities			
Accrued Grant Liabilities	-	288,833	288,833
Lessee Lease Liabilities	-	46,740	46,740
Other	100,404	865	101,269
Financing Sources:			
Imputed Cost	(1,232,740)	-	(1,232,740)
Total Components of Net Operating Cost Not Part of Net Outlays	(1,092,570)	(1,139,189)	(2,231,759)
Components of Net Outlays Not Part of Net Operating Cost			
Acquisition of Capital Assets	59,143	1,689,144	1,748,287
Acquisition of Inventory and Related Property	-	77,695	77,695
Financing Sources:			
Transfers-In/Out without Reimbursement	3,306	-	3,306
Total Components of Net Outlays Not Part of Net Operating Cost	62,449	1,766,839	1,829,288
Miscellaneous Items			
Special Fund Receipts	161,127	-	161,127
Deposit Funds and Miscellaneous Receipts	-	(9,091)	(9,091)
Non-Entity Activity	-	4,165	4,165
Other	2,027	(13,958)	(11,931)
Total Miscellaneous Items	163,154	(18,884)	144,270
Net Outlays	\$ 3,075,565	\$ 21,706,567	\$ 24,782,132
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net (Total)			\$ 24,805,773
Distributed Offsetting Receipts			(23,641)
Agency Outlays, Net			\$ 24,782,132

Note 21. Disclosure Entities

The Center for Advanced Aviation System Development (CAASD) is a Federally Funded Research and Development Center (FFRDC) sponsored by the FAA. FFRDCs 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 FFRDCs including CAASD. 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 CAASD, 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 CAASD’s innovative research and development that in turn supports the accomplishment of the FAA’s mission. The FAA’s relationship with MITRE, for the operation of CAASD, 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. Although MITRE is the administrator of CAASD, MITRE itself is not considered to be a disclosure entity of the FAA.

For the period ended September 30, 2025, FAA had new obligations of \$155 million, in support of its sponsorship agreement with MITRE for the operations of CAASD.

Required Supplementary Information

Deferred Maintenance and Repairs

The FAA's FY 2025 Deferred Maintenance and Repairs report is provided to support transparency and accountability in its facility maintenance and repair activities. While unaudited, the information reflects the agency's commitment to responsible stewardship of federal assets and to maintaining the safety, reliability, and efficiency of the national airspace system. The FAA remains dedicated to addressing deferred maintenance and repair needs in a prioritized and fiscally responsible manner to support the long-term performance of its facilities.

Deferred maintenance and repairs are defined as the costs associated with replacement of an existing component's condition of a building is deemed deficient. Condition is based on age and condition. The FAA reports deferred maintenance and repair for staffed and unstaffed facilities that are critical to safe operations of the national airspace system. The staffed facilities include Tier 1 through Tier 4 air route traffic control centers (ARTCCs), airport traffic control towers (ATCTs), terminal radar approach control (TRACON) facilities, the William J. Hughes Technical Center (WJHTC), and the Mike Monroney Aeronautical Center (MMAC). A qualified engineering firm assesses costs on a rotating basis. The unstaffed facilities include long-range radar facilities, unstaffed infrastructure, and fuel storage tanks. Costs for unstaffed facilities is determined using facility surveys or estimated based on the structure's age.

The Tier 1 through Tier 4 staffed and unstaffed facilities included in this report have a Facilities Condition Index (FCI) score less than 90-95 percent and must be maintained at 90-95 percent or better to be considered in fair condition. The deferred maintenance and repair reports unstaffed infrastructure and fuel storage tanks facilities that have exceeded the assets' expected life expectancy. 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 and repair 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 or good condition within FAA's appropriated funding. 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 and Tier 4 facilities. Tier 3 and Tier 4 facilities support airports with low operational air traffic volume.

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, have also been excluded due to the rapid technology advancements and making data captured obsolete quickly.

FY 2025 SUPPLEMENTARY INFORMATION

The total deferred maintenance for FY 2025 is roughly \$4.1 billion, which is about \$944.5 million higher than the end of FY 2024. The increases reflect costs associated with facilities whose FCI dropped below the 95 percent threshold. Overall, eight ATCT/TRACONS were added and two long-range radars were removed. The table below summarizes the FAA's FY 2025 deferred maintenance and repair costs followed with additional details under the staff and unstaffed deferred maintenance and repair sections of this report.

Category	Description	Facility Condition is <	Cost to Return to Acceptable Condition	
			Beginning Balance	Ending Balance
Staffed Facilities				
Tier 1	ARTCCs, ATCT/TRACONS at Major Airports	95%	\$ 1,024,237	\$ 1,338,639
Tier 2	WJHTC and MMAC	95%	66,723	67,825
Tier 3 & 4	ATCT/TRACONS at All Non-Major Airports	90%	162,983	330,257
Unstaffed Facilities				
Tier 1	Long Range Radars	95%	162,562	207,698
Other	Unstaffed Infrastructure and Fuel Storage Tanks	N/A	1,710,495	2,127,109
Total			\$ 3,127,000	\$ 4,071,528

Staffed Deferred Maintenance and Repair

This report reflects data for 270 staffed facilities that are maintained by the FAA. Of this amount, 149 are Tier 1 and Tier 2 ARTCCs and ATCT/TRACONS at major airports. At the end of FY 2025, 141 of the 149 Tier 1 and Tier 2 staffed facilities were designated below the 95 percent FCI threshold with an estimated cost of \$1.34 billion.

The remaining 121 of the total 270 staffed facilities are Tier 3 and Tier 4 terminal ATCT/TRACONS at all non-major airports. In FY 2025, 103 were designated below the 90 percent FCI threshold, contributing \$330 million in deferred maintenance and repair costs.

Facilities owned and leased by the William J. Hughes Technical Center (WJHTC) and the Mike Monroney Aeronautical Center (MMAC) were identified to be less than the 95 percent FCI threshold contribute \$67.8 million to the overall deferred maintenance and repair costs.

Unstaffed Deferred Maintenance and Repair

There are 157 Tier 1 unstaffed facilities, all of which are long-range radars. In FY 2025, 147 were designated below the 95 percent FCI threshold, contributing \$207.7 million in deferred maintenance and repair costs. The overall reduction is the result of general improvement across the fleet as well as the net removal of two long-range radar facilities.

The unstaffed infrastructure calculations are updated to reflect the implementation of Very High Frequency Omnidirectional Range Minimum Operational Network Program, also known as VOR MON. In FY 2024, VOR facilities used 20 percent of the assessed replacement value, based on the assumption that the VOR MON Program would reduce VOR-related values to 20 percent of its 2015 levels. For FY 2025, the calculation applied 100 percent of the assessed replacement value, as the drawdown is now complete. The majority of the \$416.6 million increase in unstaffed infrastructure and fuel storage tank deferred maintenance and repair costs is due to this recalculation.

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, 2025
 (Dollars in Thousands)
 Unaudited

	Grants-in-Aid for Airports	Other Airport Related Grant Programs	Facilities & Equipment	Research, Engineering & 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	\$ 1,058,148	\$ 5,186,138	\$ 4,112,544	\$ 584,099	\$ 2,504,649	\$ 395,506	\$ 323,100	\$ -	\$ 20,927	\$ 14,185,111
Appropriations	50,000	3,998,000	16,732,150	46,098	-	-	1,389,633	12,093,150	2,324	34,311,355
Contract Authority	4,000,000	-	-	-	-	-	-	-	-	4,000,000
Spending Authority from Offsetting Collections	153	-	159,267	8,880	157,199	537,559	12,303,473	-	-	13,166,531
Total Budgetary Resources	\$ 5,108,301	\$ 9,184,138	\$ 21,003,961	\$ 639,077	\$ 2,661,848	\$ 933,065	\$ 14,016,206	\$ 12,093,150	\$ 23,251	\$ 65,662,997
Status of Budgetary Resources										
New Obligations and Upward Adjustments	\$ 4,697,311	\$ 4,648,694	\$ 4,663,542	\$ 253,301	\$ 1,521	\$ 677,143	\$ 13,709,082	\$ 12,093,150	\$ 204	\$ 40,743,948
Unobligated Balance, End of Year										
Apporitioned, Unexpired Accounts	338,745	4,527,922	16,285,008	378,253	20,695	255,922	235,457	-	12,866	22,054,868
Unapportioned, Unexpired Accounts	29,178	372	-	-	2,639,632	-	930	-	2,324	2,672,436
Unexpired Unobligated Balance, End of Year	367,923	4,528,294	16,285,008	378,253	2,660,327	255,922	236,387	-	15,190	24,727,304
Expired Unobligated Balance, End of Year	43,067	7,150	55,411	7,523	-	-	70,737	-	7,857	191,745
Unobligated Balance, End of Year (Total)	410,990	4,535,444	16,340,419	385,776	2,660,327	255,922	307,124	-	23,047	24,919,049
Total Budgetary Resources	\$ 5,108,301	\$ 9,184,138	\$ 21,003,961	\$ 639,077	\$ 2,661,848	\$ 933,065	\$ 14,016,206	\$ 12,093,150	\$ 23,251	\$ 65,662,997
Outlays, Net										
Outlays, Net (Total)	\$ 4,013,579	\$ 3,198,381	\$ 3,665,563	\$ 240,181	\$ (155,788)	\$ 109,547	\$ 1,219,619	\$ 12,513,425	\$ 1,266	\$ 24,805,773
Distributed Offsetting Receipts	-	-	-	-	-	-	-	-	(23,641)	(23,641)
Agency Outlays, Net	\$ 4,013,579	\$ 3,198,381	\$ 3,665,563	\$ 240,181	\$ (155,788)	\$ 109,547	\$ 1,219,619	\$ 12,513,425	\$ (22,375)	\$ 24,782,132

Land

(Unaudited)

The FAA acquires land and permanent land rights when there is an operational requirement that supports the FAA’s mission to provide the safest, most efficient aerospace system in the world. This includes land to provide space for FAA facilities and equipment, such as navigational aids and communication systems that are location specific, meaning there is nowhere else the equipment can be placed that will provide the service required. Permanent land rights include utility and access easements.

To acquire land, the FAA must comply with the Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, as amended, also known as the Uniform Relocation Act (URA). Provisions of the URA are mandatory and provide minimum real property acquisition policies for appraisal, negotiation, and property possession standards

and requirements. Title 49 Code of Federal Regulations Part 24 (49 CFR 24), Uniform Relocation Assistance and Real Property Acquisition for Federal and Federally Assisted Programs, promulgates rules to implement the Uniform Relocation Act.

The FAA’s policy is to purchase real property interests that are in the best interest of the FAA and at fair and reasonable prices. A lease versus purchase analysis must be completed for all prospective real property land acquisitions. All lease versus purchase analyses must take into consideration the anticipated term to satisfy the FAA’s needs. The lease versus purchase analysis is used to determine the most cost-effective acquisition strategy.

It is also FAA policy to identify and evaluate environmental conditions prior to the acquisition or disposal of land to inform decision-making and minimize potential environmental liabilities.

The estimated acreage for land and permanent land rights (presented in actual acreage), by predominant use, at the start and end of the year ended September 30, 2025, was:

	Operational	Commercial	Total
Land and Permanent Land Rights			
Beginning Balance on October 1, 2024	68,227	11,802	80,029
Ending Balance on September 30, 2025	70,110	11,802	81,912
Held for Disposal (Also Included in the Balances Above)			
Beginning Balance on September 30, 2024	571	-	571
Ending Balance on September 30, 2025	550	-	550

OTHER INFORMATION



Kirkikis/iStock.

Summary of Financial Statement Audit & Management Assurances (Unaudited)

SUMMARY OF FINANCIAL STATEMENT AUDIT

Table 1 is a summary of the results of the independent audit of the FAA's FY 2025 consolidated financial statements.

TABLE 1: Summary of Financial Statement Audit					
Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

SUMMARY OF MANAGEMENT ASSURANCES

Table 2 is a summary of management assurances for FY 2025 related to the effectiveness of internal control over the FAA's financial reporting and operations and its conformance with financial management system requirements under Sections 2 and 4, respectively, of the Federal Managers' Financial Integrity Act of 1982 (FMFIA). The last portion of Table 2 summarizes the FAA's compliance with the Federal Financial Management Improvement Act of 1996 (FFMIA).

TABLE 2: Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

Conformance with Federal Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total non-conformances	0	0	0	0	0	0

Compliance with Section 803(a) of the Federal Financial Management Improvement Act (FFMIA)		
Non-Conformances	Agency	Auditor
1. Federal Financial Management System Requirements	No lack of compliance noted	No lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger at Transaction Level	No lack of compliance noted	No lack of compliance noted

Payment Integrity (Unaudited)

The Payment Integrity Information Act of 2019 (PIIA) requires federal agencies to prevent and address improper payments. An improper payment is any payment that

- Should not have been made
- Was made for the wrong amount
- Was sent to an ineligible recipient or for an ineligible good or service
- Paid for goods or services not received
- Lacked proper documentation

Improper payments can include both overpayments and underpayments. Significant improper payments are defined as exceeding both \$10 million and 1.5 percent of total program payments, or as exceeding \$100 million.

The Office of Management and Budget (OMB) Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (M-21-19), dated March 5, 2021, provides guidance on implementing the PIIA. This circular defines an improper payment as any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments or underpayments that are made to eligible recipients including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments for the incorrect amount, and duplicate payments. An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). Payments with insufficient documentation may also be considered improper payments.

FAA Payment Integrity Review Process

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

1. Identify programs and activities susceptible to significant improper payments.

2. Obtain a statistically valid estimate of the annual amount of improper payments in programs identified as susceptible to significant improper payments.
3. Implement a plan to reduce erroneous payments.
4. Report estimates of the annual amounts of improper payments in programs and activities as well as progress in reducing future improper payments.

FY 2025 Payment Integrity Assessment Results

In FY 2025, the FAA reviewed its programs as required by PIIA and OMB Circular A-123, Appendix C. The FAA's FY 2025 PIIA review did not identify any programs or activities with a potential for significant improper payments as determined by the OMB.

This year, the FAA conducted a qualitative risk assessment of our Grants-in-Aid for Airports program. The result of this assessment showed that the program is not at risk for significant improper payments.

Department-Wide Recovery Audit

The Department of Transportation (DOT) conducted a department-wide recovery audit that included the FAA's programs. The DOT also screened FAA payments against the federal Do Not Pay databases.

The DOT's Payment Integrity Center performed the payment recovery audit, with support from the FAA's Enterprise Services Center. These audits found no material issues, and the FAA has no corrective actions to address.

The DOT will report FY 2025 payment accuracy results, including FAA data, in the FY 2025 DOT Agency Financial Report (to be released by January 16, 2026). More details on federal payment accuracy, including DOT reporting, can be found at <https://www.paymentaccuracy.gov>.

Civil Monetary Penalty Inflation Adjustments (Unaudited)

The Federal Civil Penalties Inflation Adjustment Act of 2015, PL 114-74, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties to maintain their deterrent effect. Details on the civil penalties and inflation adjustments are listed below.

Statutory Authority	Penalty	Year of Enactment	Latest Year of Adjustment (via statute or regulation)	Current Maximum Penalty or Penalty Range	Location for Penalty Update Details
49 U.S.C. 5123(a) (1)	Violation of hazardous materials transportation law	1975	2025	\$102,348	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 5123(a) (2)	Violation of hazardous materials transportation law resulting in death, serious illness, severe injury, or substantial property destruction	2005	2025	\$238,809	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 5123(a) (3)	Violation of hazardous materials transportation law relating to training	2005	2025	\$617-\$102,348	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 44704(d) (3) (B)	Knowing presentation of a nonconforming aircraft for issuance of an initial airworthiness certificate by a production certificate holder	2020	2025	\$1,212,278	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 44704(e) (4) (A)	Knowing failure by an applicant for or holder of a type of certificate to submit safety critical information or include certain such information in an airplane flight manual or flight crew operating manual contrary to 49 U.S.C. 44704(e)(1)-(3)	2020	2025	\$1,212,278	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 44704(e) (5)	Knowing false statement by an airline transport pilot certificate holder with respect to the submission of certain safety critical information	2020	2025	See entries for 49 U.S.C. 46301(a)(1) and (a)(5).	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)

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Statutory Authority	Penalty	Year of Enactment	Latest Year of Adjustment (via statute or regulation)	Current Maximum Penalty or Penalty Range	Location for Penalty Update Details
49 U.S.C. 44742	Interference by a supervisory employee of an organization designation authorization (ODA) holder that manufactures a transport category airplane with an ODA unit member’s performance of authorized functions	2020	2025	See entries for 49 U.S.C. 46301(a)(1).	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 44802 note	Operation of an unmanned aircraft or unmanned aircraft system equipped or armed with a dangerous weapon	2018	2025	\$31,207	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(1)	Violation by a person other than an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B)	1958	2024	\$75,000	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(1)	Violation by an airman serving as an airman under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered by 46301(a)(5)(A) or (B))	1958	2025	\$1,875	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(1)	Violation by an individual or small business concern under 49 U.S.C. 46301(a)(1)(A) or (B) (but not covered in 49 U.S.C. 46301(a)(5))	1958	2025	\$1,875	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(3)	Violation of 49 U.S.C. 47107(b) (or any assurance made under such section) or 49 U.S.C. 47133	1958	N/A	Increase above otherwise applicable maximum amount not to exceed 3 times the amount of revenues that are used in violation of such section.	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(5)(A)	Violation by an individual or small business concern (except an airman serving as an airman) under 49 U.S.C. 46301(a)(5)(A)(i) or (ii)	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a)(5)(B)(i)	Violation by an individual or small business concern related to the transportation of hazardous materials	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)

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Statutory Authority	Penalty	Year of Enactment	Latest Year of Adjustment (via statute or regulation)	Current Maximum Penalty or Penalty Range	Location for Penalty Update Details
49 U.S.C. 46301(a) (5) (B)(ii)	Violation by an individual or small business concern related to the registration or recordation under 49 U.S.C. chapter 441, of an aircraft not used to provide air transportation	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a) (5) (B)(iii)	Violation by an individual or small business concern of 49 U.S.C. 44718(d), relating to limitation on construction or establishment of landfills	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a) (5) (B)(iv)	Violation by an individual or small business concern of 49 U.S.C. 44725, relating to the safe disposal of life-limited aircraft parts	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301 note	Individual who aims the beam of a laser pointer at an aircraft in the airspace jurisdiction of the United States, or at the flight path of such an aircraft	2016	2025	\$32,646	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(b)	Tampering with a smoke alarm device	1987	2025	\$5,478	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46302	Knowingly providing false information about alleged violation involving the special aircraft jurisdiction of the United States	1984	2025	\$29,748	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46318	Physical or sexual assault or threat to physically or sexually assault crewmember or other individual on an aircraft, or action that poses an imminent threat to the safety of the aircraft or individuals on board	2000	2025	\$44,792	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46319	Permanent closure of an airport without providing sufficient notice	2003	2025	\$17,062	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46320	Operating an unmanned aircraft and in so doing knowingly or recklessly interfering with a wildfire suppression, law enforcement, or emergency response effort	2016	2025	\$26,116	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)

continued on next page

Statutory Authority	Penalty	Year of Enactment	Latest Year of Adjustment (via statute or regulation)	Current Maximum Penalty or Penalty Range	Location for Penalty Update Details
49 U.S.C. 47531	Violation of 49 U.S.C. 47528-47530 or 47534, relating to the prohibition of operating certain aircraft not complying with stage 3 noise levels	1990	2025	See entries for 49 U.S.C. 46301(a)(1) and (a)(5)	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
49 U.S.C. 46301(a) (8)	Violation of 49 U.S.C. 41707(a) (22), including any grant assurances made under that section	2025	2024	\$5,000	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)
51 U.S.C. 50917 (c)	Violation of 51 U.S.C. 50901-50923, a regulation issued under these statutes, or any term or condition of a license or permit issued or transferred under these statutes	1984	2025	\$299,772	Federal Register; 89 Fed. Reg. 106282 (December 30, 2024)

Grants Programs

(Unaudited)

The following is a summary of the total number of federal grant and cooperative agreement awards and balances not closed out but for which the period of performance has elapsed by two years or more prior to September 30, 2025:

CATEGORY	2 - 3 Years	4 - 5 Years	>5 Years
Number of Grants/ Cooperative Agreements with Zero Dollar Balances	217	115	17
Number of Grants/ Cooperative Agreements with Undisbursed Balances	14	4	2
Total Amount of Undisbursed Balances (Dollars in Thousands)	\$690	\$133	\$57

In FY 2025, the FAA continued to review expired grants and made significant progress closing out grants. There are three key management challenges that lead to delays in grant closeouts. These challenges include:

- Grant recipient has an audit or pending legal action.
- Grant recipients' untimely submission of closeout documentation to the FAA.
- Grants officer training for new FAA personnel.

The FAA continues to monitor grants to ensure that recipients are providing closeout documentation in a timely manner. Monitoring activities include review of closeout progress, financial, audit, and other periodic reports. The FAA also continues to emphasize closing out older grants.



An FAA Hazardous Materials Aviation Safety Inspector inspects a container at Washington Dulles International Airport. **FAA Photo.**

Agency Audit Resolution Reports (Unaudited)

OFFICE OF INSPECTOR GENERAL (OIG)

The FAA management is mindful of the statutory requirements included in the Inspector General Act, as amended; OMB Circular A-50, *Audit Follow-up*; and OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Management has a responsibility to complete actions in a timely manner on audit recommendations where the FAA has reached agreement with the DOT OIG. Management must make a decision² regarding audit recommendations within a 6-month period after the issuance of the audit report and implement a management decision within 1 year, to the extent practicable.

On October 1, 2024, the FAA had a beginning balance of 149 audit recommendations. During FY 2025, the OIG issued a total

of 64 audit recommendations to the FAA — 1 in unsupported costs and 63 (non-financial) procedural recommendations. In FY 2025, the FAA closed 64 recommendations, which left 149 recommendations open at the end of the fiscal year. Of the number closed, 57 were procedural or non-monetary; 5 were put to better use; 2 were questioned or unsupported costs, which represented \$45.7 million; however, none of the disallowed costs was recoverable. As of September 30, 2025, the FAA has no recommendations over 6 months old without a management decision.

The tables below show that, during FY 2025, the FAA made a management decision to act on one audit recommendation with management efficiencies and planned recoveries that total over \$338 million. In addition, the FAA completed final actions for 7 monetary audit recommendations that represented over \$253 million in cost savings.

² A "management decision" is the evaluation of a recommendation by management and a decision upon an appropriate course of action.

Management Action on Recommendations that Funds be Put to Better Use

	Recommendations	Dollar Value (Dollars in Thousands)
Management Decisions:		
Beginning Balance on October 1, 2024	8	\$ 260,290
Management Decisions During the Fiscal Year	-	-
Total Management Decisions Made	8	260,290
Final Actions:		
Recommendations Implemented	5	\$ 207,416
Recommendations Not Implemented	3	40,675
Total Final Actions	8	248,091
Ending Balance on September 30, 2025 ¹	3	\$ 40,675

Management Action on Audit Recommendations with Disallowed Costs

	Recommendations	Dollar Value (Dollars in Thousands)
Management Decisions:		
Beginning Balance on October 1, 2024	2	\$ 45,700
Management Decisions During the Fiscal Year	1	338,315
Total Management Decisions Made	3	384,015
Final Actions:		
Allowable Costs	2	\$ 45,700
Total Final Actions ²	2	45,700
Ending Balance on September 30, 2025 ³	1	\$ 338,315

Note: The data in these tables do not include procedural (non-monetary) audit recommendations.

¹ "Ending balance on September 30, 2025" equals "Total management decisions made" less "Total final actions."

² An audit recommendation can involve multiple recovery types (collections/offset, other recovery, write-offs).

³ "Ending balance on September 30, 2025" equals "Total management decisions made" less "Total final actions."

GOVERNMENT ACCOUNTABILITY OFFICE

On October 1, 2024, the FAA had a beginning balance of 59 open audit recommendations. During FY 2025, the FAA closed 17 recommendations, and GAO issued a total of 2 new recommendations. As of September 30, 2025, the Government Accountability Office (GAO) had 32 audits underway within the FAA. Additional information on these recommendations and related reports can be found on the GAO website: <https://gao.gov/agencies/federal-aviation-administration>.



Chandler Municipal airport in Chandler, AZ. **FAA Photo.**

Summary of Inspector General's Top Management & Performance Challenges

The Reports Consolidation Act of 2000 requires the Inspector General (IG) to identify and report annually on the most serious management and performance challenges that federal agencies face. The Department of Transportation (DOT) IG's report highlights urgent issues facing the entire DOT, of which the FAA is a component organization.

DOT'S FY 2026 TOP MANAGEMENT CHALLENGES REPORT

On January 6, 2026, the DOT IG issued its forward-looking report identifying the top management challenge areas that DOT will face in FY 2026. The IG's finalized report is available

on the IG's website at <https://www.oig.dot.gov> and on the FAA's website at https://www.faa.gov/about/plans_reports.

The IG's FY 2026 memorandum to the Secretary, titled "DOT's Fiscal Year 2026 Top Management Challenges," is provided on the following pages. The memorandum and the full report address management challenges for the entire DOT. The pages immediately following the IG memorandum contain FAA-specific key challenges and relevant recent progress listed in the IG's report.

IG'S FY 2026 TOP CHALLENGES MEMORANDUM




U.S. Department of Transportation
Office of Inspector General

Memorandum

Date: January 6, 2026

Subject: INFORMATION: DOT's Fiscal Year 2026 Top Management Challenges
Project No. 25P9001P000

From: Mitch Behm 
Deputy Inspector General performing the duties of the Inspector General

To: The Secretary
Deputy Secretary

Our Nation's long-term success depends on the Department of Transportation (DOT) delivering a safe, efficient, and modern transportation system. The Office of Inspector General (OIG) supports DOT's mission by conducting audits and investigations of the Department's programs and operations to promote economy and effectiveness while helping detect and prevent fraud, waste, and abuse. Each year, as required by law, we provide DOT with an independent assessment of its top management challenges. Guided by our oversight work, this report is intended to help the Department focus attention and resources on areas that are critical to increasing safety, improving efficiency, and contributing to innovation.

We considered several criteria to identify the Department's top management challenges for fiscal year 2026, including safety impacts, established vulnerabilities, fiscal accountability, and DOT's ability to effect change. We identify and discuss the following challenge areas:

- Aviation Safety
- Surface Transportation Safety
- Air Traffic Control and Airspace Modernization
- Surface Transportation Infrastructure
- Financial Stewardship
- IT Security
- Transportation Innovation
- Curbing Waste, Fraud, and Abuse



Safety is DOT's first priority, and aviation safety remains the primary focus for the Federal Aviation Administration (FAA). Recent aviation accidents, runway incursions, mechanical failures, and a midair collision continue to keep serious safety concerns at the forefront. Addressing these concerns and maintaining the safety and efficiency of the National Airspace System (NAS) will depend on FAA's ability to address challenges related to air traffic control (ATC) and airspace modernization. Specifically, persistent staffing shortages at key ATC facilities and reliance on aging ATC systems highlight the urgent need to recruit and train new controllers and modernize critical infrastructure. Furthermore, to maintain effective safety oversight, FAA must balance obtaining compliance with careful collaboration across the aviation industry. At the same time, it must ensure inspectors are strategically positioned to address noncompliance, despite ongoing staffing and resource limitations.

DOT's emphasis on safety extends to its efforts to reduce fatalities on the Nation's roads and rails. While motor vehicle fatalities and injuries have declined in recent years, the Department continues to face challenges in prioritizing actions that further improve surface transportation safety and protect both transportation workers and the traveling public. Additionally, DOT must ensure that surface transportation investments deliver long-term value. The Department oversees billions in funding for roads, bridges, rail, transit, ports, and energy systems. However, rising costs and construction workforce shortages contribute to DOT's challenges. To meet its ambitious infrastructure goals, DOT must strategically allocate resources, support transit agencies in expanding or upgrading services, and ensure systems are maintained in a state of good repair.

In addition, DOT's efforts to deliver a safe and reliable transportation system depend on strong financial stewardship. In fiscal year 2024, DOT's budgetary resources for departmental programs and operations were approximately \$293 billion, with over \$121 billion of that amount obligated in grant and contract funds—an 8-percent increase from the previous year. However, the Department faces ongoing challenges in streamlining grant and contract processes and implementing updated financial management and reporting requirements to ensure efficiency and accountability.

Furthermore, as DOT focuses on cybersecurity, the Department must address growing and persistent risks to its digital infrastructure. Unaddressed high-risk vulnerabilities reflect gaps in the Department's security practices and underscore the need to enforce cybersecurity policies and prioritize timely remediation efforts to protect sensitive data and infrastructure.

DOT also continues to prioritize research and innovation to address current challenges and modernize the Nation's transportation system. Advancing these goals requires coordinated efforts across multiple modes of transportation, including safely managing the growth of commercial space transportation, implementing a regulatory framework for beyond visual line of sight drone operations in the NAS, and developing strategies to enable the deployment of vehicle automation and driver assistance technologies.

Through it all, DOT must also protect the significant public investments in our Nation's transportation system from waste, fraud, and abuse. However, the Department continues to face challenges verifying that funds are used as intended. Strengthening oversight in high-risk areas and holding individuals accountable for bribery and fraud are essential to protecting both taxpayer-funded resources and the integrity of DOT programs.

In addition to addressing longstanding safety and infrastructure responsibilities, this year the Department has identified a set of overarching priorities related to achieving its evolving workforce, operations, and strategic goals. Key focus points DOT has announced include advancing the Administration's priorities in areas such as government efficiency, regulatory reform, and technological innovation; rebalancing its workforce and facilities resources through a recently issued 1DOT initiative; and implementing provisions of the Department's new Strategic Plan, once formalized.

As always, we will continue to work closely with DOT officials to support the Department's efforts to improve safety, enhance efficiency, and protect resources. We appreciate the Department's commitment to prompt action in response to the challenges we have identified. This report and the Department's response will be included in DOT's Annual Financial Report, as required by law.

If you have any questions regarding this report, please contact me or Charles A. Ward, Principal Assistant Inspector General for Auditing and Evaluation.

cc: DOT Audit Liaison, M-1

FAA-SPECIFIC CHALLENGES AND RECENT PROGRESS

Aviation Safety

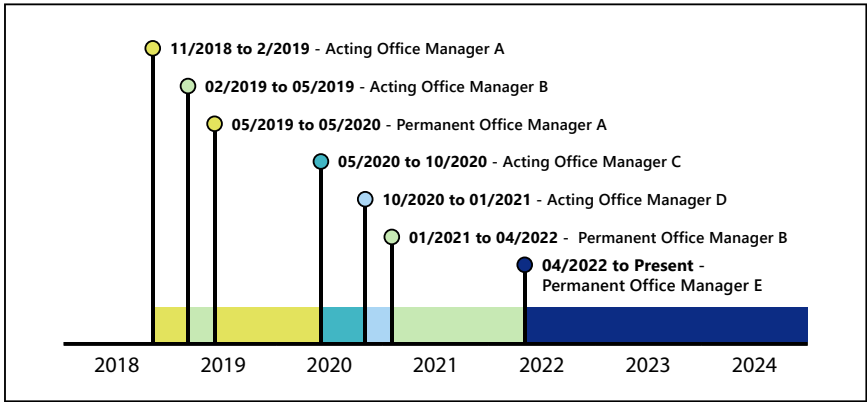
OAs Impacted: FAA

Aviation safety remains FAA’s primary mission, but recent accidents, runway incursions, mechanical failures, and a midair collision have highlighted significant safety concerns. To maintain vigilant oversight, FAA must carefully balance using the right tools to gain rapid compliance with safety requirements while collaborating with industry to enhance safety and inform decision making. FAA must also ensure that inspectors are properly positioned to address and resolve air carriers’ noncompliances in the face of staffing and resource challenges.

Balance Compliance Challenges With Collaboration When Overseeing Air Carrier Maintenance Programs

- When overseeing the aviation industry, FAA’s approach to compliance stresses a collaborative problem-solving strategy with the goal of achieving rapid compliance with regulations, eliminating safety risks, and fostering permanent change. However, as we have reported in multiple audits of FAA’s oversight of air carrier maintenance programs, the recurrence of complex safety issues suggests that inspectors face challenges with identifying and addressing systemic hazards. When FAA inspectors do not consistently analyze historical data to identify repeat noncompliance, they miss opportunities to address root causes and prevent recurrence.
- Most recently, we found that maintenance inspectors at FAA’s SkyWest Certificate Management Office (CMO) were not always adhering to FAA guidance when addressing noncompliance, and FAA inspection managers were directing noncompliance resolution methods not included in FAA guidance. Such non-standard practices can cause confusion at the air carrier regarding the seriousness of the identified risks.
- FAA’s oversight was further challenged by turnover in the Agency’s SkyWest CMO management positions (see figure), which resulted in a loss of institutional knowledge, hindered communications with the carrier, and delayed noncompliance resolution. For example, without a formal process for managing communication and processing Compliance Actions during staff turnover, miscommunication can lead to erosion of trust and degrade cooperation between the air carrier and CMO.

Management Changes at FAA’s SkyWest CMO



Source: OIG analysis of FAA SkyWest CMO data.

Related Investigative Work

- OIG investigates a wide range of crimes impacting aviation safety, including falsified airman’s logs; suspected unapproved parts; violations of DOT’s safety regulations and statutes; interference with an aircraft by shooting or pointing a laser; certificate fraud by a mechanic, repair station, commercial airman, or flight instructor/school; and flying aircraft under the influence. For example:
- The former CEO of a helicopter company in Guam was sentenced to over 33 years in prison and fined \$250,000. The company received a \$4.9 million fine and 5 years of probation. Both were convicted of conspiracy to defraud FAA and the National Transportation Safety Board, aircraft parts fraud causing serious injury or death, employing uncertified mechanics and pilots, wire fraud, and money laundering.
 - An Oklahoma resident was sentenced to 42 months in prison and 36 months of supervised release for shooting at a police helicopter.
 - A former air ambulance pilot in Kentucky was sentenced to 8 months in prison, 18 months of supervised release, and 4 months of home detention for flying under the influence with a .35 blood alcohol concentration.

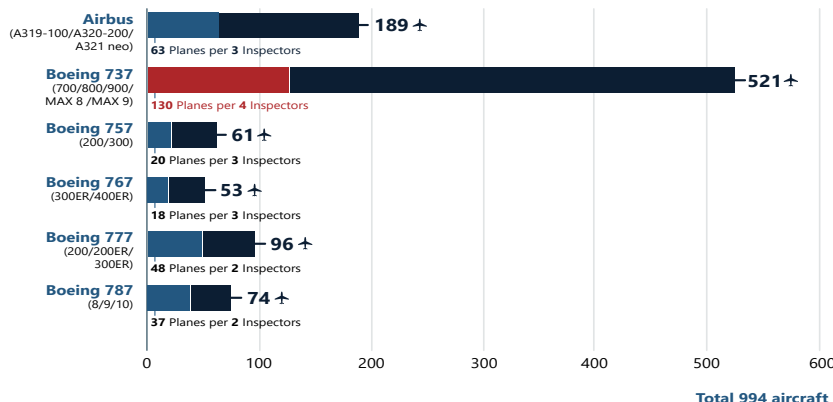
Maintain Aviation Safety While Facing Staffing Shortages, Under-Resourced Inspections, and Data Access Limitations

- FAA has experienced longstanding inspector staffing shortages, which has led to challenges in completing all required inspections. Our ongoing audit work has found FAA’s inability to fill position vacancies and failure to plan for impending retirements has left some FAA offices ill-equipped to fulfill their surveillance and oversight responsibilities. This is evident by the imbalance of inspector staffing levels within FAA’s United CMO to oversee some of the carrier’s fleets (see figure). Additionally, FAA inspector vacancies are 43 percent and 27 percent for operations and avionics inspectors within the United CMO, respectively.
- Further, FAA conducts inspections virtually, when resources—such as staffing or travel funding—are not available, for conditions that need an inspector to observe in person. However, our work has shown this practice could adversely impact the results of FAA’s Risk Quantification Models, which the Agency uses to support risk-based decision making and prioritize areas for inspections. These models do not account for the uncertainty risk associated with conducting an inspection virtually under these constraints.
- FAA’s inspections have also been challenged by delays or impediments to inspector access to air carrier data, including Safety Management Systems (SMS). This can slow the resolution of identified risks and noncompliance and may prevent inspectors from adequately assessing risk and verifying the root cause of a problem to prevent reoccurrence.

Recent Progress Reported by the Department

- In response to our recommendations on FAA’s oversight of American Airlines’ maintenance program, FAA began delivery of its Root Cause Analysis training course and associated electronic publications earlier this year.
- FAA developed an SMS training course to help inspectors evaluate air carrier risk assessments and has completed 6 offerings that have trained 111 employees, including 94 inspectors.

FAA United CMO Airworthiness Inspectors Per Fleet as of July 2025 With Projections



Source: OIG analysis of United Airlines Holding, Inc. (2024). Form 10-K and FAA data.

Related OIG Work

- [FAA Has Not Resolved Persistent Issues With SkyWest’s Maintenance Practices](#) (July 28, 2025)
>> 7 recommendations (7 open, 0 closed)
- [Capstone Memorandum: Observations and Common Themes in OIG’s Recent Work on FAA’s Oversight of Air Carrier Maintenance Programs](#) (January 5, 2022)
>> None

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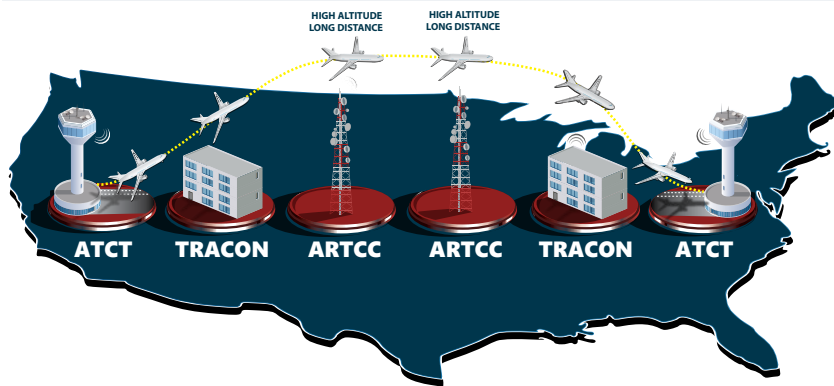
For the current status of all our recommendations, visit our [Recommendation Dashboard](#) online.

Air Traffic Control and Airspace Modernization

OAs Impacted: FAA

Air carriers operate over 44,000 scheduled flights, transporting millions of passengers in the United States each day. FAA's challenges with ensuring adequate controller staffing at critical air traffic control (ATC) facilities and its reliance on aging ATC systems have raised concerns about the efficiency and integrity of the National Airspace System (NAS). Hiring and training the next generation of air traffic controllers and successfully modernizing ATC systems will be essential to curbing flight delays and cancellations and sustaining the integrity of the NAS.

Overview of Air Traffic Control Facilities in the NAS



- Air Traffic Control Towers (ATCT)** manage air traffic within roughly 15 miles of arrival and departure airports.
- Terminal Radar Approach Control (TRACON) facilities** manage air traffic within 50 miles of arrival and departure airports and typically up to 18,000 feet in altitude.
- Air Route Traffic Control Centers (ARTCC)** manage air traffic beyond a TRACON's airspace and at altitudes above 18,000 feet.

Source: OIG analysis of FAA information.

Hire and Train the Next Generation of Air Traffic Controllers While Sustaining the Integrity of the NAS

- Our work and that of others have shown FAA faces longstanding challenges in securing adequate air traffic controller staffing at the Nation's most critical facilities, contributing to flight delays and cancellations. For example, we reported in June 2023 that the New York TRACON experienced 170 staffing triggers from August 2021 through August 2022, an action FAA takes when staffing constraints lead to a need to reduce the amount of traffic. More recently, the National Academies of Sciences, Engineering, and Medicine reported that 19 of the busiest ATC facilities that serve FAA's Core 30 Airports are more than 15 percent below FAA's staffing targets.
- As FAA works to hire and train the next generation of controllers, the Agency also faces challenges sustaining the integrity of our Nation's air traffic infrastructure. In April 2025, air traffic controllers overseeing Newark's airspace experienced an approximately 90-second blackout of radar and radio contact with air traffic due to a burnt copper wire. An additional 90-second outage occurred on May 9, 2025, due to failures of both primary and redundant communication infrastructure. Investing in technology and redundant infrastructure across the NAS will be key to prevent further occurrences like these and maintain NAS integrity.

Related Recent Events

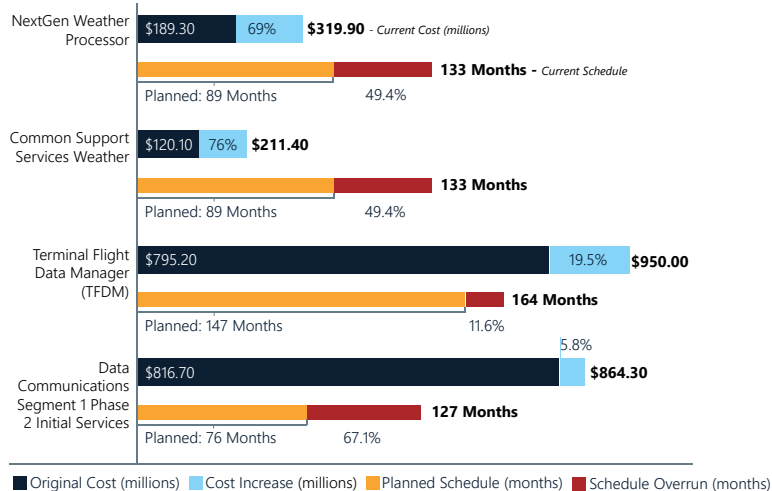
The Department and FAA have recently announced a number of actions aimed at addressing the longstanding shortage of certified air traffic controllers. For example:

- In November 2024, FAA announced its Enhanced Air Traffic-Collegiate Training Initiative (AT-CTI). This program allows qualified institutions to provide their students with equivalent FAA Academy training. Graduates of Enhanced AT-CTI schools can bypass the FAA Academy and begin training at an air traffic facility.
- The Department announced plans to offer increased monetary incentives for newly hired controllers who successfully complete training. It also began offering retirement eligible controllers a bonus of 20 percent of their basic pay for each year they continue to work.

Develop a Comprehensive Plan That Anticipates and Mitigates Challenges to Successfully Modernizing the Nation’s Air Traffic Control System

- DOT recently unveiled plans for building a Brand New Air Traffic Control System (BNATCS). The plan would require total funding of \$31.5 billion through 2028 to, among other things, replace aging radars, consolidate ATC facilities, and complete implementation of ongoing modernization programs. This investment plan comes as FAA works to terminate the Office of the Next Generation Air Transportation System (NextGen), which oversaw the Agency’s prior multidecade, multibillion-dollar modernization efforts. Our multiple reports identified various challenges to NextGen’s implementation that led to cost increases, schedule overruns, and delayed or reduced benefits and capabilities (see figure).
- While the Department has provided a high-level overview of its proposed BNATCS actions, FAA has yet to unveil a comprehensive plan that anticipates and mitigates implementation challenges. Since 2013, we have reported several underlying causes for FAA’s difficulties in advancing NextGen, including the lack of an executable plan and unresolved critical design decisions regarding implementation costs and how technologies would be developed or integrated. To avoid these longstanding challenges that delayed NextGen, FAA will need a comprehensive BNATCS plan that also addresses the potential impact of external factors beyond the Agency’s control, such as inflation and supply chain challenges. As we recently reported, external factors contributed to cost increases and schedule delays in deploying FAA’s Terminal Flight Data Manager (TFDM) system—an automation tool that introduces electronic flight strips and surface management tools—and contributed to the Agency having to reduce the number of deployment sites from 89 airports to 49. However, through BNATCS, FAA now plans to deploy TFDM to all 89 planned sites.

Cost and Schedule Increases for Ongoing Key NextGen Program as of Fiscal Year End 2023



Source: OIG analysis of FAA information.

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Recent Progress Reported by the Department

- In July 2025, FAA transitioned to a brand-new fiber optic communications network between the New York and Philadelphia TRACONS to improve the reliability of operations for Newark airport.
- FAA deployed TFDM to San Francisco International Airport in August 2025.

Related OIG Work

- [Capstone Memorandum: Observations and Lessons Learned From OIG Reviews of the Next Generation Air Transportation System](#) (September 29, 2025)
 >> None
- [FAA Can Improve the Reliability of Overall Benefit and Cost Projections for NextGen by Fully Assessing the Impact of External Factors](#) (July 23, 2025)
 >> 1 recommendation (1 open, 0 closed)
- [FAA Has Begun To Deploy TFDM, but Cost Growth Has Resulted in Significant Program Changes and Delayed Benefits](#) (July 17, 2024)
 >> 3 recommendations (3 open, 0 closed)
- [FAA Faces Controller Staffing Challenges as Air Traffic Operations Return to Pre-Pandemic Levels at Critical Facilities](#) (June 21, 2023)
 >> 2 recommendations (1 open, 1 closed)

For the current status of all our recommendations, visit our [Recommendation Dashboard](#) online.



Transportation Innovation

OAs Impacted: FAA and NHTSA

DOT has demonstrated a commitment to prioritizing research and innovation to meet present challenges and modernize the transportation system for the future. Advancing the Department’s innovation goals requires addressing challenges across multiple modes of transportation, including safely overseeing the growth of commercial space transportation, enacting a regulatory framework for integrating beyond visual line of site (BVLOS) drone operations into the National Airspace System (NAS), and developing strategies to enable the deployment of vehicle automation and driver assistance technologies.

Ensure the Safety and Operational Efficiency of the Rapidly Growing Commercial Space Transportation Industry

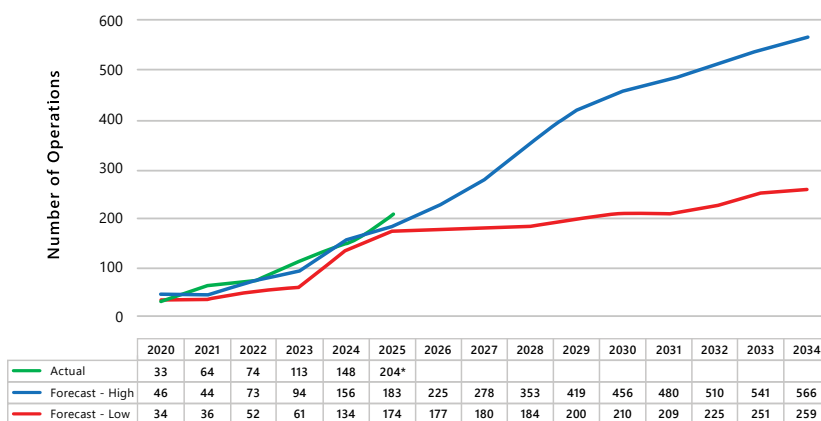
- Commercial space operations continue to grow rapidly (see figure). FAA reported that there were 204 licensed commercial space operations in fiscal year 2025, a nearly 38 percent increase from last fiscal year and over a 500 percent increase in operations since 2020. FAA estimates that the number could increase anywhere from 46 to nearly 152 percent from fiscal years 2026 through 2034. These operations are expected to include activities such as deploying and replacing satellites, space tourism, lunar operations, and Mars exploration missions.
- To meet this anticipated growth, FAA must ensure that it has the resources in place to effectively integrate these operations into the NAS. This includes licensing and overseeing the industry as well as developing technologies and procedures that improve safety and airspace efficiencies for all airspace operators and the public. In addition, while the moratorium limiting new regulations for commercial human space flight has been extended to January 1, 2028, FAA has the challenge of working with government and industry stakeholders regarding the extent to which the Agency should regulate the industry, including further streamlining regulations.

Related Investigative Work

OIG conducts investigations to prevent wrongdoing in emerging transportation sectors that threaten public safety, such as unauthorized operation of a drone over wildfires, shooting a firearm at a law enforcement drone, or using drones to drop illegal drugs and contraband into prisons. For example:

- A California individual was charged for unlawful drone operations that damaged an aircraft fighting the Palisades wildfire in California. The drone collided with a Canadair CL2T Super Scooper firefighting aircraft, leaving a “football-sized” hole in its left wing, grounding it for several days.
- A Florida individual was sentenced to 4 years of incarceration, 3 years of supervised release, and \$29,034 in restitution for firing a rifle that struck and destroyed a county sheriff’s drone. The individual pleaded guilty to possession of a firearm affecting commerce by a convicted felon.

Growth in Commercial Space Launch/Re-Entry Operations: Actual and Projected



*As of December 2, 2025.


Source: OIG analysis of FAA data.

Drone Activity Reported by FAA

In May 2025, approximately

224

drone notifications from FAA, including incidents where aircraft had to take evasive action to avoid drones.



Source: OIG analysis of FAA data.

Advance the Safe Integration of Unmanned Aircraft Systems Into the NAS

- Advancing the use of innovative unmanned aircraft systems (UAS) technology in the United States is both a top priority and challenge for DOT. A key focus area is safely integrating routine and scalable BVLOS drone operations. To that end, both the President and Congress mandated FAA issue a rulemaking that provides a regulatory pathway for BVLOS drones. The Agency also established partnership programs, such as BEYOND and the Integration Partnership Agreement, where governmental and industry partners collaborate to inform current and future rulemaking efforts. In addition, the Agency has extended partnership programs through creating BEYOND Phase 2, for further testing and evaluation of emerging aviation technologies, including increasing automation in civil aircraft.
- However, as we recently reported, while FAA has approved increasingly complex drone operations, most BEYOND program participants did not meet established operational performance metrics. In addition, FAA is not using comprehensive data from across the Agency to inform rulemaking, and FAA’s data validation process can lead to errors. Enhanced program targets and data sharing can help FAA in its efforts to lead the way regarding drone operations and reshape the future of aviation.

Automated Driving Systems for the Future



CONNECTED VEHICLES



SMART TECHNOLOGY TRAFFIC SIGNALS



SMART GRID



SYSTEMS INTEGRATION



COORDINATED AUTOMATION



SENSOR-BASED INFRASTRUCTURE



INNOVATIVE AVIATION TECHNOLOGY



COMMERCE DELIVERY AND LOGISTICS

Source: DOT.

Develop Strategies to Enable the Deployment of Vehicle Automation and Driver Assistance Technologies

- While NHTSA is responsible for advancing new vehicle technologies with lifesaving potential, DOT faces challenges developing strategies that capitalize on the safety benefits of increased vehicle automation systems, which can reduce the chance of human error-related crashes. For example, these systems’ electronic sensors can automatically stop a vehicle or

keep it in a lane. To make more of these systems available to consumers and advance the development of automated vehicles (see figure), the Department announced the Automated Vehicle Framework in 2025. The framework promotes innovation and commercial deployment by expanding the Automated Vehicle Exemption Program to include domestically produced vehicles in addition to imported vehicles.

- The Department also faces challenges in identifying and assessing safety impacts in the evolving landscape of automated driving systems (ADS) and driver assistance technologies. To address these challenges and prioritize safety, the framework continues to rely on DOT’s Standing General Order allowing NHTSA to collect data on real-world crashes that are associated with these systems and technologies. The Department can use this data to identify safety concerns about ADS and driver assistance technologies and develop risk models to take action to ensure unsafe vehicles are taken off public roads or any safety defects are remedied, as appropriate.

Levels of Driving Automation

Level 0	Momentary Driver Assistance	+
Level 1	Driver Assistance	+
Level 2	Additional Assistance	+
Level 3	Conditional Automation	+
Level 4	High Automation	+
Level 5	Full Automation	+



Source: NHTSA.

Recent Progress Reported by the Department

- On August 7, 2025, FAA published its proposed rule establishing performance-based regulations to enable the design and operation of drones at low altitudes BVLOS and for third-party services, including UAS Traffic Management, that support these operations.
- On August 14, 2025, the Secretary commemorated FAA’s 1,000th operation of a commercial space vehicle that the agency licensed or permitted.

Related OIG Work

- [FAA Has Made Progress in Advancing BVLOS Drone Operations but Can Do More To Achieve Program Goals and Improve Data Analysis](#) (June 30, 2025)
>> 7 recommendations (7 open, 0 closed)
- [FAA Has Deployed a Prototype System for Monitoring Commercial Space Operations but Faces Integration Challenges](#) (June 21, 2023)
>> 4 recommendations (2 open, 2 closed)
- [FAA Made Progress Through Its UAS Integration Pilot Program, but FAA and Industry Challenges Remain To Achieve Full UAS Integration](#) (April 27, 2022)
>> 6 recommendations (0 open, 6 closed)

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For the current status of all our recommendations, visit our [Recommendation Dashboard](#) online.

List of Acronyms & Abbreviations

AAE	FAA Office of Audit and Evaluation	CFR	Code of Federal Regulations
AATF	Airport and Airway Trust Fund	CMO	Certificate Management Office
AFR	Agency Financial Report	CR	Continuing Resolution
AGA	Association of Government Accountants	CSRS	Civil Service Retirement System
AIG	Airport Infrastructure Grant	Delphi	DOT's Financial Management System
AIP	Airport Improvement Program	DOD	U.S. Department of Defense
ANSIR	Aerospace National Safety Issue Registry	DOL	U.S. Department of Labor
APR	Annual Performance Report	DOT	U.S. Department of Transportation
ARP	Office of Airports (FAA line of business)	E2 Solutions	DOT Travel Management System
ARTCC	Air Route Traffic Control Center	EAA	Experimental Aircraft Association
ASH	Office of Security and Hazardous Materials Safety (FAA line of business)	ERAM	En Route Automation Modernization
AST	Office of Commercial Space Transportation (FAA line of business)	F&E	Facilities and Equipment
ASIAS	Aviation Safety Information Analysis and Sharing	FAA	Federal Aviation Administration
ATC	Air Traffic Controller	FCI	Facilities Condition Index
ATCT	Air Traffic Control Tower	FECA	Federal Employees' Compensation Act (Public Law 103-3)
AT-CTI	Air Traffic-Collegiate Training Initiative	FERS	Federal Employees Retirement System
ATO	Air Traffic Organization (FAA line of business)	FFMIA	Federal Financial Management Improvement Act of 1996
ATP	Airport Terminal Program	FFRDC	Federally Funded Research and Development Center
AVS	Aviation Safety Organization (FAA line of business)	FMFIA	Federal Managers' Financial Integrity Act of 1982
BIL	Bipartisan Infrastructure Law (see IJA)	Franchise Fund	Administrative Services Franchise Fund
BNATCS	Brand New Air Traffic Control System	FY	Fiscal Year
BVLOS	Beyond Visual Line-of-Sight-Operations	GAAP	Generally Accepted Accounting Principles
CAASD	Center for Advanced Aviation System Development	GAAS	Generally Accepted Government Auditing Standards
CEAR	Certificate of Excellence in Accountability Reporting	GAJSC	General Aviation Joint Steering Committee
CEO	Chief Executive Officer	GAO	U.S. Government Accountability Office
CFO	Chief Financial Officer	GSA	General Services Administration

IG	Inspector General	PL	Public Law
IIJA	Infrastructure Investment and Jobs Act, 2022 (Public Law 117-58) (see BIL)	PP&E	Property, Plant, and Equipment
IRS	Internal Revenue Service	PRISM	Procurement Information System for Management
MD&A	Management's Discussion and Analysis	QCR	Quality Control Review
MITRE	The MITRE Corporation	RE&D	Research, Engineering, and Development
MMAC	Mike Monroney Aeronautical Center	SFFAS	Statement of Federal Financial Accounting Standards
MOSAIC	Modernization of Special Airworthiness Certification	SMS	Safety Management System
NAS	National Airspace System	STARS	Standard Terminal Automation System
NextGen	Next Generation Air Transportation System	TFDM	Terminal Flight Data Manager
NPIAS	National Plan of Integrated Airports System	TRACON	Terminal Radar Approach Control
NTSB	National Transportation Safety Board	UAS	Unmanned Aircraft System
OBBBA	One Big Beautiful Bill Act (Public Law 119-21)	URA	Uniform Relocation Act
ODA	Organization Designation Authorization	USAST	U.S. Aviation Safety Team
OIG	Office of the Inspector General	VOR MON	Very High Frequency Omnidirectional Range Minimum Operational Network Program
OMB	Office of Management and Budget	WJHTC	William J. Hughes Technical Center for Advanced Aerospace
OPM	Office of Personnel Management		
PAR	Performance and Accountability Report		
PIIA	Payment Integrity Information Act of 2019		

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